

## UK consumers turning a corner? Still too early to say

The sluggish outlook for growth is a key reason why meaningful Bank of England tightening is still unlikely



Source: iStock

**1.0%** Retail sales growth (excl. auto fuel, MoM%)

Is the UK consumer beginning to turn a corner? That was the suggestion of Bank of England voter Vlieghe made last week, and at least on the face of it, today's retail sales data gives some support to this argument.

For now, we're a little more cautious. As ever, it is worth evaluating month-to-month moves in retail sales with a pinch of salt. The data has been particularly choppy over the past few months, partly as the statistics try to keep pace with rapidly changing consumer spending patterns. August's improvement should also be viewed in the context of what was a very bad second quarter for consumer spending. At 2.8%, retail sales growth in year-on-year terms is still well below the near-8% levels seen just under a year ago.

But more importantly, it's worth asking where the impetus for any improvement in spending is coming from. While it could be that household income squeeze has peaked, inflation is still outpacing wage growth (and likely to do so at least into the first few months of next year). It appears that the near-10% YoY rise in consumer credit we've seen this year are still playing an important role, and that doesn't make for a sustainable pick-up in growth.

## Despite the BoE upping the hawkish ante, a series of hikes looks unlikely

So while it looks like the Bank of England is increasingly rallying around the idea of exiting emergency stimulus mode, the sluggish outlook for growth and the considerable uncertainty surrounding Brexit mean that the start of a meaningful tightening cycle still looks unlikely at this stage.

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