

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

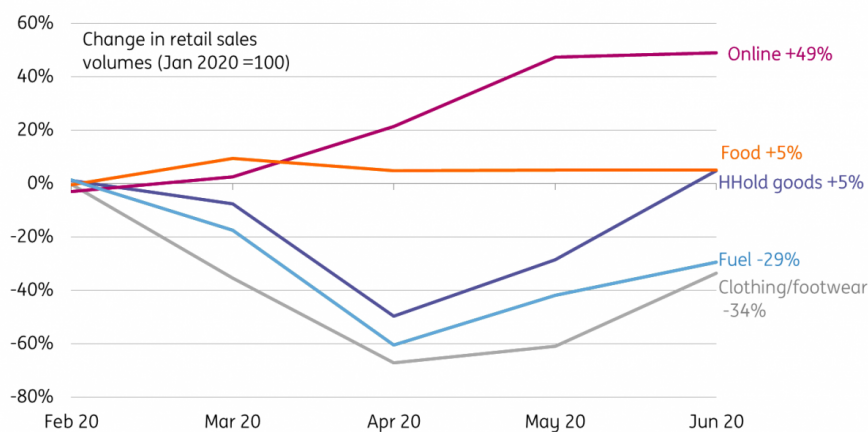
The reality is that footfall is still only around 60% of normal levels, according to Springboard.

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.

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>.