

# UK retail sales surge after shock December plunge

The UK retail sector fully regained December's lost sales activity in January, and we think this says more about shifting seasonal trends than the broader macro environment. The bounce back adds another reason to think GDP will rebound in the first quarter



We think an improved consumer backdrop should help the UK economy return to modest growth through 2024

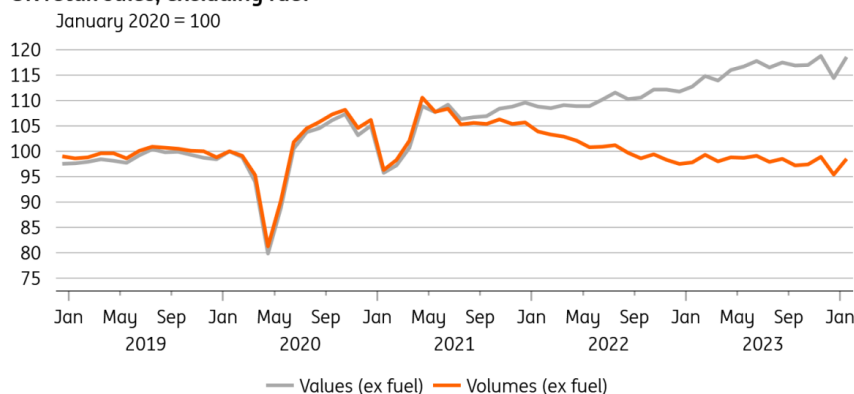
The UK retail sector started the year on a high. Retail sales bounced by more than 3% in January, fully offsetting a sharp fall in spending over Christmas. Those December figures raised a few eyebrows when they were released last month, given that the 3.3% fall was unusually large, even for a dataset as volatile as this.

At the time, some of the weakness was blamed on bad weather and consumers tightening their belts. But the rapid rebound suggests the dip was more likely down to the ever-shifting seasonal trends in spending, which have continued to change pace since Covid-19. The switch to making Christmas purchases in November around Black Friday instead of closer to the festive period isn't new. But it seems to be a growing trend that makes it tricky for statistics agencies to accurately seasonally-adjust the numbers – a challenge that is not unique to the UK.

In short, January's bounce should be taken with just as much of a pinch of salt as December's fall. That's not to say we should ignore it completely, though. The weak end to 2023 in retail seems to have played a partial role in the overall decline in UK GDP during the fourth quarter. Those figures sparked a lot of headlines about a technical recession, but the bounce in retail adds another reason to expect a rebound in growth during the first quarter.

## UK retail sales fully recovered December's dip during January

### UK retail sales, excluding fuel



Source: Macrobond

More broadly, the outlook for the UK consumer is improving. The mortgage squeeze will continue in 2024, but with rate cuts on the horizon, we think around two thirds of the passthrough to homeowners has happened already. The average rate on outstanding mortgage debt has risen from 2% to 3.3% since rate hikes began, and we think this will rise to 3.7% by the end of 2024 as homeowners continue to refinance off lower fixed rates this year. That's a much more modest passthrough than expected three to six months ago, even accounting for recent rebound in market rates.

At the same time, real incomes are growing. Headline inflation will dip below 2% in the second quarter, in thanks partly to a sizeable prospective fall in energy bills in April. Wage growth, meanwhile, is proving much stickier.

While we shouldn't get too carried away – not least because the jobs market will continue to cool gradually – an improved consumer backdrop should help the UK economy return to modest growth through 2024.

### Author

#### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information

purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.