

United Kingdom

Retail sales fall in September, trend worst since February

- Retail sales drop 0.7% in September
- Sales unchanged in latest three months
- Shoppers acting as drag on upturn, but other sectors are still doing well

Retail sales data suggest that British shoppers are failing to join in the country's economic recovery, with sales falling for the second time in three months in October. Falling real incomes and worries about higher interest rates are likely to be hitting consumers' appetite to spend.

The data have been very volatile in recent months, but the downturn undisputedly represents a disappointing start to the fourth quarter. However, other sectors of the economy, including manufacturing, construction and business services are growing strongly, meaning the economic recovery is likely to have been sustained at a strong pace during the fourth quarter.

Retail sales rose 1.8% on a year ago in October but fell 0.7% compared with September, according to the Office for National Statistics. Analysts polled by Reuters had been expecting sales to have been unchanged on September. The data have been hugely volatile, but there's a distinct easing trend now in the pattern of sales. The year on year rate has slowed from 2.7% in July and is now the weakest since June. Perhaps most worrying is the three month trend, which is now down to its lowest since February. Sales were flat in the three months to October compared with a 1.4% rise in the third quarter.

Wage and rate rise worries

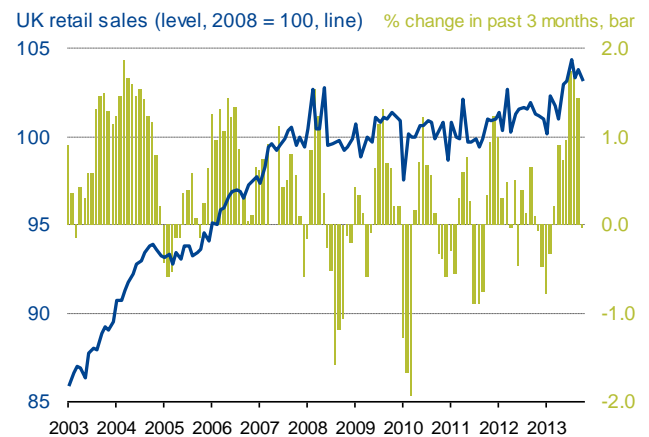
Spending is being constrained by the ongoing squeeze in real incomes, as inflation continues to outstrip average pay growth. [Households are also bringing forward their expectations of when interest rates will start to rise](#), which may also be causing some shoppers to rein in spending. There are signs that the squeeze on incomes is being alleviated, notably via lower inflation, but the sustained drop in real pay, which has been evident now since late-2009, and the prospect of higher interest rates suggests we should

not get too optimistic about the role that consumers will play in the economic upturn.

Non-retail sectors still doing well

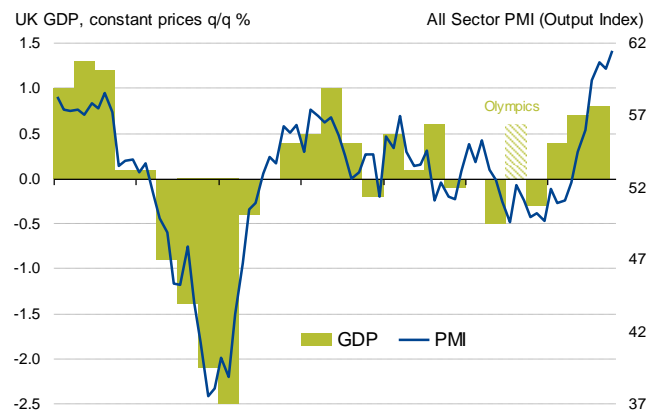
Reassuringly, however, business surveys highlight how the economic recovery is gaining ground through a strong upturn in manufacturing output, a broad-based construction activity revival extending beyond housing, and buoyant business-to-business services growth. The [PMI surveys for these sectors](#) have collectively been hitting all-time highs in recent months, signalling the fastest pace of expansion and job creation since the late-1990s.

UK retail sales



Source: Markit, ONS via Ecowin.

GDP and the PMI surveys



Sources: ONS, Markit.

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