

UK retail's remarkable recovery set to stall

UK retail sales continue to exceed their pre-virus levels, but renewed closures in Wales and the knock-on effect of tiered restrictions elsewhere suggest revenues will come under renewed pressure on the high street, as we edge towards the key Christmas trading period

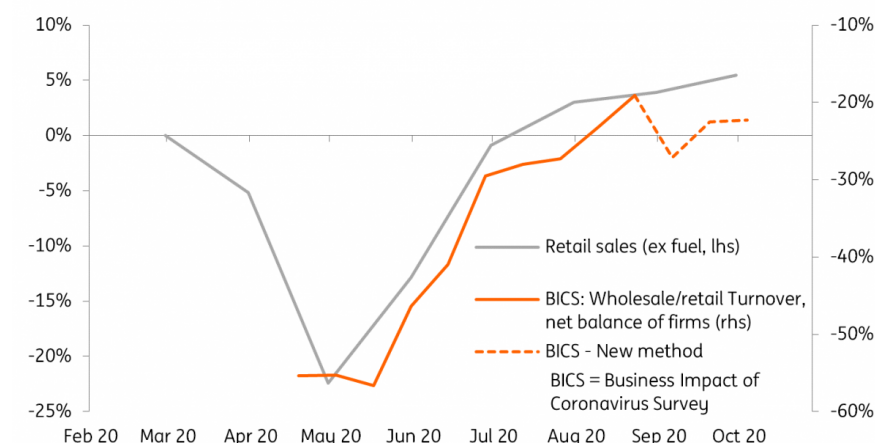


Source: Shutterstock

The UK economy regained ground over the summer as business reopened, but nowhere has this recovery been more visible than in retail. Retail sales were already almost back to pre-virus levels in June and have exceeded them in the months since.

But this remarkable progress may be beginning to run out of steam. While sales increased by another healthy 1.5% over September, [the latest readings from the ONS business impact survey](#) (a wide-ranging questionnaire on the impact of Covid-19) suggests that retailers are beginning to see their turnover level-off - and the latest round of government restrictions will add further pressure.

Turnover at British retailers has begun to plateau



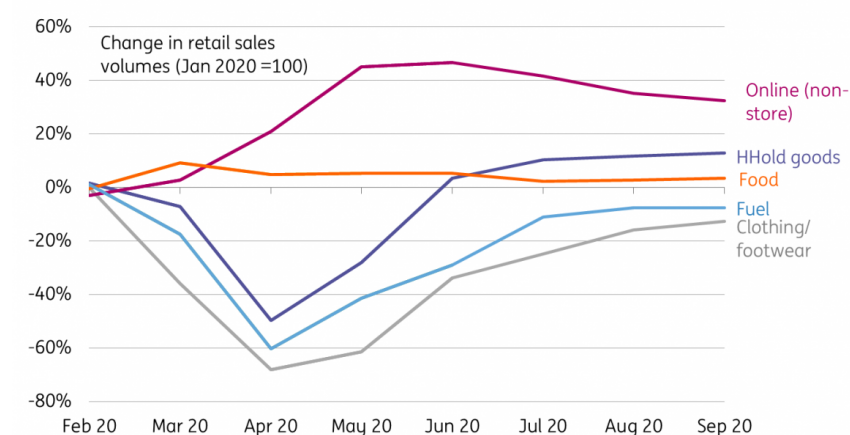
Source: Macrobond, ONS Business Impact Survey, ING calculations

Net balance = total businesses reporting higher revenues, less those reporting lower revenues

Wales has become the first area in the UK to close non-essential retail once again, which we estimate accounts for just under 5% of employment in this sector in Great Britain (a little lower than that if the data were to include Northern Ireland). That implies that we could potentially see overall retail sales slip lower again in October or November.

But while the latest restrictions in England and Scotland are not as restrictive for retail at this stage, there will still undoubtedly be an impact. The closure of hospitality will reduce demand for some products. Clothing and footwear stores have seen their sales gradually recover through the summer, but this could begin to stall yet again. Pub and restaurant closures will also see reduced footfall in high-street/city centre areas, which was already well below pre-pandemic levels according to Springboard data published by the ONS.

Online has dominated the retail sales recovery



Source: Macrobond, ING

All of this will add further pressure to the overall GDP figures over the Winter. While retail is unlikely to be as badly affected as other sectors by the Covid-19 resurgence, the

deteriorating outlook is nevertheless another reason to think the post-lockdown recovery in UK economic activity has reached its limit.

We expect October monthly GDP to record a contraction.

Author

James Smith

Developed Markets Economist, UK

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 www.ing.com.