

Don't be misled by better UK retail sales numbers

Consumer spending rose in the UK for the second consecutive month, but dig a little deeper and the picture looks less encouraging.



Source: iStockphoto

Consumers still cutting back as income squeeze bites

After the second-warmest June on record, UK retail sales beat expectations and grew for the second month running; this hasn't happened for quite a while. Digging a little deeper, much of the strength came from food. Internet and clothing sales - both arguably better bellwethers of consumer's appetite to spend - declined. This latter point tends to support data from Visa and the British Retail Sales consortium, both of which have recently suggested that spending on non-essentials has fallen. A survey by Neilson also suggested that 30% of UK shoppers are switching to cheaper food brands, which could imply that the picture is actually worse in value terms than the latest, more resilient retail sales' volumes currently indicate.

As always though, it's worth taking the latest data with a pinch of salt. The official retail sales data has been extremely choppy for some time now, partly as statisticians grapple with ever-changing consumer spending patterns. It's also worth noting how far the annual rate of growth has fallen since last year - the latest 1.5% YoY figure is well below the near 8% growth seen last November.

0.5% Retail sales growth (MoM%)

No Bank of England hikes any time soon

With wage growth likely to float around 2% for the rest of the year and inflation set to inch closer to 3%, disposable incomes will continue to fall. The 10% YoY rise in consumer credit has also kept spending going up until now - that doesn't look particularly sustainable and is another potential risk to growth in the medium-term.

We don't expect a Bank of England hike this year.

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