

United Kingdom

Household feel-good factor boosts retail spending growth to decade high

- Retail sales up 5.0% on a year ago in Q4, best rise for over a decade
- Strong quarterly gain suggests economy grew robustly again in Q4
- Lower inflation and rising wages have boosted consumer optimism

UK retail sales continued to rise in December, building further on a surge in November when spending had been boosted by 'Black Friday' discounts.

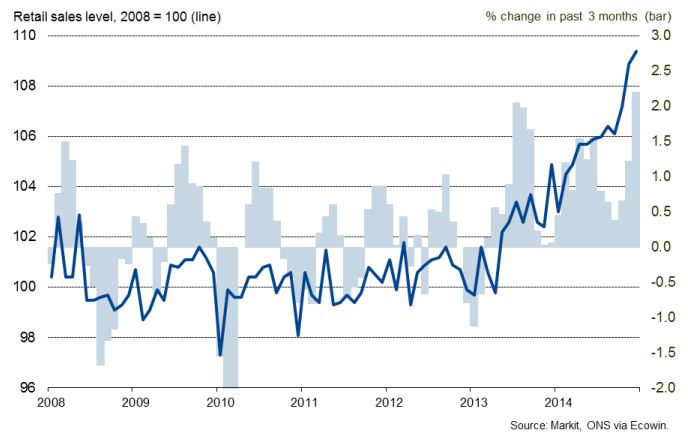
Over the fourth quarter as a whole, sales volumes were up 2.2% on the third quarter, which is the strongest three-month increase seen since April 2002. Compared to a year ago, sales were 5.0% higher in the fourth quarter – also the biggest gain for over ten years. Sales were up 0.4% in December after a 1.6% jump in November.

Department store sales fell by 4.5%, suggesting there was considerable payback in December after November's Black Friday discounting frenzy, but the impact was offset by rising spend in supermarkets and on cheaper fuel.

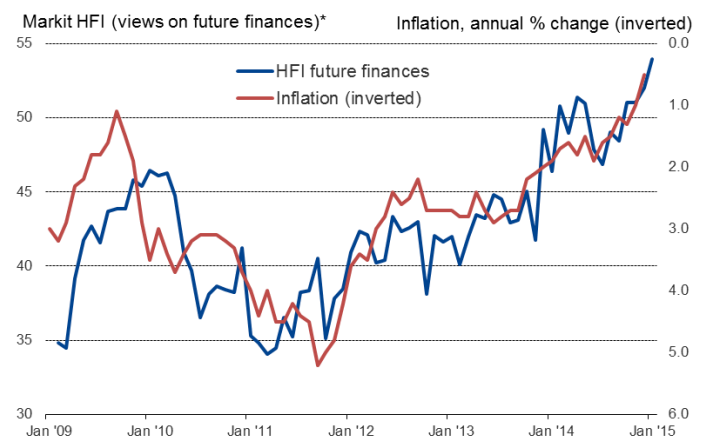
The strong rise in sales in the fourth quarter adds to the likelihood that the economy will have enjoyed further robust growth in the final three months of the year, although survey evidence suggests that [business activity had grown at a weakened rate](#), pointing to a smaller expansion in GDP than the 0.7% gain seen in the third quarter.

Sales look likely to continue to rise in coming months, reflecting a host of tailwinds that households are benefitting from. Wage growth is picking up and inflation has slumped, meaning wages are now rising in real terms at the fastest rate since 2008. Employment also continues to rise, meaning more people are earning. Lower oil prices will meanwhile cut motoring and utility bills further in coming months. The icing on the cake is the fact that interest rates look likely to [stay at their current historic record lows](#) for even longer than previously thought, given the downturn in inflation, with no hikes likely until 2016. Mortgage rates are therefore also falling.

UK retail sales



How lower inflation has boosted household optimism



* Monthly survey of 1500 households. Index based on 50 = no change in 12 months months' time, seasonally adjusted.

Sources: Markit, ONS

It's not surprising, therefore, that households are feeling the most optimistic about their finances than at any time since the recession, according to Markit's [Household Finance Index](#) for January.

However, if retail sales and consumer spending continue to grow at anything like the pace we saw in the fourth quarter, policymakers will start to consider that higher interest rates can be tolerated by households and pressure may build for earlier rate hikes.

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