

UK spending recovers, but retailers aren't out of the woods just yet

Retail sales rose in April, but with real incomes under pressure and confidence low, we expect consumer spending to continue to struggle over coming months



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At face value, the solid 1.3% increase in UK retail sales during April suggests that the high street managed to regain some poise after a particularly tough first quarter.

That said, this doesn't really tally with other data – footfall fell again in April, whilst payments company Visa noted a further drop in spending. For this reason, we don't think the retail sector is out of the woods just yet.

Consumers remain cautious, not just about their finances, but also about the economic situation more generally. And whilst the worst of the household squeeze has passed, real incomes are still more or less flat. At the same time, consumer credit appears to have plunged recently. This may prove to be a blip, but given that borrowing appears to have played a key role in financing day-to-day spending over the past year or so, this could be a bad omen for growth.

Then there's the recent rise in the cost of petrol. Whilst the average financial impact of the recent oil price rise may not be massive as a proportion of overall household costs, changes in petrol prices are very visible/transparent compared to most other goods, and it is something many

households buy frequently. Therefore the confidence impact could be more noticeable, if consumers infer that overall household costs are set to rise more quickly.

Putting all of this together, we think the fragile retail sector is the biggest risk to a summer Bank of England rate hike. Admittedly, with wage growth showing some signs of life over recent months, our feeling from recent BoE communication is that policymakers would like to hike again in August if the data allows them to.

We therefore think a rate rise over the summer is still more likely than not, although this is certainly not a done deal.

Author

James Smith

Developed Markets Economist, UK

james.smith@ing.com

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