

UK retail sales sink in Black Friday aftermath

The latest UK spending data indicates that retailers had a tough time around the Christmas period



Source: Shutterstock

-1.6% UK retail sales (MoM%, excl auto fuel)

Worse than expected

Tough time for retailers

A sharp fall in UK retail sales during December has rounded off what was a very tough year for both consumers and retailers. That said, the 1.6% month-on-month fall in spending during December should be treated with some caution, not least because the change in shopping habits initiated by Black Friday makes the data a nightmare to seasonally adjust. But those difficulties aside, the latest data does suggest the festive period was a tough time for retailers, many of whom had to offer steep discounts in the final weeks before Christmas at the expense of margins.

Looking ahead, [we see few catalysts](#) for a recovery in spending over the next few months. Whilst prices in general have largely adjusted to the post-Brexit weakening in the pound, food and fuel

costs are continuing to rise. And whilst signs of skills shortages in certain sectors have prompted the Bank of England to forecast a sharp acceleration in wage growth, there is also a risk that some firms remain cautious, as economic demand and other input cost pressures continue to bite. Putting this together, real disposable incomes are likely to remain at best flat over the next few months.

What it means for interest rates

This gives the Bank of England a conundrum. Admittedly, the Bank's forecasts already incorporate further weakness in spending, but given that the consumer represents such a large share of UK growth, the slowdown can't be fully ignored. We very narrowly think the Bank of England will remain on hold this year, although if it does opt to hike again, we think May's meeting is the most likely opportunity.

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