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UK: RETAIL REBOUND AS HOUSEHOLD FUNDAMENTALS IMPROVE

Berenberg Macro Flash

UK real retail sales (ex. auto fuel), May, %

	yoy	mom
Actual	4.4	1.3
Previous	1.4	1.4
Consensus	2.4	0.3
Berenberg	-	0.6

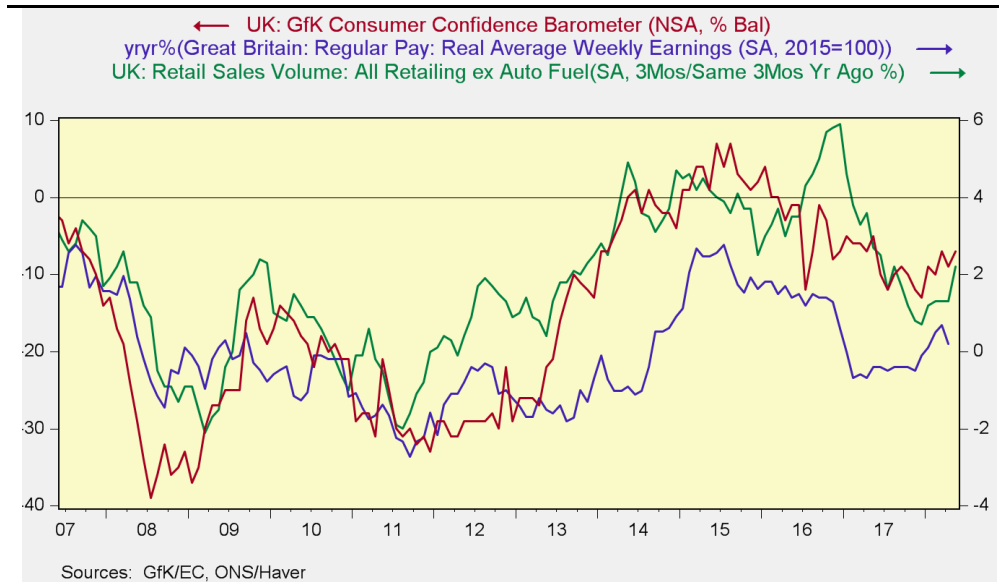
Royal Wedding and summer fever boosted retail sales in May: Household spending seems to be responding quickly and strongly to the on-going recovery in real wages. On a monthly basis, real retail sales ex. auto fuel increased by 1.3% in May after a strong 1.4% in April - well above consensus expectations of a 0.3% gain. The 4.4% yoy rise in retail sales volume (ex. auto fuel) in May was the strongest growth since December 2016. Comparing sales on a 3m/3m basis, volumes increased by 1.2% - well above the average since 2009 of 0.5%. On a monthly basis, all main retail sectors contributed to volumes growth: food stores 1.1% mom, non-food stores 0.7%, non-store retailing 4.5%, and petrol station sales 1.0%. The Office of National Statistics notes that the good weather and celebrations linked to the Royal Wedding boosted spending on food and household goods.

Rising real wages and solid employment gains are boosting confidence (see chart): Consumer confidence peaked in late 2015 when the drop in the oil price caused a temporary surge in real wage growth. Confidence started to wane in early 2016 as Brexit uncertainty increased. The Brexit vote hit real wages through the weaker sterling exchange rate - it pulled confidence down sharply. Recently, confidence has stabilised and showed some early signs of a rebound as real wages have started to recover. Confidence should edge up over time in line with real wages and support sustained gains in household demand.

The recovery in household spending may be lumpy for a while: Real wage gains are still modest for now. After borrowing more and saving less last year to smooth consumption growth as real wages declined, households may choose to slow their demand for credit and rebuild savings to compensate for extending their balances sheets. As a result, the strong rebound in real household demand we have seen in so far Q2 may be short-lived before such a trend firms up on a sustained basis as real wages continue to rise further. In our base case, consumption growth is likely to remain subdued at rates of growth around 1.2% yoy for the rest of 2018 before rising towards 1.8% by late 2019. However, the strong growth in retail volumes in Q2 suggests some upside risk to our near-term outlook for consumption. Moreover, since consumption makes up around 70% of total GDP, the strong Q2 consumer demand strengthens our call that real GDP growth will rebound in Q2 to 0.5% qoq after the weak Q1 (0.1%) - despite the softness in [exports and industrial output in April](#).



MACRO NEWS



Real sales ex. auto fuel, % change	MAY	APR	MAR	FEB	JAN	DEC
mom	1.3	1.4	-0.5	0.6	0.1	-1.2
yoy	4.4	1.4	1.2	1.3	1.5	1.2

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