

United Kingdom

Retailers hit as warm weather dampens clothing sales

- Retail sales fall 0.3% in September
- Sales just 0.3% higher in Q3 as a whole
- Warm weather led to sharp fall in clothing sales
- Prices fall at fastest rate for five years on lower petrol and supermarket costs

A drop in UK retail sales in September probably tells us more about the weather than the economy.

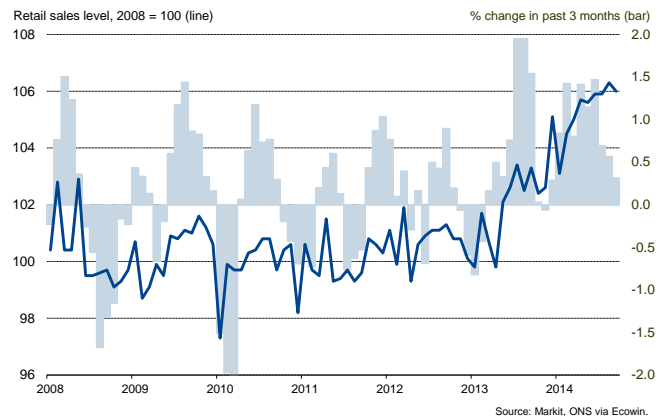
Retail sales fell 0.3% in September compared to August. The decline meant sales are up just 0.3% in the third quarter compared to the second quarter, which is the weakest expansion so far this year.

Sales have now grown in year-on-year terms consistently over the last year-and-a-half, which is the longest sustained period of growth since May 2008. But, in another sign that consumer spending may be on the wane, with sales up just 2.7% on a year ago in September, the annual rate of increase is now the slowest since last November.

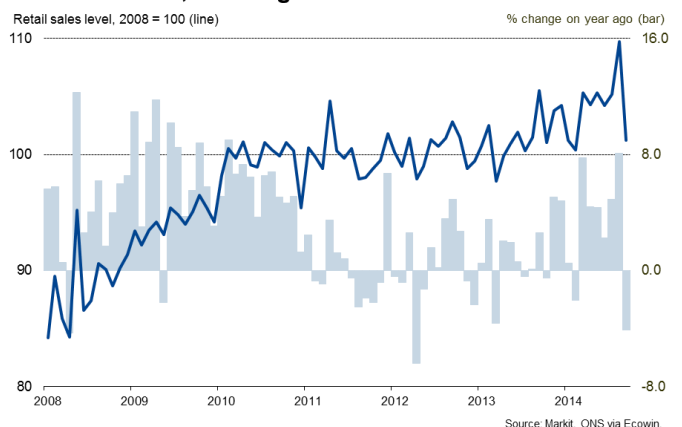
Do the retail data signal a genuine slowing in consumer spending? Probably not. Much of the weakness was due to a 7.8% drop in clothing and footwear sales (a 4.1% drop on September of last year), most likely reflecting unseasonably warm weather, which means shoppers are not yet interested in winter clothing such as woolly jumpers. It therefore seems likely that sales will rebound again in October.

Those concerned about deflation will be worried by the steepest year-on-year fall in average store prices for five years. However, it's hard to see how this is a genuine deflation worry, as the downturn in prices was led by falling petrol prices and food prices falling for the first time in ten years, in turn most likely a reflection of supermarket price wars. People will not postpone buying dinner because they believe prices will be lower tomorrow. Instead, the price fall is good news. Inflation certainly looks likely to continue falling in coming months, freeing-up the Bank of England to keep interest rates on hold and helping alleviate the squeeze on household incomes.

UK retail sales



UK retail sales, clothing & footwear



Retail sales are not a component used by the ONS in their first estimate of GDP, which we still expect to rise by 0.7-0.8% in the third quarter, based on the still-buoyant PMI readings for services and construction.

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