UK retail sales surge, but can it last?

Shop reopenings triggered a much larger jump in retail sales than expected. Rising consumer confidence suggests spending should remain solid over coming months, though more of this will be targeted towards services rather than goods. Combined with rent pressures and the shift to online shopping, high street retail still faces a challenging recovery

Source: Shutterstock

Even with the reopening of shops, April's surge in retail sales was considerably higher than expected. The 9% month-on-month jump now means sales are 10% above pre-pandemic levels.

What's particularly stark is just how much clothing/footwear sales jumped – recovering to pre-virus levels in April, having been some 40% below in March. To some extent, a recovery here was always likely – we've long felt that the underperformance of clothing was linked to the closure of events, and the reopening roadmap potentially means shoppers are stocking up on items for socialising and gatherings.

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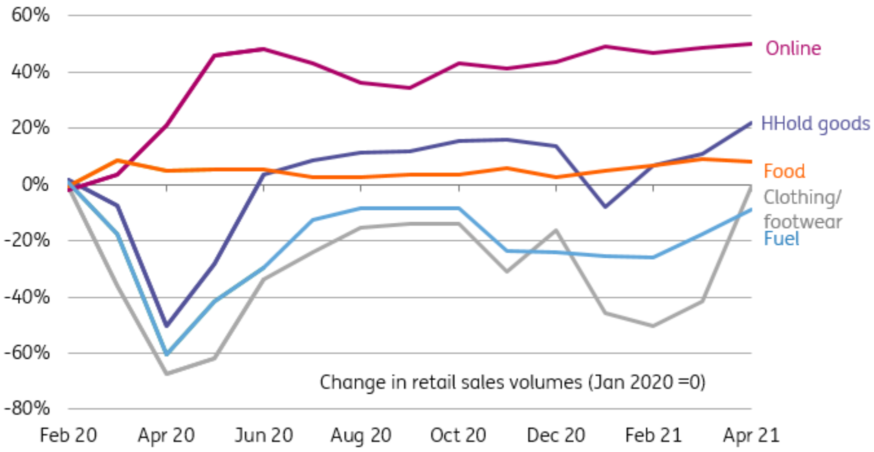
But the rebound speed is nevertheless surprising, particularly given sales around Easter are often driven by weather and a feeling of summer arriving – which I think it's fair to say hasn't been the case…

Clothing sales drive retail sales rebound



Source: Macrobond, ING

All of this poses an interesting question – can it last?

The data is arguably giving us mixed messages. On the one hand, confidence has really increased over the past couple of months, and the most-watched GfK index now sits comfortably above the level it was after the first wave of the pandemic last summer. The vaccination programme has clearly given people more confidence both in their safety but also the economic outlook.

Despite that, the high street still looks a little vulnerable. With the reopening of services, consumers once more have a wider array of things to spend their money on – as evidenced by social spending (measured by CHAPS data) now at its highest level since the start of the pandemic. And while the consumer, on average, has a decent amount of spending power owing to the large pool of cash savings, this has been heavily concentrated in higher earners, whose propensity to spend is typically a bit lower.

We think further gains in retail sales from here will be more steady

At the same time, we suspect consumer spending will remain heavily targeted towards online retailers, suggesting traditional high street stores will continue to struggle. Interestingly, April's rebound in various spending categories didn't come at the expense of online shopping, increasing and still sits some 50% above pre-pandemic levels.

High street firms are also under pressure from rent arrears and other pandemic-linked costs.

Meanwhile, footfall at physical retailers is still a little lacklustre, though there is some scope for a further rebound as and when more people return to offices.

Putting all of that together, we think further gains in retail sales from here will be more steady.

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