

## 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.

### 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 [www.ing.com](http://www.ing.com).