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Western European Indicators and Insights

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UK: Sales slump afresh?

Real retail sales (including fuels) slumped 1.4% in M/M terms in May. This was a much weaker than anticipated outcome, with the downside surprise accentuated by what were modest revisions to previous numbers, albeit which still left a rise evident in April (of 1.1%) intact. Of some note, the drop last month was relatively broad-based, albeit with the drop very much a result of a correction back in food sales.

To what degree this correction in food volumes was a result of higher food-price inflation in May is hard to discern. However, a more obvious explanation very much lies with an unwinding of the impact of the warm weather (the warmest April on record) and the royal wedding which boosted spending in the previous month, the latter creating a further distortion for the data via the special public holiday. Indeed, official statisticians were unable to make any adjustment for this non-recurring holiday.

Of course further data will help determine the overall impact of these distortions, although it may take time: National Statistics has suggested that it will only be in July when it will be able to estimate the full impact of the unusual events in April. Even so, National Statistics said that feedback from retailers in the last month suggested that the weakness was due to consumers cutting back due to the economic climate, citing rising fuel prices and uncertainty over jobs and pay.

Regardless, the weakness in sales is evident in the very weak (0.2%) Y/Y outcome for May (actually flat excluding fuel sales). The question is whether this may actually be giving an insufficiently soft picture of overall consumer spending, given that retail sales may have benefitted from shifts within (declining) household spending.