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MACRO NEWS

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UK: TAKE THE BIG DROP IN DECEMBER RETAIL WITH A PINCH OF SALT

Berenberg Macro Flash

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

	yoy	mom
Actual	0.7	-0.8
Previous	0.6	-0.7
Consensus	3.0	0.8

A blue Christmas: UK real retail sales contracted sharply in December (-0.8% mom ex. autos). On a 3m/3m basis, sales declined by 1.1%, the biggest drop since July 2011. While retail sales are typically more volatile than the much bigger category of household spending – which makes up c70% of GDP – the large decline nonetheless highlights the risk that GDP may have shrank in the final quarter of last year – Chart 1.

Other key takeaways:

- Nominal retail sales (ex. autos) contracted by 1.0% on a 3m/3m basis after falling 0.3% in November. Relative to the same three months in 2018, nominal sales increased by 1.8% – the slowest growth rate since June 2016.
- The weak performance on a 3m/3m basis was broad-based across the major sub-sectors: food retail down 0.6%, non-food retail down 1.0%, and non-store retail down 3.2%.

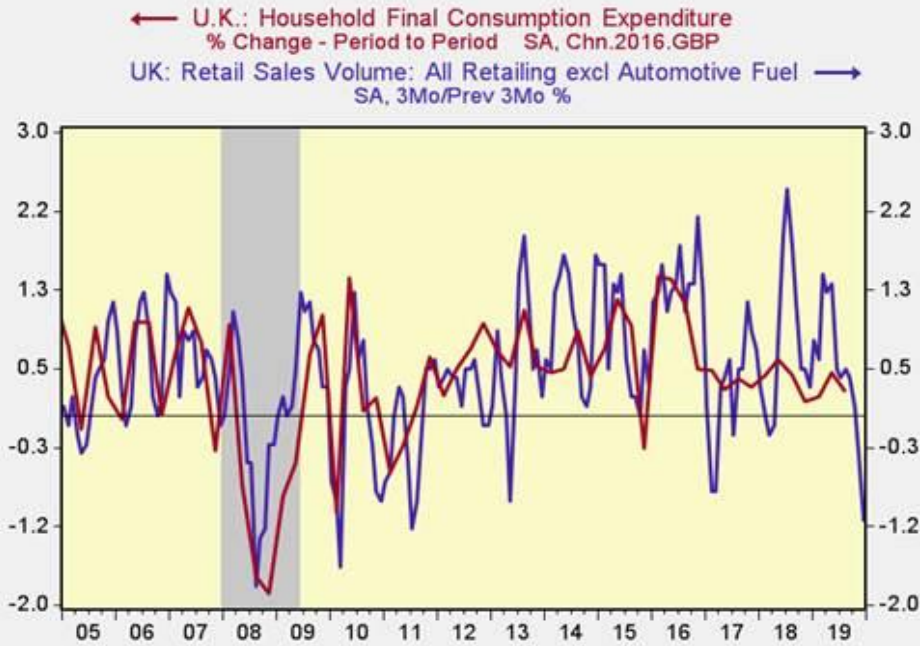
Take the data with a big pinch of salt: The ONS notes that the ‘estimates of the quantity bought (volume) and amount spent (value) in the retail industry for the five-week period 24 November 2019 to 28 December 2019’. More than half of the collection period (19 of the 35 days) includes the pre-election period of peak uncertainty. The recent Deloitte CFO survey and the RICS residential market survey show a sharp bounce in confidence and expected economic activity after the election. The retail data also contrast the GfK consumer confidence survey for December which showed an improvement in headline confidence and consumer expectations for the economy over the next year – Chart 2. We will have to wait for the CBI Distributive Trades survey (28 January) to get a full first glimpse of how the retail fared after the election.

UK household fundamentals are in good shape: Employment and real wages continue to expand at healthy rates (Chart 3). Supported by easy credit conditions and high net-wealth, households report solid finances. The big drop in spending momentum at the end of last year mostly reflects pre-election uncertainty which dampened confidence and demand. With much less uncertainty and fewer downside risks facing households since the election we expect household spending to rebound in 2020.



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Chart 1



Source: Office for National Statistics/Haver Analytics

Chart 2

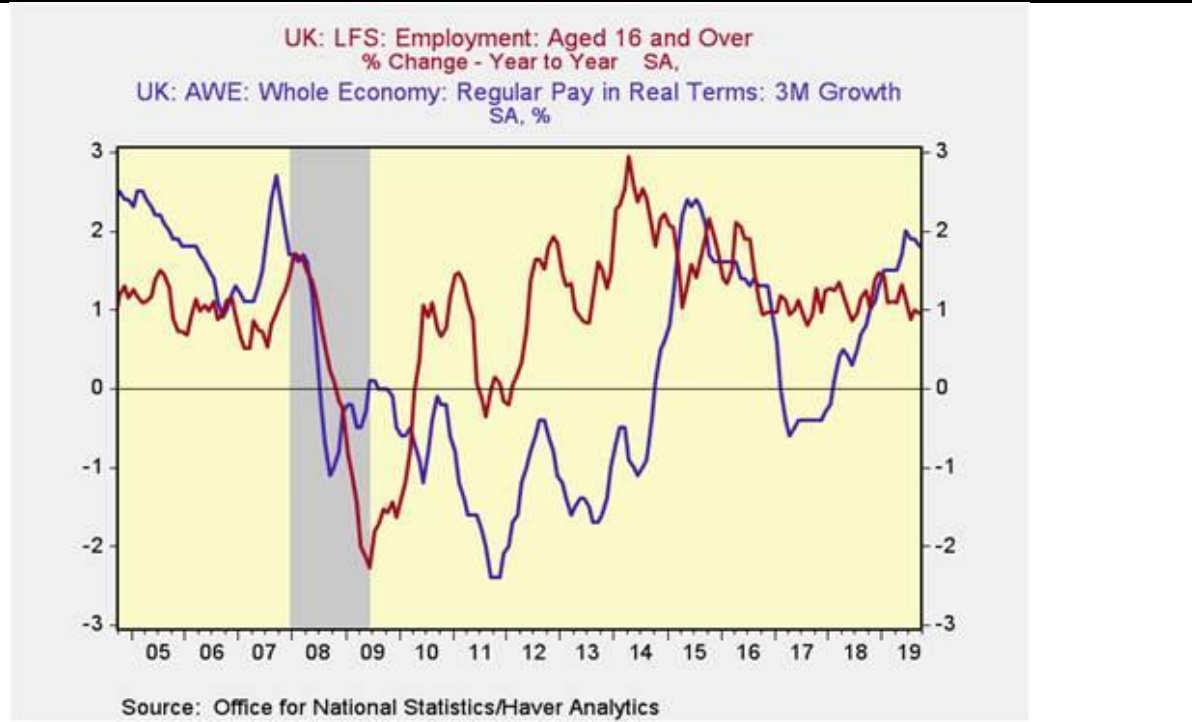


Source: GfK NOP/ European Commission/Haver Analytics



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Chart 3



Retail ex. auto fuel, % change	DEC	NOV	OCT	SEP	AUG	JUL
mom	0.8	-0.7	-0.2	0.0	-0.4	0.4
3m/3m	-1.1	-0.4	0.1	0.4	0.5	0.5
yoy	0.7	0.6	2.7	2.7	2.3	3.2

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