

United Kingdom

Retail sales fall in August after July spree, but underlying trend remains firm

- Retail sales fall in August after buoyant July
- Underlying growth rate remains strong and supports picture of economy expanding in Q3

Consumers pulled back on their retail spending after raising their expenditure sharply in July. However, sales are still trending higher and at the fastest rate since mid-2007, while the economy looks set to have grown strongly in the third quarter.

Retail sales fell 0.9% in August, surprising economists who were on average expecting sales to have risen 0.4% compared with July. Sales were meanwhile 2.1% higher than a year ago, down from a 3.0% annual rise in July, according to the [Office for National Statistics](#).

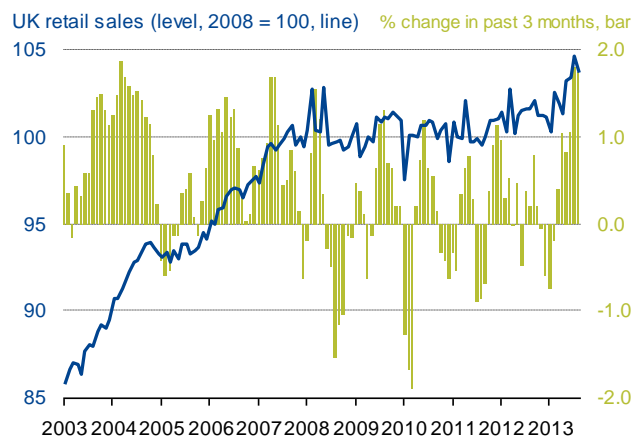
Wrong kind of recovery?

The dip in growth of retail sales will inevitably lead to further worries that the UK has been seeing the wrong kind of recovery, with an upturn fuelled by consumer spending and a housing market revival that is now showing signs of becoming unsustainable. Growth could therefore fade sharply as households rein in their spending again. With incomes falling in real terms, the consumer was always an unlikely driver of an economic revival.

However, this is an unfair assessment. First, the latest data need to be looked at in the context of the surge in sales that took place in [July](#), when spending on seasonal items and food was buoyed by a heat wave. Despite the pull-back in spending in August, the quarterly rate of growth dipped only slightly from 1.8% in the three months to July to 1.7%, indicating that the underlying pace of sales growth remains stronger than at any time since mid-2007.

This strong underlying growth rate of sales adds to evidence that the UK economy grew sharply again in the third quarter, and perhaps even more than what the Bank of England is projecting. In the minutes of its September [Monetary Policy Committee meeting](#) the Bank revised its prediction for third quarter GDP up from 0.5% to 0.7%. Business survey evidence suggests growth could even turn out to exceed 1.0%.

Retail sales: level and quarterly growth rate



Source: Markit, ONS via Ecowin.

Broad-based upturn up

Moreover, the recovery is far from being wholly dependent on the consumer. The [manufacturing PMI](#) is showing that goods production is growing at the fastest rate since 1994, with UK exporters performing well by comparison with other countries. Official data on manufacturing are likewise improving, suggesting that the sector is playing an important role in the economic recovery.

The wider [service sector](#), comprising business services as well as consumer services, is also seeing strong growth at the moment. The [construction sector](#) is similarly enjoying a decent expansion as rising commercial and infrastructure spending accompanies the upturn in house building.

These data therefore do little to change the picture of a recovery which shows signs of being broad-based, with consumers helping to support an economic upturn that should persist into the fourth quarter as well.

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