UK retail sales bounce despite deteriorating confidence

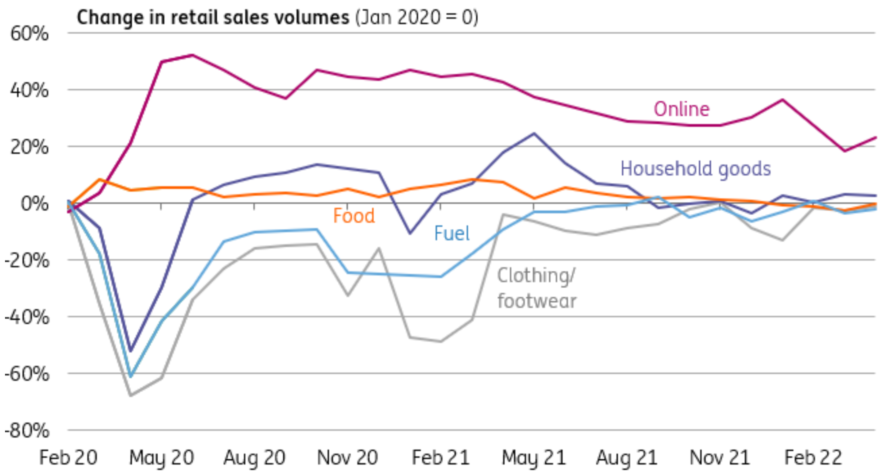
UK retail volumes increased in April, though the overall trend is fairly stagnant. Confidence is now at all-time lows and that's likely to help produce a negative second quarter growth reading. Nevertheless, a large savings buffer and a solid jobs market means a severe recession is not inevitable

Source: iStock

UK retail sales bounced more than we'd expected in April, though the overall trend appears to be one of stagnation. The 1.4% increase in sales volumes last month followed two consecutive falls, and it's worth bearing in mind that these figures have always been volatile even pre-Covid. A one standard deviation monthly change in sales was around 1% pre-pandemic.

Big picture, overall retail spending is still down slightly on levels seen during last autumn, which is mainly due to a noticeable downtrend in online sales. These are down by roughly 5% on the third quarter of last year. While it's tempting to ascribe this to the increase in the cost of living, we think it at least partly reflects consumers rebalancing spending away from goods and back towards services.

Online sales have slipped over recent months



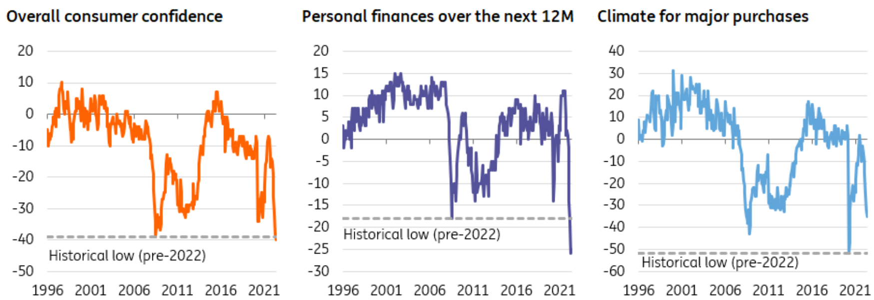
Source: Macrobond, ING

Still, the outlook is undoubtedly challenging. Today's consumer confidence figures fell below all-time lows, and that's especially noticeable when looking at consumers' outlook for personal finances. Assuming consumers remain more enthusiastic about services spending rather than goods in the near-term, we suspect this cost of living squeeze will be more acutely felt on the high street and among online retailers over the coming months.

So despite the latest bounce in retail sales, we still narrowly suspect the economy will experience negative growth this quarter – though if it happens it will be more down to falling health output and the effect of the extra bank holiday, than the deteriorating consumer story. A more severe downturn may still be avoided if consumers dip into their pool of savings accumulated through the pandemic, which amount to around 8% of GDP in excess of what we'd have expected had Covid not happened - the major caveat of course being that these are more heavily concentrated among higher-income workers.

The jobs market also remains pretty solid, and the potential for labour hoarding amid worker shortages suggests redundancies will probably remain low for time being.

UK consumer confidence is at record lows



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