

Cracks in UK retail likely to resurface as sunny weather disappears

Warmer temperatures gave the high street another welcome boost in July, but as the weather effect begins to fade, we suspect the challenges facing the retail sector will return



We don't believe a strong first half of the year is likely to change the course of Bank of England rate cuts in 2024

With the sun shining, UK retailers had another decent month in July. Retail sales, excluding fuel, rebounded by 0.9% on the month as warm temperatures boosted sales of food and clothing. Admittedly, the fairly large magnitude of this latest increase possibly says more about the volatility of the retail sales series than anything else, but the underlying details do tally with what Visa and the British Retail Consortium have said about recent trends.

But now that the wind and rain are back with us, we suspect the cracks in the high street are likely to become more visible once again.

Disposable incomes remain pressured by the noticeable rise in petrol prices through the second quarter, despite some better news on wage growth this year. Partly for this reason, consumer confidence is subdued –, particularly when compared to similar surveys in the US and Europe, which are still flirting with decade-plus highs.

But the big wildcard for retail is the threat of a “no deal” Brexit. A key reason why spending hasn't collapsed completely since the referendum is that people have generally kept their jobs – employment has actually increased by roughly 2% since the vote. And importantly, this has kept

unemployment expectations pretty low by historical standards.

However as the UK government prepares to outline its contingency plans for 'no deal', it's not clear how consumers will react. [As we noted last week](#), we doubt the risk of 'no deal' is on many consumer radars at this stage. But if talks remain in deadlock as March 2019 draws nearer, a few dramatic headlines warning of shortages and other potential risks could feasibly see consumers take a more cautious stance – particularly if people perceive their jobs to be at greater risk.

Whether any of this comes to pass is of course very uncertain, but with risks mounting, we suspect the Bank of England will remain on the sidelines until the UK leaves the EU next March. We don't expect another rate hike before May 2019 at the earliest.

Author

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.