



Retail sales buoyed by warm weather in May

June 2023

Retail sales rose by 0.3% month-on-month (m/m) in May, building on a 0.5% rise in April. May's outturn leaves retail sales volumes up 1.7% in the year to date. Non-store and automotive fuel sales led the growth in headline retail volumes, boosted by the warm weather and falling petrol prices. Food store sales were the main drag on retail volumes, reflecting the impact of an extra bank holiday (with more people switching to takeaways and fast food) and near-record price inflation in the sector.

The data is the latest in a range of indicators showing an unflagging resilience in consumer spending. This was a feature in the Bank of England's interest rate deliberations last week, which culminated in a [decision to raise Bank Rate](#) by 50 basis points.

However, the outlook for household spending itself is mixed: higher interest rates will push up debt service costs for mortgage-holders later this year, increasing strain on finances. Moreover, stubbornly high inflation will continue to erode real household incomes for the foreseeable future. And, despite the recent resilience in consumer activity, [surveys](#) suggest that households are still responding to cost-of-living pressures by reducing outlays on non-essential purchases.

However, this is balanced against some tailwinds to spending. There will be continued support from a tight labour market, with the [latest ONS data](#) showing another rise in employment in the three months to April, which underpinned an acceleration in private sector wage growth over the same period. Energy bills look set to fall from July, providing further support for households' spending power. Additionally, while inflation will remain high, it [should fall over the course of this year](#), giving some breathing space to households later in 2023.

Perceptions of an improving outlook for the economy and personal finances also seem to be lifting consumer confidence. GfK's consumer confidence index gained ground for a fifth month in a row, reaching its highest level since Jan 2022. However, even though sentiment indicators have steadily trended upwards since the end of last year, GfK's index remains below its long-term average, and so should not be taken as heralding a sustained recovery in demand just yet.

A closer look at May's retail sales figures

Retail sales rose by 0.3% month-on-month (m/m) in May, building on a 0.5% rise in April.

- The reporting period for the May figures includes the early May bank holiday as well as the additional bank holiday for the coronation of King Charles III.
- Bank holidays typically depress retail sales as they reduce the number of days businesses operate. But, given that extra bank holidays are a one-off event, they are

not accounted for in the ONS's seasonal adjustment (in contrast to regular bank holidays, which are adjusted for).

Non-store sales (2.7% m/m) and automotive fuel sales (1.7% m/m) led the growth in headline retail volumes, boosted by warm weather and falling petrol prices.

- The ONS reports that online sales of outdoor-related goods and summer clothing were especially strong, supported by sunny weather in the second half of May.
- Sales of fuel may have also been supported by industrial action affecting the UK's rail network. Furthermore, average fuel prices fell to their lowest level since February 2022 in May.

In contrast, food stores saw sales volumes fall (0.5% m/m), which likely reflects the impact of rapid price inflation and the additional bank holiday.

- Food & non-alcoholic beverage prices rose 18.2% in the year to May, which coincided with a 1.1% fall in sales volumes of food stores over the same period.
- Alongside cost-of-living pressures on households, the ONS attributed some of the fall to increased spending on takeaways and fast food (which fall outside the scope of retail activity) because of the additional bank holiday.

More broadly, retail sales momentum has picked up in 2023. Retail sales are now 1.7% higher than their level at the end of 2022, with growth coming in four of the five months. In contrast, retail sales fell in 10 of 12 months in 2022, ending the year down 6.7%.

- Even so, retail sales have yet to regain their pre-pandemic level, with volumes still 0.8% below what they were in February 2020.

Consumer sentiment

GfK's headline consumer confidence index for June gained ground for a fifth month in a row, reaching its highest level since Jan 2022.

- This was driven by consumers' perceptions of both their financial situation and the economic outlook improving markedly.
- Although sentiment indicators have steadily trended upwards since the end of last year, GfK's consumer confidence remains below its long-term average. Therefore, it should not be taken as heralding a sustained recovery in demand just yet.

