

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

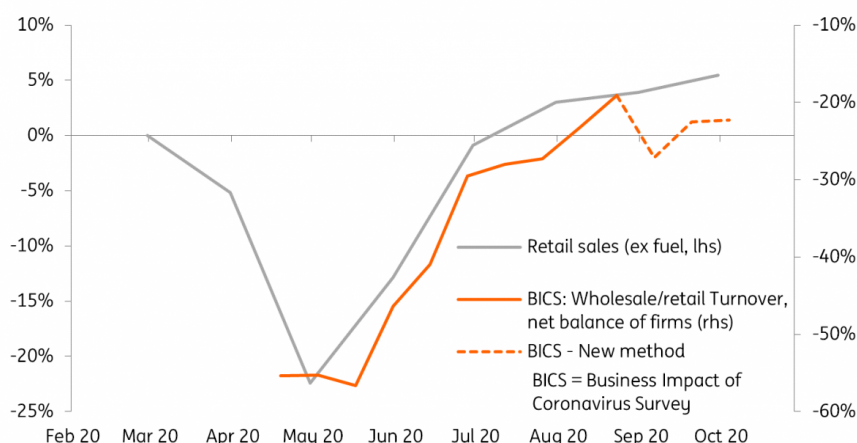


Source: Shutterstock

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



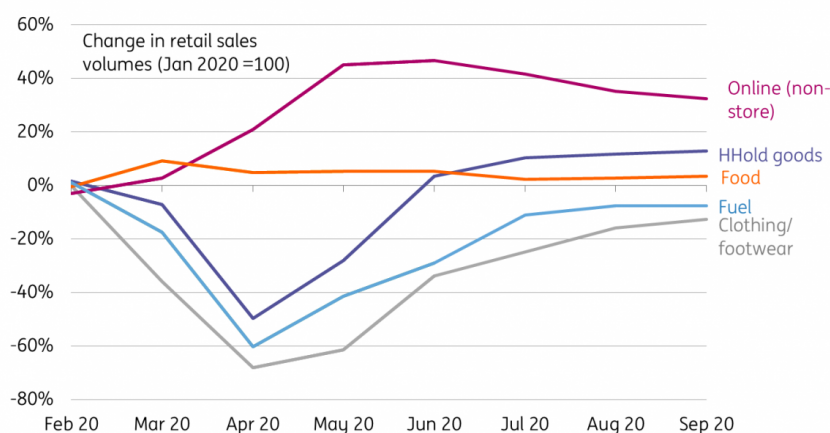
Source: Macrobond, ONS Business Impact Survey, ING calculations

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.

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