

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

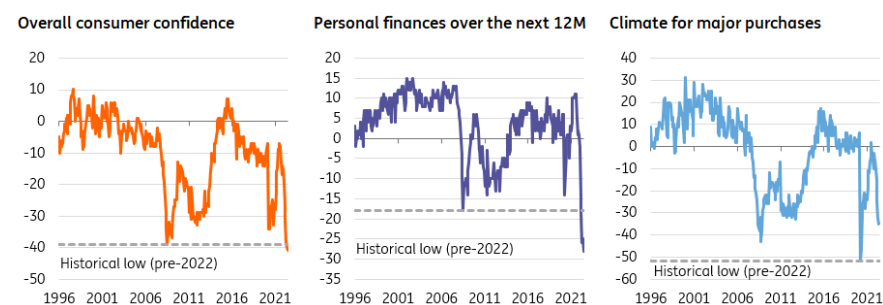


UK retail sales fell by half a percent in May

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



Source: Macrobond, ING

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.

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>.