

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

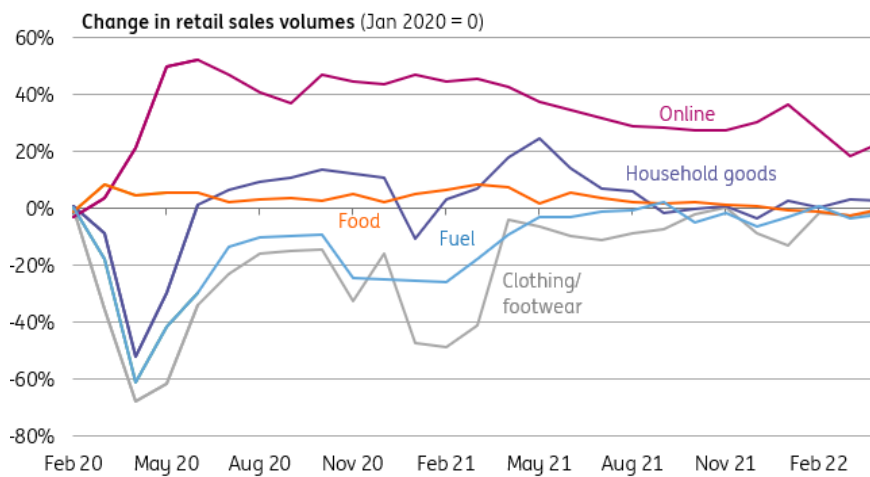


Source: iStock

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



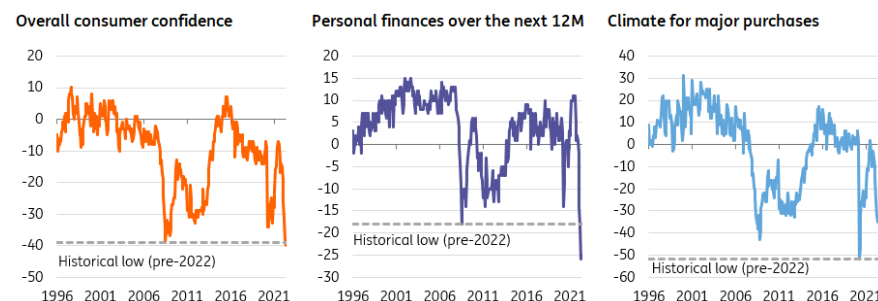
Source: Macrobond, ING

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



Author

James Smith

Developed Markets Economist, UK

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 <http://www.ing.com>.