UK's retail recovery masks ongoing consumer caution

UK retail sales are above where they were pre-virus, but dig a little deeper and the latest figures reveal consumers are still cautious about returning to the high street

If you're looking for signs of a V-shaped recovery, then on the face of it UK retail sales data is a pretty good place to look. By June, sales excluding fuel were back to where they were earlier in the year, before lockdown. The 2.0% increase through July has only extended those gains further.

But while in principle this is good news, there are signs that the recovery in wider consumer spending has been steadier. Last month we laid out three reasons for caution when interpreting the retail figures - let's revisit each of them briefly.

1 The high street isn't feeling the benefit

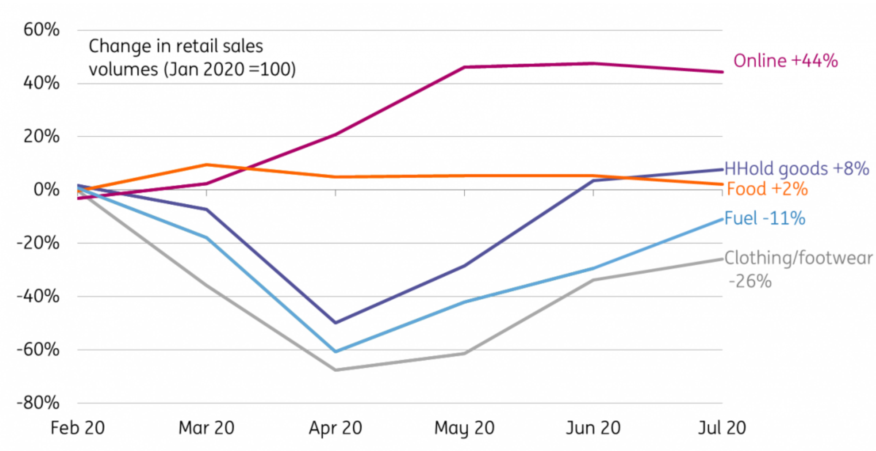
Unsurprisingly, online sales have been the major 'winner' from lockdown, and remain 44% higher than they were at the turn of the year. The flip side is sales at many traditional retailers are still well down on pre-virus levels, and in fact the latest footfall data from Springboard (via the ONS) shows that there has been only a minor, and very steady, improvement in retail traffic since shops reopened back in June.

What's driving this? Well we don't think this is down to financial restraint. Don't forget that while a large chunk of workers will have seen incomes fall through lockdown as a result of furlough, a wider proportion of workers are likely to have seen involuntary savings rise.

Unfortunately this relative resilience in household spending power looks set to deteriorate over coming months, with unemployment expected to rise. But for the time being, the reluctance to return to the high street probably continues to reflect concerns about safety.

While Covid-19 cases have stayed largely in-check over recent weeks (the rate of tests coming back positive has been more-or-less stable), the latest figures from YouGov show the number of Britons that perceive the pandemic to be 'improving' has fallen from 76% in late-June to 41% last week. Clearly, keeping Covid-19 transmission controlled is going to be a key factor in determining how Britain's high street recovers through the rest of the year.

Online sales have driven the retail recovery



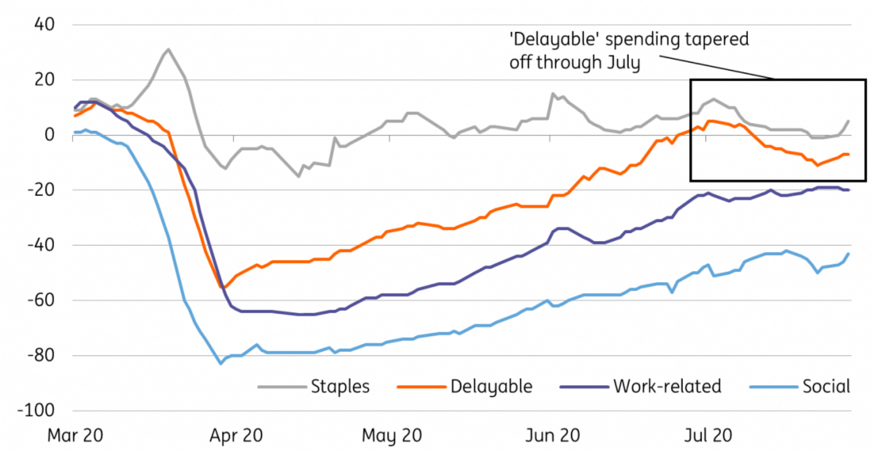
Source: Macrobond, ING

2 The effect of pent-up demand appears to be fading

Away from online sales, another potential driver in the retail rebound is pent-up demand - consumers taking advantage of shops reopening to make purchases that are less convenient to make on the internet.

That seems to be the story offered by the Bank of England's CHAPS payments data, which shows that 'delayable' spending tailed off through July having risen in the aftermath of shops reopening. This isn't reflected in these latest official retail numbers, where sales at physical retail locations generally rose last month, but we'll be keeping an eye open for further signs of this effect in the next few releases.

Bank of England data shows 'delayable' spending tapering off



Source: Bank of England

3 Consumers aren't shelling out on services

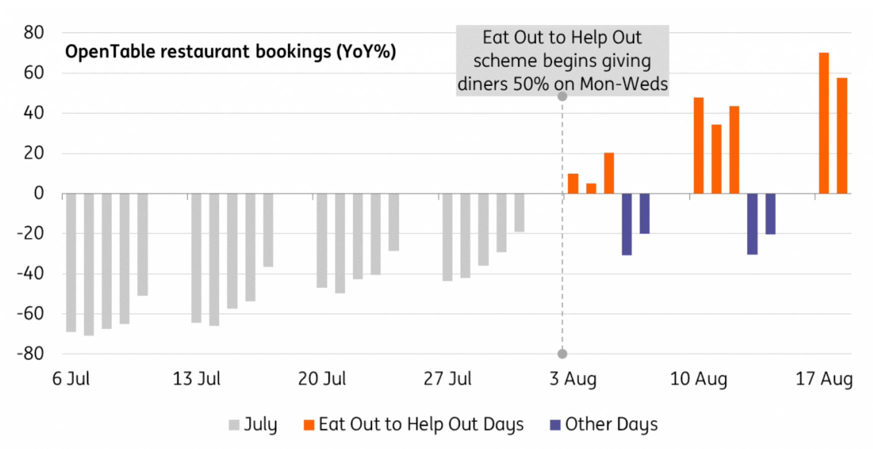
Finally, it's worth remembering that retail sales are only one part of the story - and spending on services (restaurants, hospitality etc) have also been hard-hit.

The good news here is that the government's Eat Out to Help Out scheme does appear to have driven up restaurant demand on the days consumers are eligible for their 50% discount. OpenTable data shows a surge in bookings at the start of each week so far through August.

The major caveat to the data is that consumers are now booking ahead much more than they'd have used to, so these numbers are probably inflating the improvement. We can also see that Thursdays and Fridays, where the discount isn't available, are still seeing bookings well below normal.

Nevertheless, the hope is that the scheme will have helped improve consumer perceptions about the safety of visiting restaurants and bars, and will help foster a more sustained recovery in demand for these services.

The Eat Out to Help Out scheme has significantly boosted restaurant bookings



Source: OpenTable

Author

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Disclaimer