

United Kingdom

Retail sales beat expectations, up 0.8% in first quarter

- Retail sales rise 0.1% in March, up 0.8% in Q1 to add to signs of strong GDP rise
- Non-food stores see largest annual sales increase since 2002, linked to better weather
- Improving household finances and reduced fears of rate hikes to help boost future spending

UK retail sales surprised on the upside again in March, with further robust increases likely in coming months as households push back their expectations of when the Bank of England will have to start rising interest rates despite the growing welter of good news on the economy and in particular the labour market.

Sales volumes rose 0.1% against expectations of a 0.4% fall, pushing sales volumes 4.2% higher than a year ago, according to the [Office for National Statistics](#).

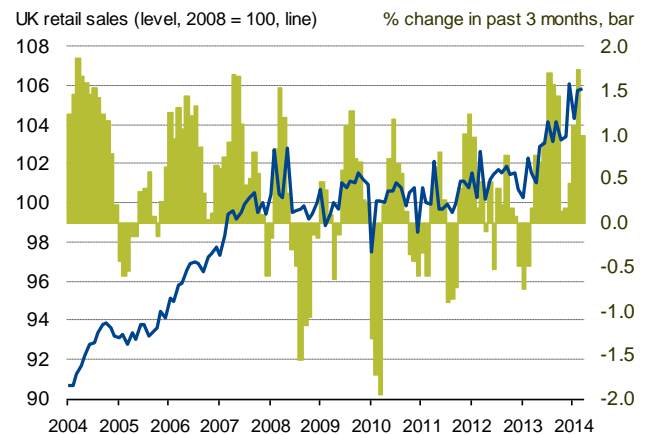
The rise in March means retail sales grew 0.8% over the first quarter as a whole. This strong growth of consumption reinforces the picture of an economy that continues to expand at a robust pace, with next week's GDP data expected to show a 1.0% quarterly increase for the first three months of the year (4% annualised).

Warmer than usual weather provided an earlier than usual boost to seasonal goods such as summer clothing and footwear. This contrasted with near-record cold weather this time last year. Non-food stores enjoyed the highest year-on-year increase since April 2002 as a result, with sales surging some 9.6%.

Sales growth to endure

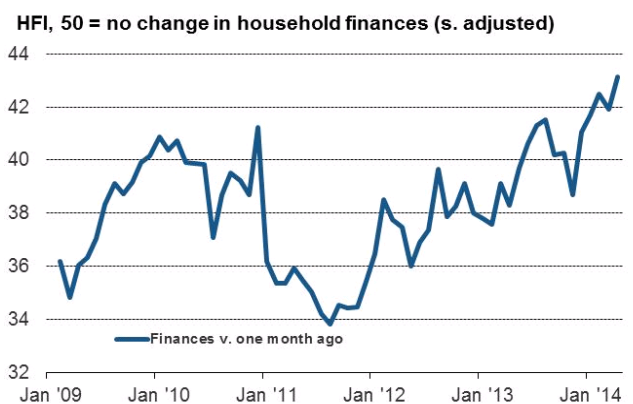
However, this is not just a temporary growth spurt resulting from the better weather. There is a fundamental improvement in household finances underway which should help drive further ongoing growth of consumer spending as we move through the year. The improving job market, and especially rising wages, combined with lower inflation are helping boost consumer spirits and starting to reverse the squeeze on real incomes that has been so damaging to the economy since the financial crisis.

Retail sales volumes



Source: Markit, ONS via Ecwin.

Household's view on current finances



Real wages growth



Continued ...

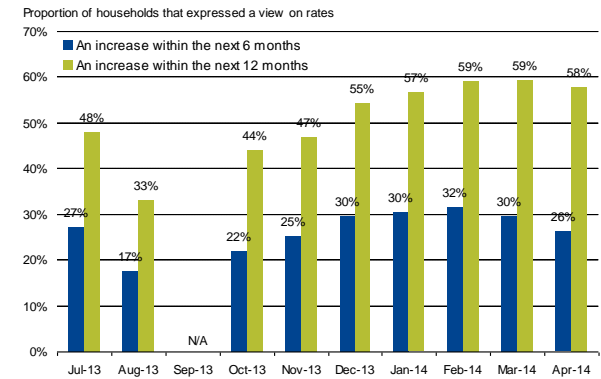
Markit's [Household Finance Index](#) survey found that views on current finances and the situation in 12 month's time both hit post-crisis highs in April, with respondents feeling happier about the financial wellbeing as a result of lower inflation expectations and being busier at work. Rising house prices are of course also helping via a perceived 'wealth effect'.

Fundamentals support ongoing sales growth

Despite signs of strong economic growth and plummeting unemployment, [households have pushed back their expectations of when the Bank of England will need to start raising interest rates](#) in April, which should help allay fears that policy tightening could derail the recovery. Our April survey of 1,500 households shows that, of those that expressed a view on the next move in interest rates, just 26% expect a hike to occur in the next six months, down from 30% in March and the lowest since November. The number expecting a hike in the next year has also eased to its lowest since January.

The lower rate hike expectations follow the recent drop in inflation as well as the Bank's decision to revise its forward guidance and its well-publicised efforts to reassure households and businesses rates are not likely to rise until at least 2015.

Rate hike expectations



* i.e. excluding those that replied "don't know"

Chris Williamson

Chief Economist

Markit

Tel: +44 207 260 2329

Email: chris.williamson@markit.com

[Click here](#) for more PMI and economic commentary.

For further information, please visit www.markit.com