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UK: CONSUMERS WEATHERING THE STORM, RETAIL SALES RISE IN JULY

Berenberg Macro Flash

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

	yoy	mom
Actual	2.9	0.2
Previous	3.6	0.8
Consensus	2.3	-0.2
Berenberg	2.3	-0.2

UK on track for modest growth rebound in Q3: Real retail sales ex. autos – an early indicator of broad household spending – expanded by 0.2% mom in July (Chart 1). This suits our call for a modest growth rebound in Q2. After a 0.2% contraction in real GDP in Q2, we expect a 0.2% rise in Q3. Our forecast that GDP will rebound a little in Q3 is based on two assumptions: 1) after a large drawdown in inventories in Q2 which subtracted from headline growth, firms will replenish stocks in Q3 ahead of a potential hard Brexit on 31 October; and 2) real household consumption – which makes up c70% of GDP – will expand by 0.3% qoq, slowing a little from the Q2 rate (0.5%) but remaining strong relative to the rest of the economy. This should offset continued weakness in export-oriented industries linked to the persistent US-China trade war and the slowdown in China.

Key takeaways:

- Real retail sales (excluding auto fuel) expanded by 0.5% on a 3m/3m basis after rising 0.7% in June. Compared to the same three months a year ago, real retail sales increased by 3.0%.
- Nominal retail sales (excluding auto fuel) expanded by 0.6% on a 3m/3m basis after rising 0.4% in June. Relative to the same three months in 2018, nominal retail sales increased by 3.3%.
- The performance on a 3m/3m basis was uneven across the major sub-sectors: food retail down 0.4%, non-food retail up 0.3%, and non-store retail up 4.8%.

The strength at home: UK household fundamentals are solid and continue to improve. Employment and real incomes continue to expand at healthy rates (Chart 2). Real wages increased by 2.0% yoy in June. Tight labour markets point to further improvement. Consumer survey data show confidence in line with the long-term average. Supported by easy credit conditions and high net-wealth, households continue to report an improving financial situation (Chart 3). Taken together this points to sustained gains in household demand that can hedge the UK against the dampening effects of rising global risks. However, the hard Brexit threat (40%) looms large. If the UK has an orderly Brexit on October 31 or in case of a further extension, expect UK household fundamentals and spending to remain firm. However, the risks are skewed to the downside. The likely jump in inflation that would follow a further plunge in the exchange rate after a hard Brexit on October 31 could hit confidence and squeeze real incomes and spending.



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Chart 1



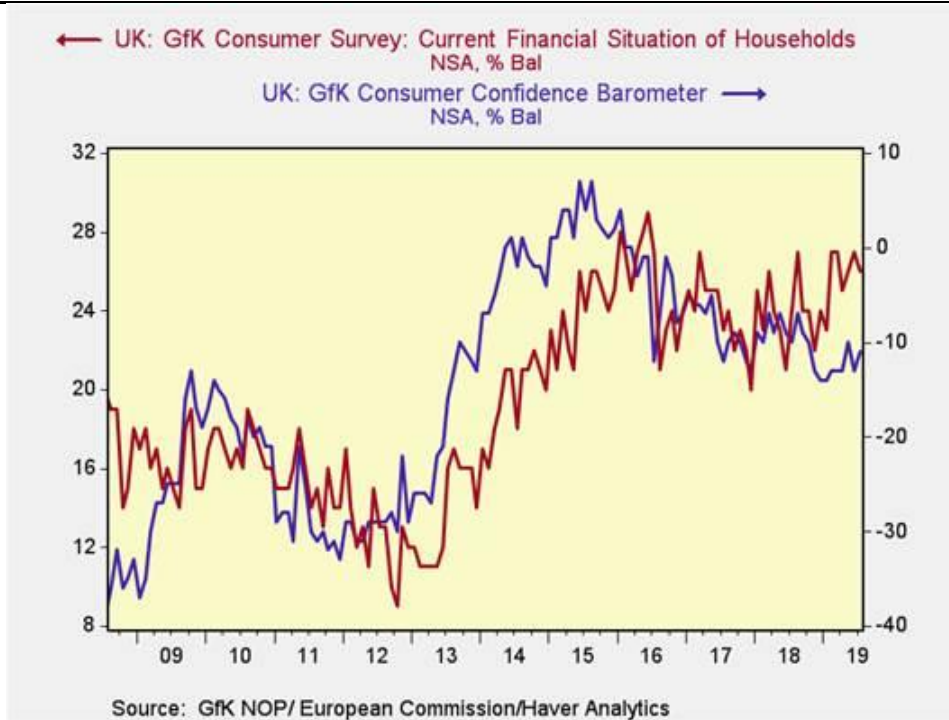
Chart 2





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Chart 3



Real sales ex. auto fuel, % change	JUL	JUN	MAY	APR	MAR	FEB
mom	0.2	0.8	-0.2	-0.5	1.5	0.2
3m/3m	0.5	0.7	1.8	1.6	1.6	0.4
yoy	2.9	3.6	2.1	4.6	6.5	4.0

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