

19 April 2018
Snap

Second 2018 UK rate hike in question as spending dips

Prospects for the UK high street remain bleak, and this is a key reason why a second UK rate hike later in 2018 is still far from guaranteed

At -0.5%, the latest month-on-month fall in retail sales rounds off what has been a dreadful quarter for UK retail.

Admittedly, there's little doubt that the seemingly endless episodes of snow and bad weather in March will have played a major role. That saw sales of goods from household goods to clothing fall during March, as many shopping centres/retail outlets remained closed completely during the spells of adverse weather.

But this is unlikely to tell the full story. It is certainly true that the household squeeze is no longer at its worst – inflation is easing, whilst wage growth is finally showing signs of life. But we don't foresee real incomes rising significantly any time soon either. And partly for this reason, consumer confidence remains low, particularly when compared to Europe and the US, where shoppers are the most optimistic they've been for well over a decade.

Credit card data from Visa suggests the past three months have been the worst quarter for spending in over five years, and we suspect further struggles lie ahead for the high street – particularly as cost pressures, stemming from the higher minimum wage and increasing business rates, continue to eat into margins.

None of this is likely to stop a rate hike in May from the Bank of England. But ongoing economic weakness, coupled with a likely moderation in core inflation over the summer, could complicate efforts to raise rates for a second time later this year.

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