

UK consumer spending makes a tepid start to 2018

UK retail sales barely rose in January, and we see few catalysts for a sustained rebound over coming months



Source: Shutterstock

0.1%

UK retail sales growth

(excl. auto fuel, MoM%)

Worse than expected

After what was a particularly tough Christmas trading period for retailers, consumers kept their foot on the brakes throughout January.

Retail sales barely increased in the first month of the year (0.1% rise), suggesting shoppers were reluctant to heavily participate in the traditional January sales, backing-up separate findings from Visa. For now, we see few catalysts for a sustained rebound in spending over coming months.

When it comes to interest rates outlook, it's worth remembering

that the Bank has already factored much of the weakness into their assessment of UK growth

Consumer confidence remains depressed (despite some recent improvement), and disposable incomes look set to remain under pressure.

True, wage growth has been performing better recently, giving the Bank of England increased confidence that the tight labour market is prompting firms to offer more generous pay packets. That said, it's still early days, and we think there remains a risk that some firms take a more cautious stance, amidst slower economic momentum and elevated uncertainty. At the same time, food and fuel costs are continuing to rise, even though in general consumer prices have largely adjusted to the post-Brexit weakening in the pound.

When it comes to the outlook for interest rates though, it's worth remembering that the Bank of England has already factored much of this weakness into their assessment of UK growth.

Assuming the next couple of wage growth readings continue to paint an improved picture, we think policymakers will have enough confidence to hike rates in May - although of course, this remains heavily contingent on progress in the Brexit negotiations.

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 www.ing.com.