

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.

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 <http://www.ing.com>.