

UK retail sales dip as confidence falls to another all-time low

UK retail sales (excluding fuel) are down by roughly 4% since last October, which reflects both the cost of living squeeze and a more general rotation from goods to services spending post-Covid. Expect further weakness ahead, though the solid jobs market should help prevent a more severe downturn in overall spending

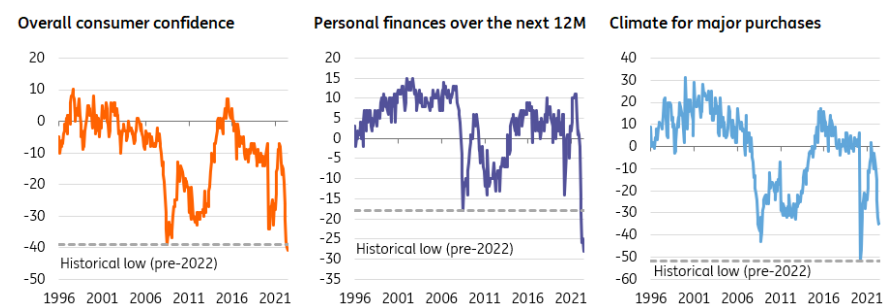


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UK retail sales fell by half a percent in May, reversing a percentage increase of a similar magnitude in April. In what has always tended to be a fairly volatile data series, these are not monumental changes. Still, spending excluding fuel is down by roughly 4% since last October. It's tempting to put this entirely down to the squeeze on household incomes, and that's probably at least partially true. The ONS reckons the 1.6% monthly decline in food spending is down to higher prices.

But the picture is muddled by a more general rotation away from goods back towards services post-Covid. One consequence is that retailers are likely to find they have excess inventory, as delayed shipments arrive in a backdrop of more tepid demand for – in particular – durable goods. Household good stores have seen sales fall by 15-20% since the same time last year.

Consumer confidence has hit another all-time low



At the same time, the cost of living squeeze is likely to cause a further hit to demand over the coming months. Confidence fell to another all-time low in June, despite new government support measures. The near-10% rise in petrol/diesel prices over the past month has dealt another blow to finances.

Still, for the time being the jobs market is solid, and we aren't convinced we'll see that story change significantly given persistent labour shortages (creating a strong disincentive for firms to make redundancies despite margin pressure). Consumers also have scope to tap excess savings accrued through the pandemic, albeit these are widely believed to be more highly concentrated in higher-income earners that are less acutely affected by the fall in real wages.

Second-quarter UK GDP is likely to fall by roughly half a percent, though this is more of a reflection of a decrease in health spending now free Covid testing has ended, as well as the extra bank holiday for the Queen's Jubilee.

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