

## UK retail sales bounce on January discounting

January's increase in retail sales wasn't enough to reverse a steep fall around Christmas, and the big picture is that sales have been on a downward trend. Signs of discounting in January will be welcome news for the Bank of England



January's numbers – online and non-food sales – were bolstered by discounting

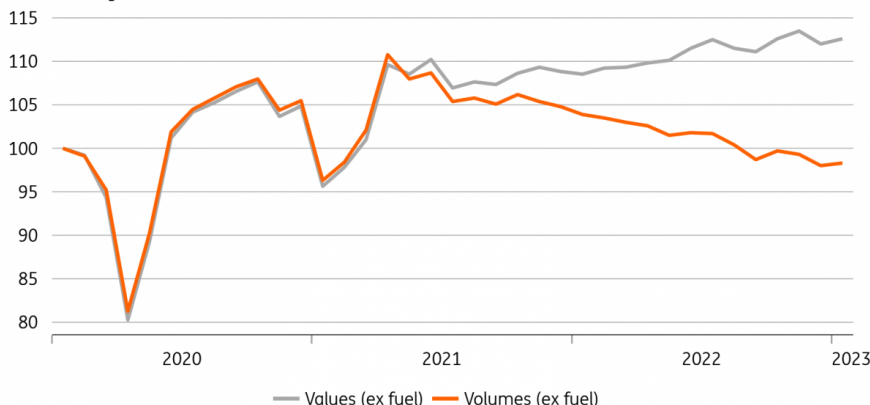
UK retail sales were better than expected in January, rising by 0.4% on an ex-fuel basis. However these are volatile numbers, and that increase only partly offsets the steep 1.4% decline we saw in December. More importantly, sales have been on a gradual downtrend since October 2021 and are down 7% since then, and indeed now lie below pre-Covid levels.

What's interesting is that the ONS has said the brighter spots in January's numbers – online and non-food sales – were bolstered by discounting. This is only anecdotal evidence admittedly, but it does support the trend we're seeing in core goods inflation, which has been easing rapidly on lower consumer demand, improved supply chains and rising retail inventories. Goods prices aren't the main area of focus for the Bank of England, but it does help the overall inflation story.

## UK shoppers have been spending more and getting much less

### UK retail sales, excluding fuel

January 2020 = 100



Source: Macrobond

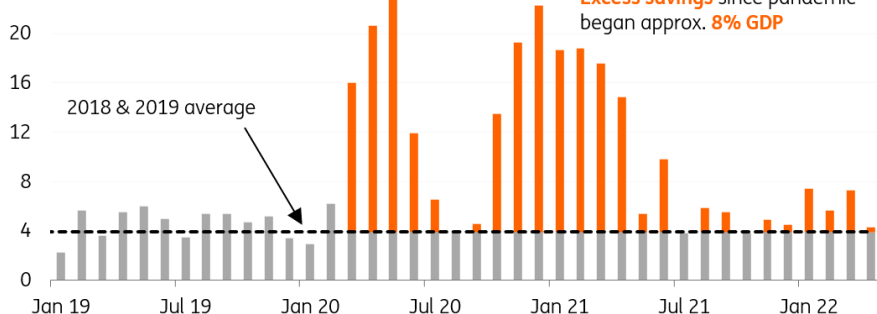
What next for retail and consumer spending more generally? We suspect we'll see the downward path of retail sales continue for at least a couple more months, but the outlook should begin to turn brighter. Our rough calculations suggest the average household energy bill will no longer rise to £3,000 as planned in April, and in fact should have fallen to £2,100-2,200 by the summer, from £2,500 currently. That's still high by historical standards, but the lack of a further increase should help limit the fallout in consumer activity.

There are two main areas of uncertainty. On the positive side, there's potential for consumers to dip into savings. Interestingly consumers have, in general, continued to build cash savings at a higher rate than pre-pandemic over recent months, and there is roughly 8% of GDP worth of these 'excess savings'. The counterpoint is that this is highly skewed to higher earners, but it could yet provide some support to spending if consumer confidence improves.

## Consumers have continued to build savings more quickly than pre-Covid

### Monthly change in households deposits (M4)

GBP billions



Source: Macrobond, ING calculations

Household deposits based on M4 data, which is a broad money aggregate and a measure of UK money supply

The housing market is probably the main negative risk, and a price correction is clearly underway. The vast majority of UK mortgages are on fixed interest rates which means the passthrough of higher rates is pretty gradual. And in general, the UK housing market looks less vulnerable than in some other countries. But buying activity is clearly very weak, and more aggressive price declines (if they come) would undoubtedly have a knock-on effect on spending.

Overall, we're expecting a very mild recession through the first half of this year.

## Author

### James Smith

Developed Markets Economist

[james.smith@ing.com](mailto: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>.