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UK: SURPRISE BOUNCE IN RETAIL SALES AS CONFIDENCE TICKS UP

Berenberg Macro Flash

May retail sales jump suggests economic rebound started earlier than expected

Even closed shops cannot stop the UK consumer from spending. Despite the continued closure of most non-essential retail stores throughout May as part of the nationwide lockdown to contain the COVID-19 pandemic that started on 23 March, retail spending partly snapped back after collapsing in the previous two months. The ONS notes that *'while some garden centres and hardware stores were able to start trading again from mid-May, many others, such as clothing stores, moved to online.'* The survey, which covered the period from 3-30 May, shows a broad-based improvement in spending (Table 1):

- Headline retail sales jumped by 12.0% mom in May after contracting 5.3% in March and 18.0% in April. Relative to pre-lockdown level in February, sales were down by 13.1%.
- While spending in food stores remained broadly unchanged on the month (-0.3%), spending in non-food stores – which had suffered the most in March and April – jumped by 23.7%. Spending on clothing and footwear jumped 17.6% while sales of household goods surged by 42.0%.
- Non-store retailing jumped by a record 21.0% mom after a solid gain in the previous month of 19.0%. Internet sales as a percentage of total sales surged to a record high of 32.8% - versus 20% prior to the lockdown.

Household spending makes up 70% of GDP. The jump in retail sales bodes well for the near-term economic outlook. The UK economy contracted by 25% between February and April. The strong uptick in retail even before the opening up of non-essential stores on 15 June suggests the economic recovery started in earnest in May already. It points to upside risk to our GDP calls for Q2 (-17% qoq) in Q2 and 2020 overall (-10% yoy).

Consumer confidence – inching off the bottom

Consumer confidence edged up to -30 in June after toughing at an 11-year low of -34 in April and May. The modest uptick is more positive than it looks. The data for the survey were collected in the first two weeks of June, before most non-essential retailers began to open again. While the headline index often provides a good leading indicator for monthly retail sales, since the survey was conducted before the shops were open it probably underestimates the likely rise in June spending – the surprise in the May retail data supports this view. Looking further into the survey components (Table 2), the findings are mostly positive:

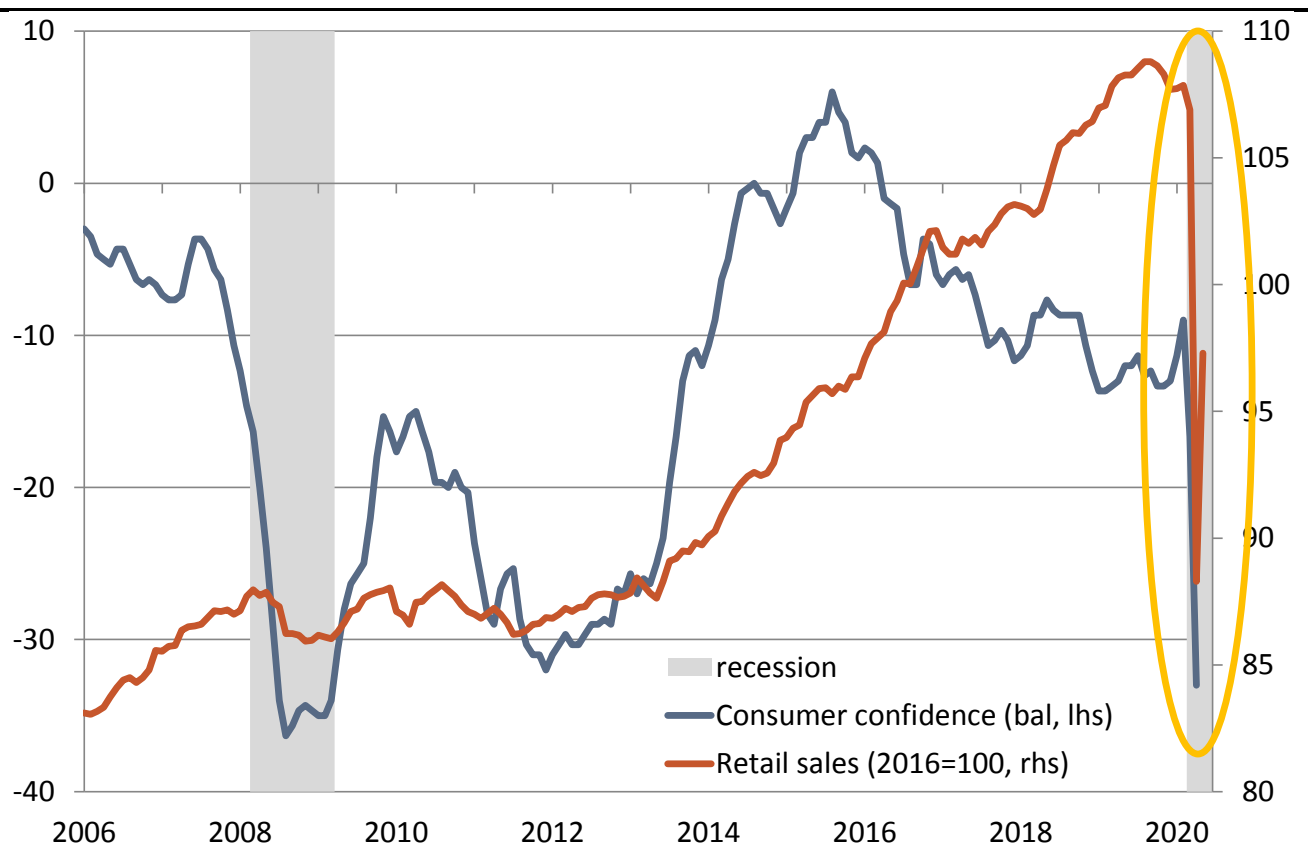
- While the current financial situation of households remained unchanged at 27 in June, and well above the long-term average of 20, the expected financial situation jumped to -4 from -9. The all time low was -18 in July 2008.
- Households' outlook for the general economic situation over the next year continued to edge up from the all time low of -56 in April. The index increased to -48 in June from -54 in May. It remains subdued on a historical basis, however. Expectations bottomed at -52 in July 2008 during the financial crisis. Forward looking survey data are often prone to bigger swings than measures of current performance. Expect a sizeable rebound in expecta-



tions from July onwards once all of the economically significant restrictions have been lifted.

- Unemployment expectations continued to rise in June to 55 from 51 in May. This worsening is consistent [with the latest forward looking](#) labour market indicators which show a deterioration in underlying conditions despite the broad success of the government's job retention scheme. As unemployment is a lagging indicator, this gauge may rise further in the coming months as job losses start to mount even as other parts of the survey show improvement.

Chart 1: UK retail sales versus consumer confidence



Data show three-month averages apart from final data point for each series. Retail sales in real terms, excluding auto fuel. Monthly data. Source: ONS, GfK, Berenberg



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Table 1: Consumer survey (% balance)	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
Consumer confidence	-9	-7	-9	-34	-34	-30
Current financial situation	26	24	27	24	27	27
Financial situation next 12 months	6	6	3	-14	-9	-4
General economic situation next 12 months	-24	-21	-27	-56	-54	-48
Consumer prices next 12 months	90	89	89	95	94	92
Unemployment expectations next 12 months	22	20	19	50	51	55
Major purchases at present	1	6	-2	-52	-47	-32
Savings at present	20	20	10	5	14	16
Savings expectations next 12 months	25	24	23	18	21	25

Source: GfK

Table 2: Real retail sales	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20
Total sales (% mom)	-0.6	1.1	-0.3	-5.3	-18.0	12.0
(% yoy)	0.7	0.9	0.0	-6.0	-22.7	-13.1
Food stores (% mom)	-1.1	1.9	-0.4	10.0	-4.1	-0.3
(% yoy)	-0.8	0.1	0.5	9.8	5.7	5.8
Predominantly non-food stores (% mom)	-1.3	1.4	0.1	-19.5	-41.7	23.7
(% yoy)	-1.4	-0.2	-0.6	-20.7	-53.4	-42.1
<i>Department stores (% mom)</i>	-1.2	0.9	-0.7	2.6	-24.9	13.8
<i>(% yoy)</i>	-4.1	-2.4	-3.4	0.6	-24.4	-13.8
<i>Textile, clothing and footwear stores (% mom)</i>	-2.1	4.1	0.3	-35.2	-49.9	17.6
<i>(% yoy)</i>	-2.6	0.5	1.3	-35.5	-68.3	-61.3
<i>Household goods stores (% mom)</i>	-0.9	-1.2	1.1	-8.7	-45.5	42.0
<i>(% yoy)</i>	-3.7	-2.1	0.1	-10.6	-49.7	-29.9
<i>Other stores (% mom)</i>	-0.9	1.1	-0.3	-25.3	-46.5	26.3
<i>(% yoy)</i>	2.8	1.8	-1.0	-26.7	-59.9	-50.1
Non-store retailing (% mom)	1.5	2.4	-2.8	5.4	19.0	21.0
(% yoy)	12.6	10.4	4.1	7.5	26.4	53.8
Automotive fuel (% mom)	2.1	-5.1	1.5	-18.6	-52.6	49.1
(% yoy)	2.3	-2.7	-3.6	-21.5	-62.8	-44.0
Internet sales (% total sales)	21.4	20.0	18.9	22.0	30.1	32.8

Source: ONS

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