

United Kingdom

Retailers enjoy best start to a year for a decade

- Sales fall 0.5% in May but up 3.9% on a year ago
- Monthly fall mainly due to April being boosted by strong Easter sales
- Sales so far this year up 4.3% on 2013, best start to a year since 2004
- Growth in part driven by aggressive discounting

Despite falling in May after an Easter-holiday related surge in April, retail sales are growing at an impressive pace so far this year. With sales up some 4.3% on last year during the first five months of 2014, retailers enjoying the best start to a year for a decade.

However, this growth is being generated to some extent by intense price competition, which bodes ill for retail profit margins but helps justify the Bank of England's ongoing loose policy stance.

Best year for a decade, so far

Retail sales fell 0.5% in May compared with April, according to the Office for National Statistics, but were an impressive 3.9% higher than May of last year.

The drop in sales compared to May needs to be looked at in the context of April's sales having been boosted by the timing of Easter, which took sales 6.5% higher than a year ago.

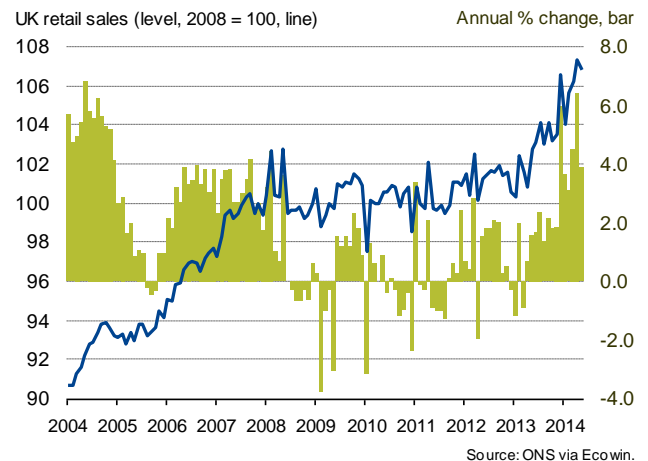
More tellingly in respect of just how fast retail sales are growing, so far this year sales have surged some 4.3% higher than last year. This is the best opening to a year that we have seen since 2004.

The solid sales data are also yet another indication that the economy continued to grow at a strong pace in the second quarter. Sales so far are running 1.7% higher than in the first quarter, when a more modest 0.8% increase was recorded.

No change to policy picture

However, this in itself will not change the policy picture in relation to when interest rates will start to rise, as the Bank of England has already pencilled in a robust 0.9% expansion of the economy in the second quarter.

UK retail sales



More important will be whether this growth will weaken as we move into the second half of the year. A delay in the first hike in interest rates until next year is based on the assumption that economic growth will slow to 0.7% in the third quarter. Any signs of growth momentum being sustained or accelerating in the third quarter add to the likelihood of rate rising later this year.

What policymakers will perhaps be more concerned about is the ongoing downward pressure on prices. The robust sales growth so far this year is being driven to a large extent by aggressive price discounting, especially among the large supermarkets. Store prices fell by 0.7% in May, their biggest decline since September 2009, when the economy was mired in the depths of the financial crisis. Such weak price trends will provide the MPC with greater leeway to keep policy on hold until next year.

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