

15 February 2019
Snap

UK retail sales rebound masks tough climate on the high street

Despite an improvement in disposable incomes, the outlook for the high street remains clouded by the near-term uncertainty surrounding a 'no deal' Brexit

After a tough Christmas trading period – one that has been described by some as the worst for a decade – the British retail sector started the new year on a stronger footing. Excluding fuel, sales increased by 1.2% in January, echoing British Retail Consortium data which suggested shoppers were tempted out by post-Christmas discounts.

Despite these better figures, there are a couple of reasons to think the momentum may not continue over the next few months

Firstly, it's worth remembering that January is a month where a huge chunk of unwanted Christmas gifts get returned, while consumers also go out and spend their newly acquired gift cards. This impact on post-Christmas revenues isn't reflected in the retail sales numbers.

More importantly, though, Brexit uncertainty is likely to keep a lid on spending over the next few months. Despite an improvement in real wage growth, consumer confidence remains at the lowest level since 2013, led by concerns about both the economic climate and personal finances. There is a risk that, as the Brexit deadline draws nearer, nervousness about the impact of 'no deal' will creep into the consumer mindset. At the very least, shoppers may opt against bigger ticket purchases in the short-term, instead choosing to maintain savings levels.

Of course, there's plenty of uncertainty surrounding all of this, but it is another reason why first-quarter economic growth is likely to be capped around 0.2% again. For the time being, the Bank of England will remain firmly on the sidelines.

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