

## 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.

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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.

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