

UK retail sales plunge on post-Christmas lockdown

The period after Christmas is always a difficult time for retailers, and the fact it coincided with the second nationwide lockdown contributed to a sharp 8% fall in sales. This should bounce back rapidly on reopening of the economy, but the pandemic-induced switch to online retail is unlikely to be reversed, posing ongoing challenges for the high street



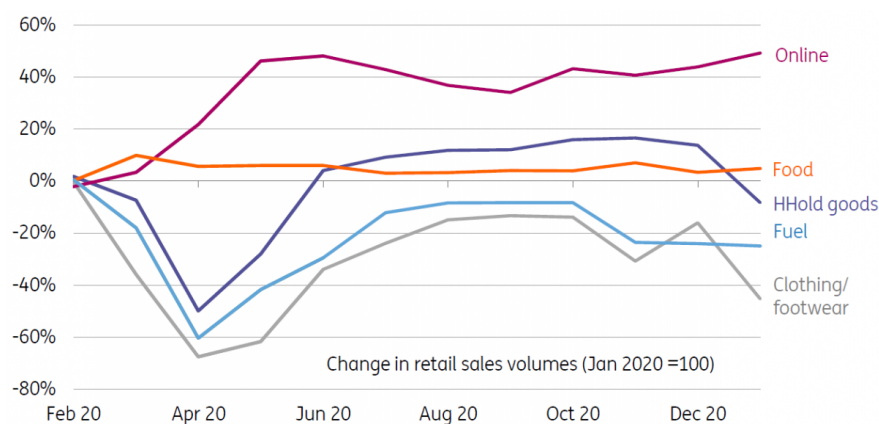
Source: Shutterstock

With the UK back under lockdown, it'll come as little surprise that retail sales plunged.

That said, the 8.2% fall was considerably higher than we'd expected (around 4%), and provides clear evidence that the hit to consumer spending is noticeably larger than it was during the November restrictions. In all likelihood, these latest restrictions have amplified what is already typically a quiet time for retailers.

Still, it's worth putting this into some context. Unlike the wider economy, the retail sector was already operating comfortably above pre-virus levels. While savings levels rose last year, it's also clear that consumers spend some of the money amassed on buying more goods. Unsurprisingly this heavily benefitted online retailers.

The pandemic has triggered an abrupt switch to online retail



Source: Macrobond, ING

This latest fall puts sales (ex-fuel) a little more than 3% below February 2020 levels. Experience from the reopening of the economy last spring suggests this will be rapidly regained when shops are permitted to resume trading, probably in April.

Assuming the spring reopening proves sustainable, and the vaccines succeed in keeping transmission and hospitalisations contained, then consumer spending is likely to rise strongly from spring onwards. However we think it's more likely to favour services for obvious reasons, and it's therefore likely that retailers won't feel the full benefit (though clothing may be a possible exception)

The abrupt switch to online retail during the pandemic is also unlikely to fully reset, having only accelerated a trend that was already there. It's therefore likely that we'll see further signs of consolidation on the high street this year, and that may unfortunately contribute to a rise in unemployment in the sector.

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