

Cracks in UK retail likely to resurface, despite higher sales

Warm weather and World Cup fever helped retailers in the second quarter. But the challenges of low real income growth and depressed consumer confidence are likely to resurface over coming months



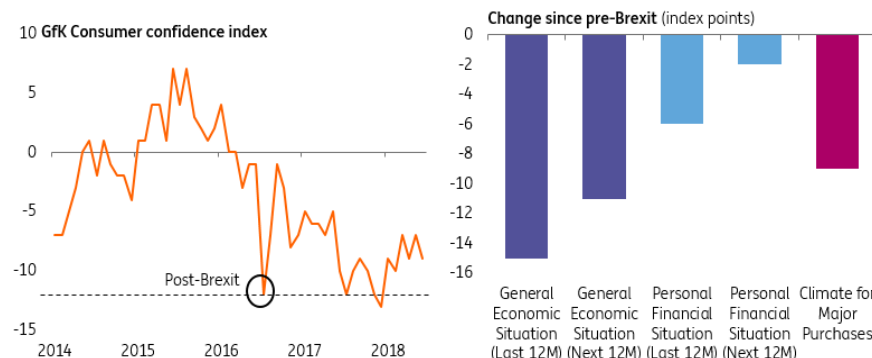
Source: iStock

There's little doubt that the retail sector has had a better second quarter than the first – although admittedly the bar was pretty low. Despite a small correction in June, the 2.1% increase in retail sales during the second quarter was the largest since 2015. That came as World Cup fever and warm weather swept the nation, which according to the British Retail Consortium, has boosted sales of items from beer to TVs.

The big question now is whether this better second quarter will be followed by a sustained recovery through the rest of the year. At this stage, we aren't convinced. Once these short-term tailwinds fade – it's only a matter of time before the rain clouds reappear – the underlying challenges facing the sector are likely to resurface.

Real incomes remain under pressure from higher petrol prices (which rose by around 7% in 2Q), while consumer confidence remains depressed. Interestingly, this pessimism is being predominantly driven by concern about the general economic situation, suggesting consumers are still wary of how Brexit may impact their finances and job security. With increased talk about the possibility of “no deal”, this caution is only likely to increase.

How consumer confidence has changed since the Brexit vote



Source: Macrobond

For now though, given that most indicators have pointed to an overall rebound in activity during the second quarter, we think the Bank of England will be comfortable with hiking rates in August. But after that, Brexit uncertainty, pressures in the retail sector, as well as moderating core inflation, could make it increasingly difficult for the Bank of England to hike again later this year.

Once the BoE has hiked in August, we currently don't expect any further rate rises before May next year, at the earliest.

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