UK: Headwinds for the high street after a tough February

Retail sales only partially recovered in February after a steep 8% fall in the new year. Things will improve when shops are allowed to reopen in April, though a greater consumer focus on services and the trend towards online shopping means the headwinds for traditional high-street retailers are building

Source: Shutterstock

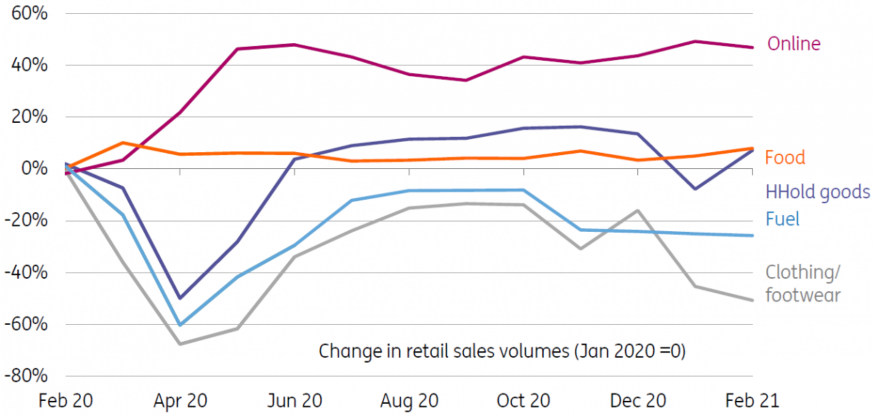
A partial improvement for UK retail

UK retail sales rebounded by 2.1% in February, though in truth, it was clearly another challenging month for the high street.

These latest figures reflect only a partial recovery after January's unexpectedly-large 8.2% decline and echo what credit card and footfall data had been suggesting over recent weeks. Times were particularly tough for clothing retailers, whose sales are only half what they had been before the pandemic began. That tallies with inflation data released earlier in the week, which showed that fashion outlets had slashed prices further in February after steep sales in January.

Of course, with the country still in lockdown, none of this is too surprising, and it's worth saying that overall sales are down 'only' around 4% on pre-virus levels, a marked improvement on what we saw last spring. Experience of lockdowns also tells us that it will probably only take a matter of weeks for sales to return - or exceed - pre-virus levels once the shops reopen, which is currently scheduled for 12 April.

Online retail continues to dominate UK spending



Source: Macrobond, ING

Two headwinds for the sector

Having said that, we see two main headwinds for the sector over the coming months.

Firstly, while there is likely to be some pent-up demand released owing to the build-up of savings over recent months, it's unsurprisingly likely to benefit services over goods. That suggests that the buoyant picture for things like household goods (which bounced back above pre-virus levels in February) may not continue once the economy has fully reopened.

> *Two main headwinds for the retail sector include pent-up demand benefitting services rather than goods and the trend towards online shopping is unlikely to fully reverse*

Secondly, it goes without saying that the trend away from physical retail towards online shopping is not going to fully reverse. This is a story that long pre-dates the pandemic and has only been accelerated by lockdowns.

Unfortunately, the combination of these two factors means it's likely to be a further challenging time for traditional high street retailers (or those without a well-developed online offering). These businesses will also be vulnerable when support measures such as the commercial eviction ban are removed later in the year, given many are perceived to be behind on rent payments due to the pandemic.

Further signs of consolidation are therefore likely on the high street over the coming months, which may result in higher unemployment in the sector.

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