

## 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



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# 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.

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

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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.

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