

## UK retail sales stagnate as warm weather saps demand

Ongoing weakness in consumer spending is a key reason why we expect the Bank of England to remain cautious next year



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# 0.1%

## UK retail sales growth

excluding auto fuel, MoM%

After a fairly sharp slump in September, UK retail sales stagnated in October as unseasonably warm weather meant shoppers weren't replenishing their winter wardrobes. But as weak readings from Visa and the British Retail Consortium have highlighted in recent months, consumers are still remaining very cautious more generally, particularly when it comes to non-essentials.

The household spending squeeze may have passed its worst, and indeed we think headline inflation will trend downwards from here. But wage growth remains under pressure, and with jobs growth showing early signs of stalling, we think incomes may not accelerate as fast as the Bank of England is hoping in 2018. That means consumers are likely to continue to take a cautious approach to spending for at least a couple more quarters.

Sluggish growth is a key reason why we think another rate hike from the Bank of England next year is still not fully guaranteed. There are a lot of unknowns to resolve in the Brexit negotiations over coming months, and the swift announcement of a transition deal will be key. We don't rule out a hike in 2018, but for now, policymakers are likely to keep their cards close to their chest when it comes to the timing of their next move.

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