

United Kingdom

Retail sales rise at fastest rate for 14 years

- Retail sales volumes up 1.9% in October
- Annual sales rise of 7.4% is largest since 2002
- Rising prices and consumer worries about finances look set to dampen sales growth in coming months

UK retailers enjoyed a mini-boom in October. Sales volumes showed the largest annual gain for just over 14 years, but such spending is looking increasingly unsustainable as inflation is likely to rear its head in coming months and households are growing worried about their future finances.

Retail sales volumes rose 1.9% in October according to the Office for National Statistics, surging 7.4% higher than last year. You have to go all the way back to April 2002 to see a larger annual increase.

The ONS attributed the leap in sales to cold weather boosting seasonal clothing sales and the growing trend towards celebrating Halloween. However, even when we look at the trend on a three-month basis, annual sales growth has risen to 5.9%, its highest since June 2002.

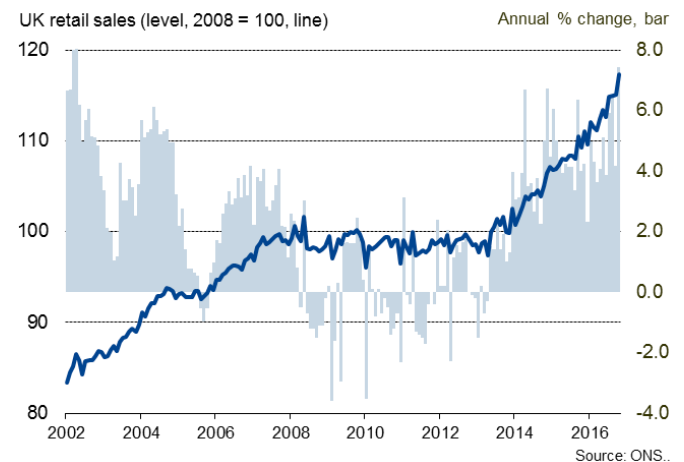
Such strong growth is clearly unsustainable, and cracks are in fact already appearing. Survey data highlight how households are struggling to support existing spending due to weak income growth and rising prices, and how this negative trend is likely to intensify in coming months. Households' worries about their personal finances over the coming year hit a three-year high in November amid concerns about weak pay growth, job security, higher interest rates and – most importantly – spending power being eroded by rising prices.

November saw the biggest drop in household savings for six months, with nest eggs broken into partly as a result of the desire to keep spending despite take home pay stagnating.

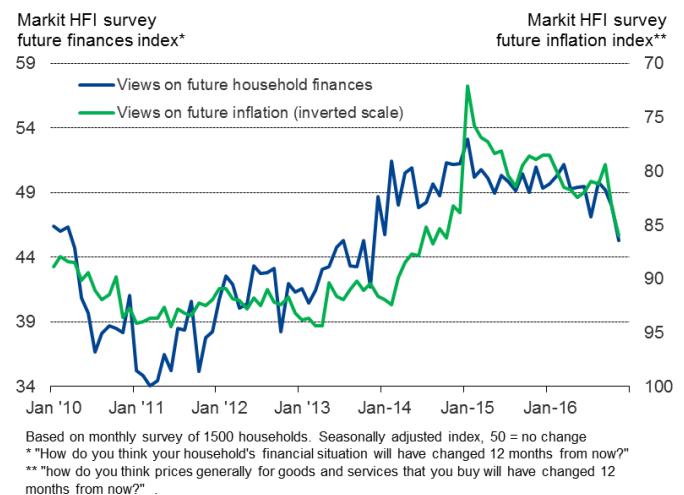
It therefore seems inevitable that the combination of higher prices and weak wage growth will curb consumer spending in coming months. Goods producers' costs jumped by the largest extent on record in October, which, barring a major squeeze on retailers' profits, will feed through to high street prices.

Inflation is likely to easily breach 2% next year. At the same time, wage growth remains a relatively muted 2.3%.

UK retail sales volumes



Households' expectations about finances and inflation



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