

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



Source: Shutterstock

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

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 <http://www.ing.com>.