

UK high street gets much-needed boost from weather

UK shoppers came out in force in May as the sun finally made an appearance. Dig a little deeper though, and the retail environment still looks challenging



Source: iStock

The big question facing the Bank of England is whether the economy is emerging from its first-quarter soft patch, and at face value, Thursday's retail sales data tends to say 'yes'. Spending rose by 1.3% in May, driven predominantly by food and clothing.

However, we don't think retailers are out of the woods just yet. May was a consistently warm month for much of the UK, particularly over the Bank holiday weekend at the start of the month, which encouraged consumers to head to the shops. The royal wedding is also likely to have given the high street a boost. But once these factors are stripped away, the environment still looks challenging.

Consumer confidence has picked up slightly but remains low by historical standards, particularly when compared to Europe and the US, where in many cases shoppers are the most optimistic they've been since the early-2000s. This is evident in the sales of bigger-ticket items; while food sales picked up in May, the British Retail Consortium noted that appetite for home improvements and furniture remains low.

Alongside slower demand, retailers are grappling with higher business rates and increased wage

costs. This is partly why some high-profile businesses have entered difficulties in recent weeks.

So while our base case is for the Bank of England to hike rates in August, the challenges facing the retail sector are probably the biggest risk to this view.

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