

# United Kingdom

## Economy gets lift from summer sunshine as retail sales surge higher

■ **Retail sales show 1.1% rise, buoyed by better weather and improving economy**

Summer weather helped drive a strong upturn in retail sales in July, adding to the likelihood that the economic recovery will have continued at a firm pace into the third quarter. Coming on the back of rises in prior months, this means sales in the three months to July showed the largest quarterly rise for almost ten years. This pace of growth of retail sales is unlikely to persist, but a further upturn in consumer confidence, an [improving labour market](#), rising house prices and greater confidence that interest rates will stay low for longer should all help ensure that consumer spending plays a role in helping to sustain the economic recovery in coming months.

UK retail sales volumes surged 1.1% in July, according to the Office for National Statistics, taking sales 3.0% higher than a year ago; the strongest annual increase since the start of 2011. Sales have now risen in each of the past three months, taking the three-month rate of change to 1.8%, its highest since March 2004. Given the combination of these retail numbers and [buoyant business surveys](#), we could easily see the economy maintain its [0.6% pace](#) into the third quarter of even accelerate.

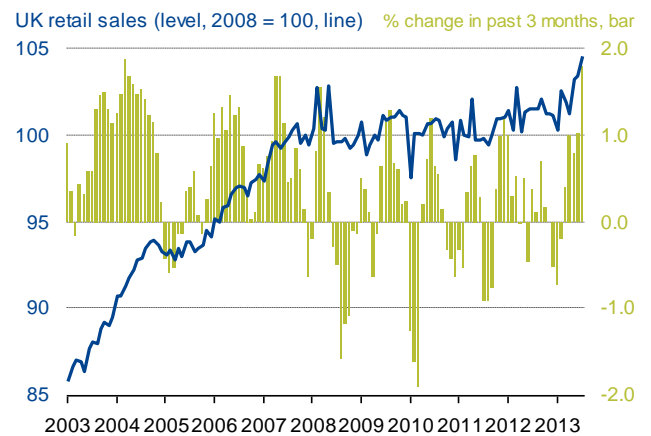
Shopping was most likely buoyed by the feel-good factor of the birth of the Royal baby and Murray's Wimbledon win, but it was the heat wave which was the most important in terms of boosting sales of outdoor goods, summer clothing, food and alcohol.

It's not just these temporary factors that will have buoyed sales, however, as rising house prices and an improving economy will have also further encouraged people to spend, adding confidence to their financial outlooks. [Markit's Household Finances Index](#) for July showed respondents were the least downbeat about their incomes in the four-and-a-half year survey history.

It will now be interesting to see how households have adjusted to the new policy framework announced by the Bank of England. A Markit/Ipsos MORI survey of

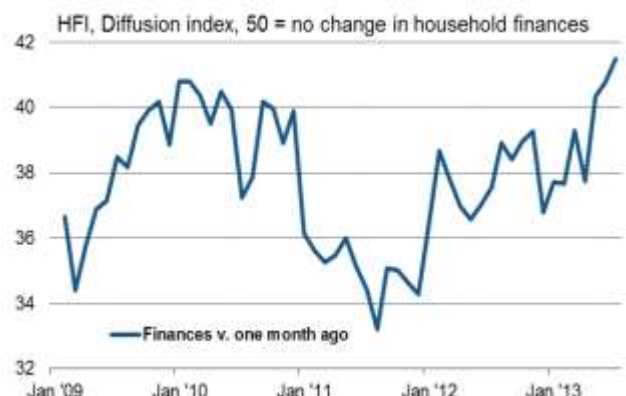
households revealed that [households have pushed back their expectations of when interest rates will start to rise](#), following the Bank's commitment earlier this month to not start raising rates until unemployment has fallen below 7%. The Bank does not expect this to happen until 2016. We now need to see whether this will translate into an increased appetite to spend, and in particular to make major purchases.

### Retail sales



Source: Markit, ONS via Ecow in.

### Households' views on their financial situation v. one month ago



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