

Snap | 20 June 2019

UNITED KINGDOM

Faltering UK retail sales add to second quarter growth slump

Colder temperatures have kept shoppers away from the high street in the UK, and this will only add to the slowdown in second-quarter growth. But with wage growth continuing to perform well, we think the Bank of England will retain a reasonably hawkish bias at its meeting later today



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

Having fared remarkably well during the first quarter amid the Brexit noise, retail sales have fallen for the second month in a row. Some of this is clearly down to the weather, where colder temperatures appear to have discouraged people from updating their summer wardrobes. Clothing and footwear sales slipped by 4.5% compared to April. This weakness means that the year-on-year growth rate in retail sales (ex-fuel) has slipped back from just over 6% in March to 2.2% now – although admittedly this also has a lot to do with the World Cup/weather-related spike at the same time last year.

In principle, the fundamental outlook for consumer spending does look a little brighter

In principle, the fundamental outlook for consumer spending does look a little brighter. Wage growth is performing strongly as skill shortages bite in various sectors, while inflation has been more benign. There is also some tentative evidence in the recent PMI surveys that jobs growth

may regain some momentum – at least temporarily – following the decision to extend the Article 50 period by six months. That said, consumer confidence is still fairly depressed and it appears that the appetite to make bigger-ticket purchases is still fairly subdued.

Barring a big recovery in June (which given the recent deluge of rain, seems fairly unlikely), it looks like consumer spending will add to the second quarter growth slump. It looks increasingly likely that second-quarter growth could come in flat or only marginally positive, given the likely drag from manufacturing production and inventory rundowns too.

That said, with wage growth continuing to perform well, we think there is a reasonable chance that the [Bank of England makes a more explicit hint](#) that rates may need to rise earlier than markets think. For now though, we think Brexit uncertainty (in particular the rising risk of a general election later in the year) will prevent the committee from raising rates in 2019.

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

THINK economic and financial analysis

(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.