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UK: RETAIL SALES CONTINUE TO BEAT EXPECTATIONS - GOOD NEWS FOR Q3 GDP

Berenberg Macro Flash

| Aug | UK, retail sales (ex. auto fuel) | |
|---------------|----------------------------------|------------------|
| | yoy | mom |
| Actual | 5.9% | -0.3% |
| Previous | 5.8% (rev. 5.4%) | 2.1% (rev. 1.5%) |
| Consensus | 4.8% | -0.4% |
| Berenberg | 5.2% | -0.3% |

Despite the small contraction on a monthly basis, UK retail sales continued to perform strongly in August, adding further signs that the UK economy is holding up better than expected following the June 23 Brexit vote. Retail sales ex. auto fuel declined by 0.3% mom (versus est. -0.4%). This follows a sizeable upward revision to the already strong July data when retail sales ex. auto fuel expanded by 2.1% mom (1.5% first est.) - the strongest monthly growth rate since December 2013. Following the slight dip in August, the 3M/3M growth rate eased a little to 1.7% compared to 2.1% in July, but remained above the long-term average of 0.7%. Growth in retail sales ex. auto fuel accelerated to 5.9% on an annual basis compared to an upwardly revised 5.8% expansion in July.

While some sub-sectors contracted on a monthly basis, there was broad based growth across sub-sectors on a 3M/3M basis and on an annual basis. Despite the sharp dip and modest recovery in consumer confidence in July and August respectively, the underlying data suggests that Brexit has not affected day-to-day consumer behaviour. This bodes well for the near-term GDP outlook. Retail sales make up less than 20% of GDP. However, they provide a timely insight to total consumption which makes up two-thirds of GDP. The continued strong performance of retail sales in August suits our above consensus call for the UK's near- and medium-term growth prospects. For more on our UK outlook please see [‘No doom, some gloom: UK after the Brexit vote’](#).

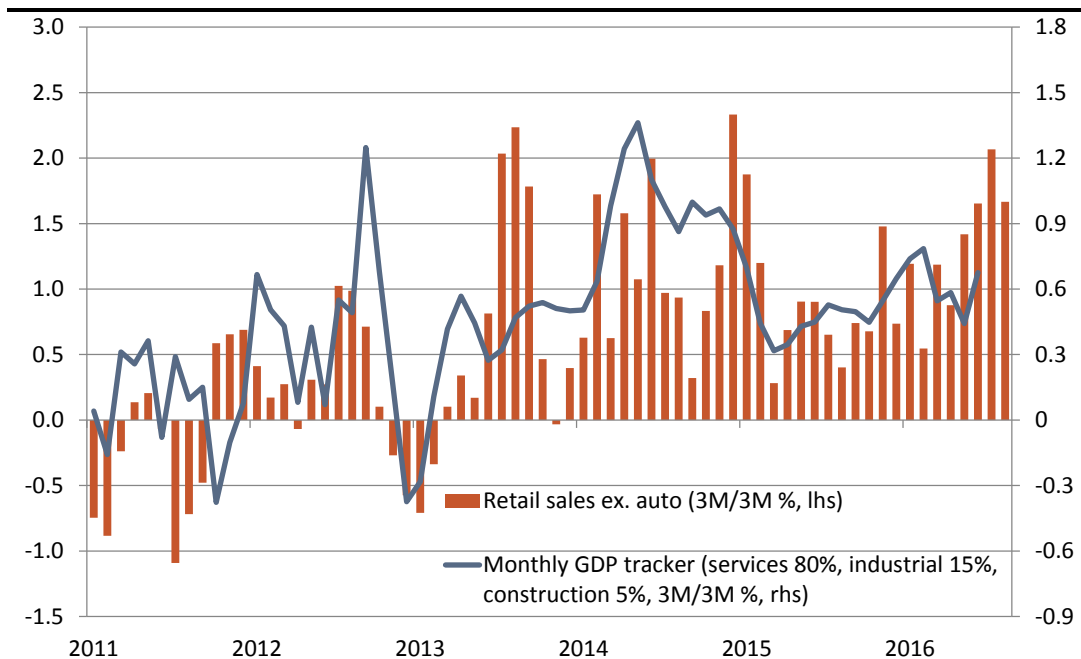
While cautious businesses are likely to modestly cut back on investments in the coming quarters, we expect household consumption to expand at a subdued but stable pace. Favourable fundamentals heading into the Brexit vote have put households on a good footing to ride out a period of turbulence; record high employment, healthy growth in real wages thanks to cheap oil, rising house prices and consumer credit growing at a decade high. Moreover, several key factors since the vote have helped limit the confidence shock; financial markets have mostly performed well, the BoE stepped in quickly to meet the demand for extra liquidity, PM Theresa May's non-confrontational approach towards the EU has boosted hopes of a sensible Brexit outcome and external demand has remained firm.

Today's data suggests that for consumers, Q3 has been business as usual so far. As Chart 1 shows, retail sales correlate well with GDP. *Chart 1 shows retail sales versus our monthly GDP proxy (proxy is based on the monthly data used to create the first official estimate of GDP)*. The strong readings for July and August should put to bed any remaining fears that the UK economy is heading for a contraction in Q3.



MACRO NEWS

Chart 1: Retail sales versus monthly GDP tracker (3M/3M %)



Monthly data. Source: ONS, Berenberg calculations. Weights for monthly GDP tracker: services 80%, industrial 15% and construction 5%

| % | AUG | JUL | JUN | MAY | APR | MAR |
|---|------|-----|------|-----|-----|------|
| UK retail sales (ex. Change auto fuel), yoy | 5.9 | 5.8 | 3.9 | 5.1 | 4.3 | 2.4 |
| UK retail sales (ex. Change auto fuel), mom | -0.3 | 2.1 | -0.8 | 1.0 | 1.8 | -0.6 |

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