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## WHAT BREXIT? UK RETAIL SALES ACCELERATE STRONGLY FOLLOWING BREXIT VOTE

### Berenberg Macro Flash

Jul	UK, retail sales (ex. auto fuel)	
	yoy	mom
Actual	5.4%	1.5%
Previous	3.9%	-0.9%
Consensus	3.9%	0.3%
Berenberg	4.3%	0.4%

UK retail sales growth accelerated strongly after the Brexit vote despite soft data for July showing a sharp negative shock to consumer confidence. Retail sales volumes ex. auto fuel beat expectations, growing by 1.5% mom (exp. 0.3%) and 5.4% yoy (exp. 3.9%) – the fastest annual growth rate since September 2015. While monthly data are volatile, the 3M/3M change paints a clear picture of improving household demand in the period before and after the June 23 EU referendum. In the three months to July, retail sales ex. auto fuel increased by 1.9%, almost three times the average of 0.7% since 2000 and the fastest rate since December 2014.

All categories of retail sales volumes increased on both an annual and a monthly basis. Warm weather and the weaker sterling looks to have played a big role. Textile, clothing and footwear sales grew by 3.5 % mom, non-food stores sales increased by 2.4% and non-specialised stores sales increased by 3.9%.

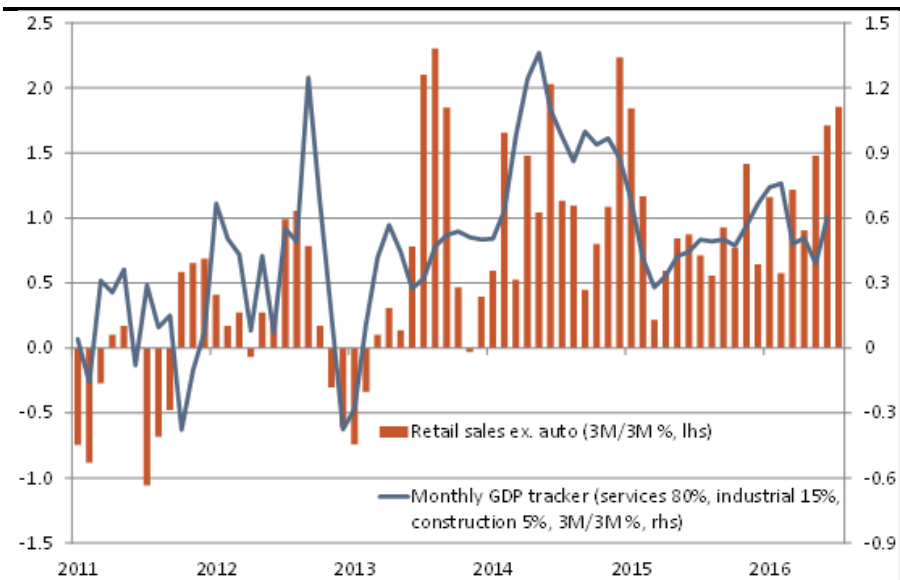
While retail sales make up less than 20% of GDP, they are a timely measure of household demand. Households are the main growth engine in the UK economy. Two-thirds of GDP is consumption. Business investment is likely to contract in the coming quarters, but if households keep spending as we expect, the UK will avoid a recession in the second half of 2016. Households are well placed to ride out a period of turbulence. Fundamentals were strong heading into Brexit: employment at a record high, cheap oil boosting real wage growth, house prices rising and consumer credit growth at a decade high.

Today's data suggests that the economy started Q3 on a surprisingly strong footing. 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 reading for July retail sales suggests that consumers have not only remained resilient but stepped up their spending despite the fall in confidence and increased uncertainty.



## 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%

%	JUL	JUN	MAY	APR	MAR	FEB
UK retail sales (ex. Change auto fuel), yoy	5.4	3.9	5.2	4.4	2.5	3.9
UK retail sales (ex. Change auto fuel), mom	1.5	-0.9	1.0	1.8	-0.7	-0.2

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