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Snap

UK retailers not out of the woods despite better sales

The high street had another reasonable month in August according to the latest retail sales figures. But with incomes still under pressure, and consumer caution only likely to build as 'no deal' Brexit warnings multiply, we think the high street faces a challenging autumn

As the sun kept shining, UK retail sales edged higher by 0.3% in August following a very strong July trading period. However, now that the better weather is fading, we think retailers have another challenging few months ahead of them.

Despite some better news on wage growth over recent months, real incomes remain under pressure from higher inflation. Admittedly, yesterday's surprise spike in headline CPI appears to be down to a combination of volatile items, but even so, household budgets are being squeezed by the near-10% rise in petrol prices since March.

0.3% August retail sales growth
(MoM%)

Better than expected

But as we edge closer to the crucial pre-Christmas trading period, the big challenge for retailers could come from the threat of a 'no deal' Brexit. With a growing number of newspaper headlines warning about the day-to-day impact this scenario would have, it's possible this begins to take a greater toll on consumer sentiment.

After all, one of the reasons that spending has not collapsed completely since the 2016 referendum is that people have generally kept their jobs – employment has actually increased by roughly 2% since then. This has kept unemployment expectations low, but if people begin to get more nervous about job security – particularly with big employers becoming more vocal about the risks of 'no deal' – then this could create another headwind to spending.

Whether any of this happens is, admittedly, very uncertain. But faced with the risk that economic momentum could stall further as we approach March 2019, we think the Bank of England will keep rates on hold until at least May 2019.

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