

United Kingdom

Retail rebound fails to correct deteriorating sales trend

- Official data show retail sales up 1.4% in February
- But three-month trend is worst since 2010
- Data bring signs of spending being curbed by higher prices

The consumer, which has provided the main engine of UK economic growth in recent years, is showing signs of running out of steam. Looking at the underlying trend, retail sales are falling at the fastest rate for seven years as households struggle with rising prices and subdued pay growth.

The slowdown sends a warning to policymakers of the likely need to support the economy: consumers are pulling-back on spending at the same time as the country faces heightened uncertainty about the outlook as Article 50 is triggered.

February rebound

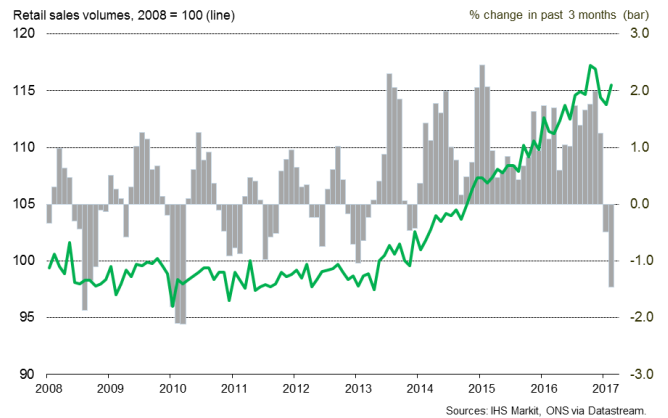
The welcome news of a rebound in UK retail sales in February is marred by a more disappointing underlying trend that's appeared. Sales bounced back by a stronger than expected 1.4% in February, according to the Office for National Statistics, but over the latest three months sales have slumped 1.4%, which is the worst performance since March 2010.

Unless we see something spectacular in the way of sales growth in March, which looks wholly unlikely, the retail sector looks set to act as a drag on the economy in the first quarter. So far, the average monthly volume of retail sales is running 1.2% below that seen in the fourth quarter.

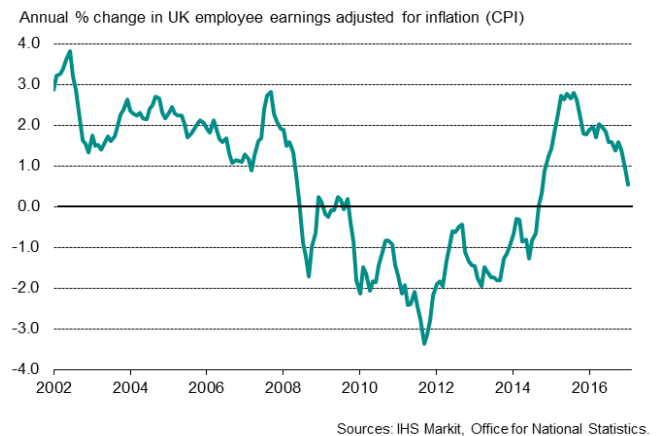
Weak start to the year

The downbeat news on retail sales joins other disappointing signals on the health of the economy at the start of the year. Both manufacturing output and construction output fell in January. Business surveys meanwhile point to the pace of economic growth waning to 0.4% in the first quarter, down from 0.7% at the end of last year, with the slowdown linked to weaker consumer spending.

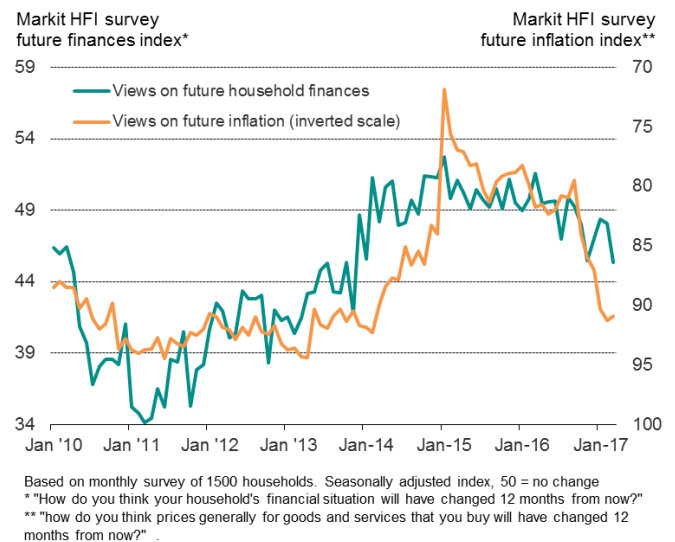
UK retail sales



Real employee pay growth



Household finance survey



Household squeeze

Consumer spending looks set to come under increasing pressure in coming months amid subdued pay growth and rising prices. Real pay growth has slowed sharply in recent months and is likely to start falling soon. Inflation has meanwhile already jumped to 2.3% and could easily rise to 3% later this year, given sharp increases seen in companies' costs as the weak pound exacerbates the impact of rising global commodity prices. [Surveys of households](#) are already showing signs of financial worries deepening.

March PMI surveys will give a clearer picture of the economy's momentum in the first quarter. However, the data available so far this year suggest that the Bank of England will need to move away from talking about raising interest rates towards ensuring the economy maintains growth momentum during the uncertainty caused by Brexit negotiations.

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