UK: Three reasons not to get too excited about the retail rebound

UK retail sales are now higher than they were pre-crisis, but this doesn't necessarily imply that we're heading for a 'V-shape' recovery. A lot will depend on how far unemployment increases over the coming weeks and months, but also on whether consumers begin to feel safer visiting the high street and pubs and restaurants

Woman passes parked buses near Oxford Street in London

Source: Shutterstock

Retail rebound doesn't necessarily mean a 'V-shape' recovery

UK retail sales increased by just shy of 14% in June, and that means the overall index (excluding fuel) is now higher than it was pre-virus. But while this will undoubtedly prompt renewed discussion about a 'V-shape' recovery, we aren't so sure that's really what's going on.

Firstly, it's worth highlighting that the recovery in overall retail sales masks a huge shift in composition. Online spending (or officially known as 'non-store') is up 50% since the start of the virus. Physical retail, which at least before the crisis still accounted for the majority of spending, is still down considerably. The dip is most noticeable in clothing and footwear sales, which remains 34% lower on pre-virus levels, but most types of retail are still experiencing lower volumes (with the exception of things like DIY stores, which have seen a frenzy as everyone decided to do up their gardens during lockdown).

Even though retail sales figures are encouraging, we shouldn't overstate them. Whether this translates into a sustained pick-up in sales will depend on how bad the rise in unemployment is over the coming weeks and months

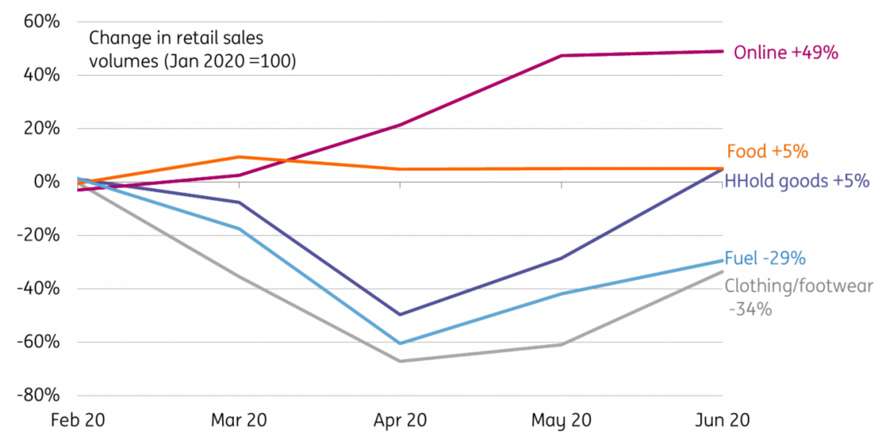
The reality is that footfall is still only around 60% of normal levels, according to Springboard.

Secondly, at least a portion of this spending rebound is likely to be down to some pent-up demand - or purchases that maybe couldn't easily be made during the lockdown. While it's hard to quantify this effect, the latest high-frequency CHAPS payments data, cited this week by the Bank of England's MPC member, Jonathan Haskel in a speech, appears to show 'delayable' spending beginning to fall again.

Finally, it's always worth remembering that retail sales don't represent the entire consumer spending basket. Services aren't included, and the evidence so far suggests consumers have been reluctant to fully re-engage with venues that have reopened this month. OpenTable restaurant bookings are still down by roughly 40-50%, and even this is probably an overestimate of what's going on, given more places require reservations as a result of social distancing.

'Social' spending according to central bank data is also still considerably below pre-virus levels and hasn't shown a significant leap since pubs and restaurants reopened.

Big shift to online shopping as physical retail lags behind



Source: Macrobond, ING

Let's not get carried away

In short, while retail sales figures are encouraging, we shouldn't overstate them. Whether this translates into a sustained pick-up in sales will depend on how bad the rise is in unemployment over the coming weeks and months, as the government begins to remove its unprecedented job retention scheme support.

But it will also hinge on how the savings rate evolves. Involuntary savings have increased dramatically through the pandemic, which means that unusually for an economic downturn, spending power is theoretically quite high.

Whether or not these savings will be deployed will largely depend on how safe people feel going out-and-about, and that in-turn will really hinge on the magnitude and severity of future localised Covid-19 outbreaks.

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