

United Kingdom

Retail sales on course for strongest quarter for 2 ½ years

- Official data show retail sales up 0.2% in November
- Sales up 2.1% so far in Q4 vs Q3
- Spending to come under pressure in 2017 from rising prices

A further rise in UK retail sales in November shows that consumers continue to ratchet up their spending, but the trend looks set to reverse next year as higher prices bite.

Retail sales volumes rose 0.2% in November, according to the Office for National Statistics, with growth slowing as expected from a 1.8% surge seen in October. The annual pace of growth waned to 5.9% from the 7.2%, 14-year high, seen in October but clearly remains a solid rate of increase. The sustained growth is especially impressive when a marked fall in fuel sales in November is taken into account, sales of which were hit by the largest price hike for five years, as well as the jump in clothing sales that had been seen in October when unusually cold weather arrived. Excluding fuel, annual sales growth merely eased from 7.5% to 6.6%, after a monthly rise of 0.5% in November.

'Black Friday' discounts were seen as a major driver of November's sales increase.

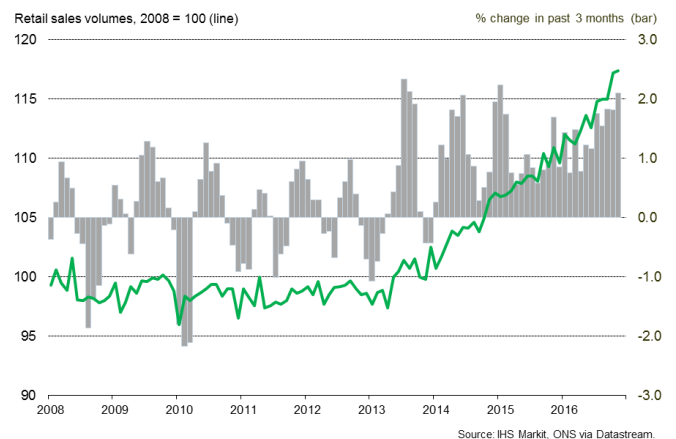
The sustained increase in November means that sales in the fourth quarter are running an impressive 2.1% higher than in the third quarter, which would be the best quarterly performance since the second quarter of 2014. However, with construction output falling 0.6% in October and industrial production slumping 1.3%, the economy may struggle to match the 0.5% growth seen in the third quarter unless the numbers start to improve for the closing months of the year.

We may also soon see consumer spending come under increasing pressure next year. Evidence suggests that spending is currently being driven at least in part by historically [high levels of employment and rising wages](#). However, this looks set to change next year, when the combination of higher inflation and weak pay growth are likely to curb consumer spending.

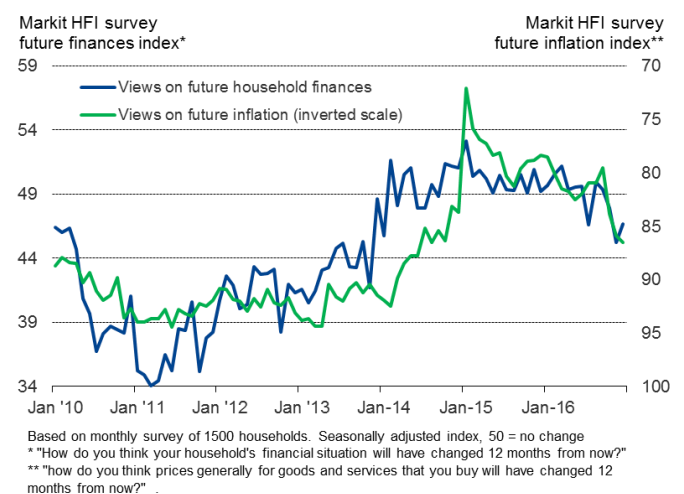
Households are already showing signs of being increasingly worried about their future finances as spending power is expected to be eroded by rising prices, according to [new survey data for December](#) published this week.

Today's data showing how consumers' pulled back on fuel spending due to higher prices is a warning of the extent to which we may see more widespread price hikes leading to a broader slowdown in spending in 2017.

UK retail sales



Households' expectations of future finances and inflation



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