

United Kingdom

Retail sales stage strong rebound from a weather-torn January

- Retail sales rise 1.7% in February after 2.0% decline in January
- Sales up 1.6% in latest three months, best since last August
- Economic fundamentals support further sales growth as we move through the year

Retail sales rebounded strongly in February, with shoppers returning to the high street after having been deterred by extreme weather in January.

Sales jumped 1.7% compared with January, against expectations of a mere 0.5% rise, pushing sales volumes 3.7% higher than a year ago, according to the Office for National Statistics.

Even with the 2.0% sales fall in January, sales over the latest three months have risen 1.6% compared to the previous three months, which is the best performance since last August.

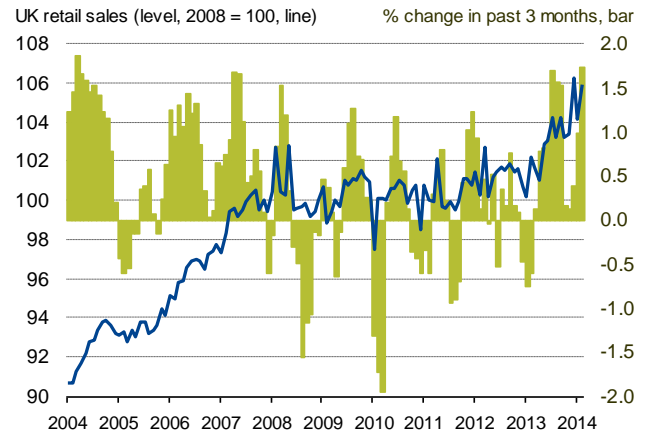
With the advent of warmer than usual weather in March, clothing and footwear sales will no doubt have received an early seasonal boost, which should help drive sales even higher at the end of the first quarter.

The sales growth adds to signs from the [purchasing manager surveys](#) that the UK will have enjoyed another strong period of economic growth in the first quarter, with GDP set to rise by at least 0.7%.

Fundamentals support ongoing sales growth

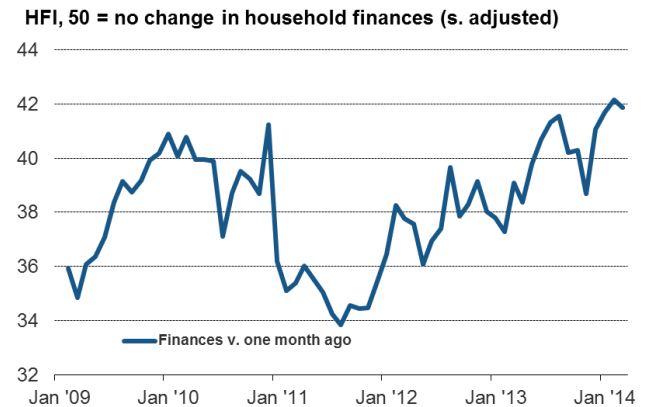
Looking further ahead, there are plenty of factors that should help support ongoing growth of consumer spending as we move through the year. These include the improving job market, and especially lower unemployment, greater job security and rising wages, lower inflation and of course the galloping housing market. The impact on consumer sentiment is already apparent, with Markit's [Household Finance Index](#) remaining historically high in March having hit a post-crisis high in February.

Retail sales



Source: Markit, ONS via Ecowin.

Household's view on current finances



Real wages growth



Sources: Markit, Office for National Statistics.

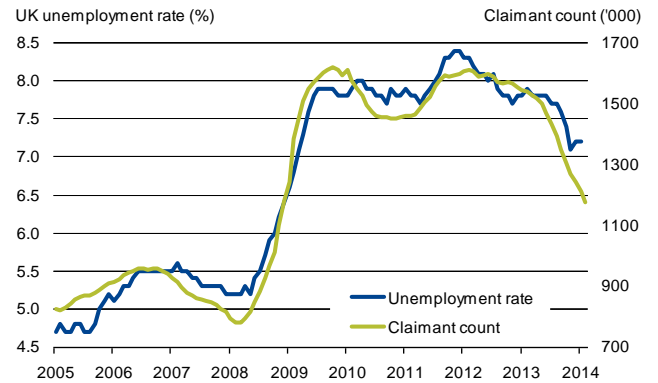
Continued ...

With 2014 set to be the year in which real incomes start rising again, after having been driven down continually since late-2009, the consumer should therefore play an important role in sustaining the economic recovery.

Undeterred by spectre of higher interest rates

A concern is that the spectre of higher interest rates grows with every new piece of stronger than anticipated economic data, but what's encouraging is that the recent sales growth is being achieved despite [households' having brought forward their expectations of when the Bank of England will need to start raising interest rates](#). One-in-four households expect the Bank of England to start raising interest rates within the next six months, and almost half expect a rise in the next year. This suggests that households may be more comfortable with how they will cope with higher interest rates than many experts currently fear.

Unemployment



Source: ONS via Ecowin.

Chris Williamson

Chief Economist

Markit

Tel: +44 207 260 2329

Email: chris.williamson@markit.com

[Click here](#) for more PMI and economic commentary.

For further information, please visit www.markit.com