

## 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



Source: Shutterstock

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.

## Author

### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto: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>.