

UK shoppers keep foot on brakes as wage squeeze persists

A drop in retail sales emphasises the fragile nature of UK consumer spending



Source: iStockphoto

-0.8% Retail sales growth
(MoM%)

At -0.8%, the latest month-on-month fall in retail sales suggest things haven't got a whole lot better for consumer spending, after what was an unusually woeful second quarter.

As the real wage squeeze continues to persist, shoppers appear to remain cautious when it comes to non-essentials. Non-food retailers - which includes department stores - saw sales drop by 1.5% in September, while internet retailers continue to dominate the high street. Both of these developments back up what we've seen in other data from Visa and the British Retail Consortium.

With inflation likely to stay around 3% for the next few months (albeit set to peak in October) and

wage growth set to hover just above 2% in the medium-term, the pressure on household budgets is unlikely to come down for at least a couple of more quarters.

Surging borrowing has fueled much of the spending we've seen throughout last year, and while most of that is confined to car financing, if consumers start to take a more cautious approach to unsecured lending more generally, that would keep a lid on any recovery in retail spending.

Fragile consumer spending is a key reason why we think the Bank of England will take a cautious approach to raising rates. Whilst we expect the Bank to exit "emergency mode" with a November rate rise, we are yet to be fully convinced that the Bank will quickly follow up with a second hike over coming months.

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