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PMI analysis

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United Kingdom

Retail sales growth slides to lowest since 2013

- **Retail sales rise 0.3% in July**
- **Annual growth rate lowest since November 2013**
- **Data add to signs of intensifying spending squeeze amid low pay and higher prices**

Subdued retail sales growth in July reflected an ongoing deterioration in household finances, linked in turn to low pay, rising prices and concern about the outlook. The data add weight to calls for the Bank of England to hold off with higher interest rates, as increased borrowing costs will add further pressure to family budgets.

Retail sales rose 0.3% in July, according to the Office for National Statistics, identical to the rise seen in June. However, this is a relatively lackluster start to the third quarter which suggests sales are on a weakening trend. Looking at the latest three months as a whole, which provides a more reliable steer to the underlying trend, sales were up just 0.6% compared to a 1.5% rise in the second quarter.

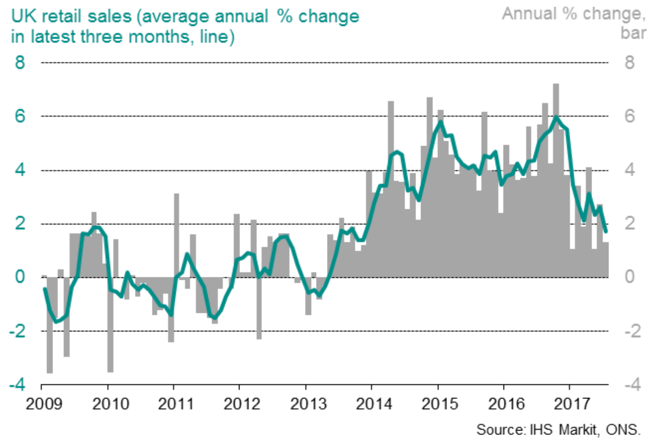
Year on year performance is also looking disappointing, with sales volumes just 1.7% up on last July, which is the worst performance since November 2013. In the first seven months of 2017, sales were 2.2% higher than the same period a year ago, less than half the 4.5% growth achieved last year.

Spending squeeze

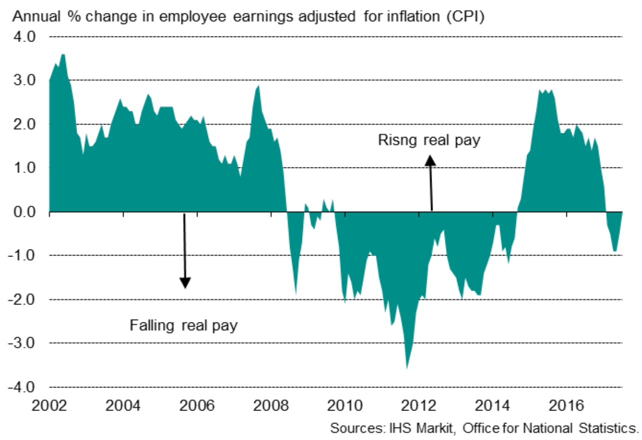
Some support to sales is coming from record levels of employment and a decline in the jobless rate to its lowest since 1975. The problem is that the combination of low pay growth of 2.1% and inflation of 2.6% means average employee earnings are falling in real terms at an annual rate of 0.5%, squeezing spending power.

Survey data showed household finances deteriorated last month at the sharpest rate for three years, linked to low earnings, rising debt and higher prices. Appetite to make major purchases, such as cars, holidays and large appliances, which tends to be a good indicator of consumer spending, took one of the biggest hits since 2013.

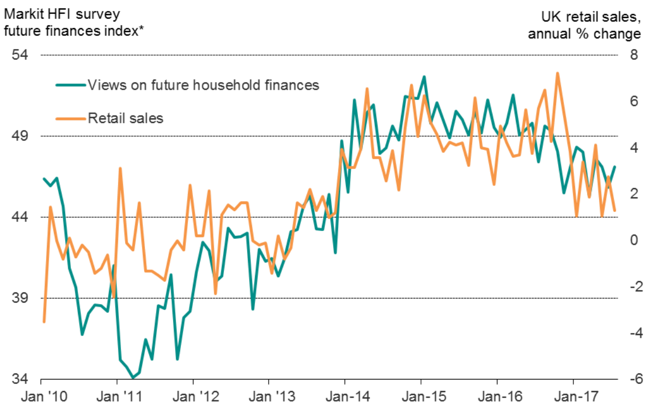
Retail sales growth



Real pay growth



Household finances



With pay growth widely expected to remain weak in the next few months while inflation looks set to edge higher, the squeeze on spending may well intensify before hopefully easing next year. Inflation should start to cool as we move into 2018 and pay growth should start to perk up amid historically low unemployment. However, much will depend on consumer confidence improving, which will in turn most likely hinge to a large extent on how Brexit negotiations affect the economic outlook.

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