

PM Datanote: U.K. Retail Sales, July

In one line: Consumers' blissful ignorance won't last long.

Retail sales volumes rose 1.4% month-on-month in July, well above the consensus, +0.1%. The year-over-year growth rate increased to 5.9%, from 4.3% in June, above the consensus, 4.2%.

July's retail sales figures show that consumers have been protected from the immediate fallout of the Brexit vote, but with firms intending to stop hiring and inflation set to soar, the high street is set for a tough year. Sales volumes rose in all major categories, although the 3.5% leap in clothing sales clearly reflected a rebound from weakness in June due to heavy rainfall. Retailers also had to continue to cut prices rapidly—the retail sales deflator, excluding fuel, fell 1.7% year-over-year—in order to get consumers to open their wallets.

July's retail sales numbers do not have much impact on whether the economy will enter recession. Retail spending equates to about 20% of GDP, but since the vast bulk of goods are imported, surging high street spending does little to boost GDP growth. Indeed, the distribution sector has only a 6% weight in Gross Value Added. In the near-term, we continue to expect the slowdown in Q3 to be driven by sharp falls in business investment and de-stocking by firms. The real test for consumer spending lies in 2017 when jobs cuts will kick in and inflation will erode spending power.

The chart shows that strong growth in retail sales volumes over the last two years has been underpinned by rapid price falls. Retailers will pass on higher import prices, due to sterling's 18% trade-weighted depreciation over the last nine months, in earnest around the turn of the year.



Samuel Tombs
Chief U.K. Economist
Pantheon Macroeconomics

www.pantheonmacro.com

[Twitter](#) [LinkedIn](#)

+44 (0)203 744 7430 (Office)

+44 (0)7969 015648 (Mobile)