

United Kingdom

Retail sales trend shows signs of waning in third quarter

- Retail sales up 0.4% in August after flat July
- Sales running a mere 0.3% in Q3 compared to Q2 average, pointing to slowing economy
- Upbeat household survey suggests spending might turn up again

UK retailers reported a renewed upturn in sales in August, but the trend has weakened and suggests that the Bank of England correctly anticipated a slowing of the economy in the second half of this year. As such, the data play into the hands of those policymakers arguing that any hike in interest rates should be delayed until next year.

Although the data add further to evidence that the economy grew strongly again in the third quarter, and looks set to have expanded by 0.8% based on the information currently available, the data also suggest that the upturn may be losing momentum slightly.

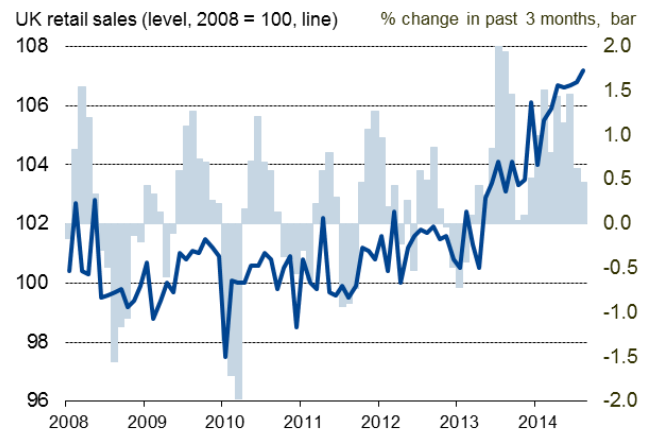
Sales volumes rose 0.4% in August, according to the Office for National Statistics, the largest monthly increase since April and representing a welcome rebound after sales were flat in July.

However, the data available so far indicate that retail sales are running just 0.3% higher in the third quarter compared to the second quarter. That would be the smallest quarterly gain since the opening quarter of last year. By comparison, sales surged 0.8% and 1.5% in the first and second quarters of this year respectively.

The waning sales trend follows PMI data which showed manufacturing growing at its slowest rate for over a year in August, which was one of the key concerns cited by dovish policymakers at the latest Bank of England Monetary Policy Committee meeting.

The August sales increase was partly driven by aggressive discounting (notably price wars among the major supermarkets) and a boom in sales of high-powered vacuum cleaners, ahead of an EU ban coming into place at the end of August. These factors suggest the 0.4% increase in overall sales in August may have exaggerated the underlying trend somewhat.

UK retail sales



Source: Markit, ONS via Ecwin.

While the trend in sales may be slowing from the surge seen earlier in the year, a downturn looks far from likely, and sales could even pick up again. Markit's [Household Finance Index](#), published yesterday, showed household sentiment rising to one of the highest seen since the finance crisis struck in September 2009, buoyed by rising incomes. The survey suggests that stronger growth of employment is at last feeding through to pay packets, which should support spending as we move through the second half of the year. However, as yet, the official data show there is no sign of any such wage growth.

The data will therefore do little to change views among the divided Monetary Policy Committee at the Bank of England. We are unlikely to see more members of the MPC join Martin Weale and Ian McCafferty in voting for a rate rise until wage growth shows a meaningful upturn.

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