UK retail sales rose in June despite delta danger

Sales are 9% above pre-virus levels, though June saw spending dip on non-essentials. We suspect this reflects a switch in consumer priorities as services reopen, and we aren't (yet) convinced that retail is the best place to look for the impact of the recent spike in Covid-19 cases. The outlook for retailers is best described as 'solid but unexciting'

Source: Shutterstock

The UK retail sector is in fairly good health, all things considered

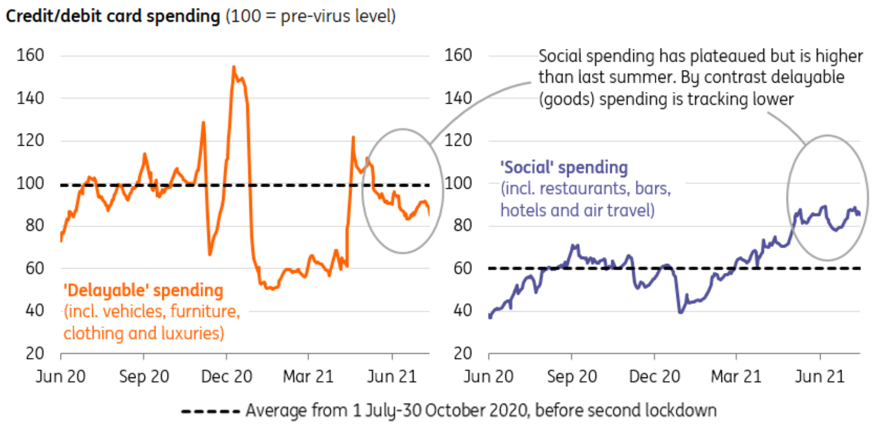
Sales are comfortably (9%) above pre-virus levels, something that can't be said for many other consumer-facing sectors in the UK right now. That was helped by a fairly modest 0.5% increase through June, though interestingly, if you were to take out fuel and food, most other categories saw spending decline. So what should we draw from this?

It's probably too early to chalk any of this down to the impact of rising Covid-19 prevalence, and indeed we're not convinced the retail sector is the best place to look for it. Our main concern with the Delta variant is that it will knock the confidence of shoppers to leave home, though so far though there's little sign of this in retail. According to a weekly ONS survey, the proportion of adults reporting visiting a shop for non-essentials is noticeably higher now than it was at the end of May. Footfall is fairly stable too.

Instead, what we're maybe seeing is consumers (unsurprisingly) rebalancing some spending away from retail – which is primarily goods – towards newly-reopened services. We can see some evidence of this in the Bank of England's card data, which shows 'delayable' goods spending below the pre-second wave average from last summer – and indeed falling over recent weeks. In contrast, 'social' spending is much higher than most of the pandemic so far, albeit has levelled off over recent weeks.

We'd also argue this is partly behind the recent recovery in clothing sales, which are often inherently linked to holidays, weddings, etc. While spending on fashion was down slightly in June, it's still much higher than it was at any point in the pandemic before shops reopened in April.

Consumers are rebalancing spending towards services



Source: Macrobond, ING

Credit/debit card spending is based on CHAPS data from the Bank of England/ONS

The outlook for retail: 'Solid but unexciting'

When it comes to the outlook for retail over the rest of the year, we'd describe it as 'solid but unexciting'.

Further gains in sales may be trickier to achieve, despite a recovery in consumer confidence and the large pool of involuntary savings. The latter, it's worth remembering, is more heavily concentrated among higher earners who are less likely to spend the lockdown savings. Meanwhile, lower-income earners, who are more likely to have seen savings fall through the pandemic, will be disproportionately hit by the rise in inflation and are more exposed to possible redundancies as the furlough scheme comes to an end in the autumn.

In short, while consumer spending as a whole will help drive GDP fairly close to pre-virus levels by the end of the year, it's likely that many of the marginal gains from now on will be found in services as opposed to retail.

Author

James Smith
Developed Markets Economist, UK
james.smith@ing.com

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