

14<sup>th</sup> Dec. 2006

## UK Retail Sales (Nov.)

### Sales defy the gloomy surveys

- **November's retail sales figures were something of a relief after the gloomy tone of the anecdotal and survey evidence.** Sales posted a 0.3% monthly rise, while October's rise was revised up a touch from 0.9% to 1.0%. (See Chart.)
- Although the annual growth rate fell from 3.9% to 3.2%, sales are now on course for a fairly robust Q4. **Even flat sales in December would leave them up by 1% in Q4 as a whole.** The breakdown was also encouraging. Non-food sales were up by 0.4% m/m, with decent rises across the board. Even clothing sales rose by 0.7% despite the mild weather. Food sales posted their second fall in a row, though.
- Remember that retail sales make up only 40% of spending. And spending off the high street in the last couple of quarters has been decidedly weak. Nonetheless, the recent interest rate rises appear to be having relatively little effect on consumers.
- **More consumers appear to be doing their Christmas shopping online, with non-store (mail-order and internet) sales up by 9.6% on last November.** This could explain some of the discrepancy between the official and survey data, given that the surveys fail to capture online sales fully. (See *UK Economics Update*, "Are the official sales data failing to capture online spending?" 15<sup>th</sup> December 2005.)
- **Meanwhile, there was little sign that retailers had to resort to heavier price discounting.** The retail sales deflator rose from 0.1% to 0.3%, driven by the non-food sector, echoing the rise in core CPI inflation in November. **Other strong news on the inflation front came from the Bank of England/NOP inflation attitudes survey.** The public's expectations for inflation over the next 12 months rose from 2.5% to 2.7%, taking it back to the highest level since the survey began in 1999.
- **Overall, following the increases in both core CPI inflation and wage growth revealed earlier this week, the stronger than expected sales data slightly increase the chances of an interest rate hike early next year.**

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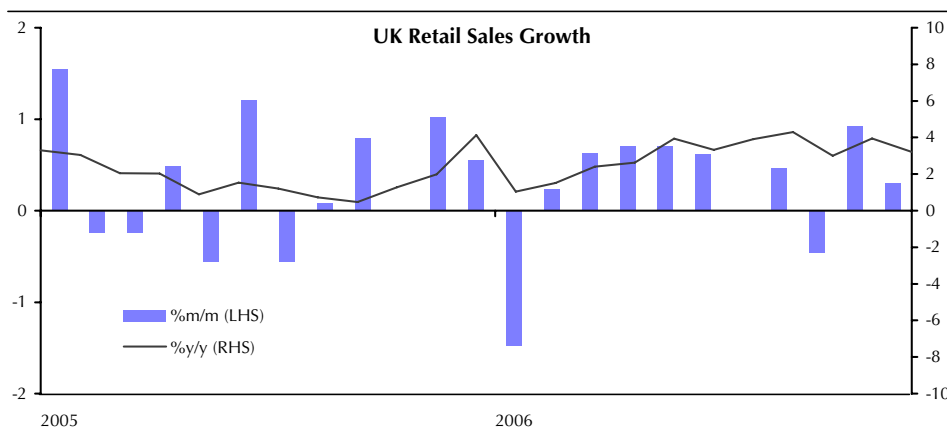
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### RETAIL SALES

	All retailing			Food stores	Non-food stores					Non store
	%m/m	%3m/3m	%y/y		Total	Non-spec.	Clothing	H'hold	Other	
August	0.4	1.5	4.2	-1.6	1.3	0.5	-0.1	4.2	0.6	7.2
September	-0.4	0.7	3.0	1.0	-1.1	-1.4	-0.9	-2.6	0.3	-4.3
October	1.0	0.6	3.9	-0.1	1.7	2.3	2.5	0.7	1.4	1.8
<b>November</b>	<b>0.3</b>	<b>0.5</b>	<b>3.2</b>	<b>-0.2</b>	<b>0.4</b>	<b>0.3</b>	<b>0.7</b>	<b>0.5</b>	<b>0.2</b>	<b>2.9</b>

Source: Thomson Datastream