

UK consumers slam brakes as spending growth hits multi-year low

With the squeeze on household incomes far from over, UK consumer spending will remain sluggish



Source: iStock

Second quarter UK GDP remained unrevised at 0.3%, but what matters today are the underlying growth drivers - and on consumption, the news isn't encouraging.

Having grown fairly consistently at a rate of 0.7-0.8% each quarter in 2016, consumer spending slumped to a two and a half year low of just 0.1% QoQ. This result is particularly worrying, given retail sales data suggested the combination of a late Easter and the second warmest June on record had given retailers temporary respite from the household income squeeze.

But today's data supports the findings of other data providers - notably Visa and the British Retail Consortium - who have suggested that recent months have been particularly slow for spending as consumers cut back on non-essentials.

Of course, today's GDP data is fairly backwards-looking - so the question now is whether the squeeze on household incomes has peaked as the Deputy Bank of England Governor Broadbent suggested recently.

We think inflation will continue to edge closer to 3% towards the end of this year as the remainder of the pound's depreciation filters through. Meanwhile, wage growth looks set to hover around 2%

as firms grapple with elevated uncertainty, higher import costs and slowing economic momentum. For similar reasons, investment remained flat in the second quarter and is unlikely to stage a strong recovery over the next couple of quarters.

Putting all of that together, we suspect growth will remain sluggish at least for the next few months. This limits the chances of a Bank of England rate hike this year or even early next year.

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