

Good retail sales and no shop price inflation

The April retail sales figures were good. Total sales were up 6.3%. The delayed Easter reduced the March figures and flattered the April ones as I argued at the time of the March release. We can now see the underlying pattern, which is still one of decent growth. Food has been stronger than non food, with the BRC itself saying that taking the two months of March and April together food sales “were up by around 4% on last year, exceptional growth by all recent standards”. More importantly, there was no overall shop price inflation, giving the lie to those who have argued rising prices will follow from a weaker pound.

Why haven't prices risen as some said? There is considerable competition in world goods markets. There is even more competition in UK retail. The main store groups have increased their trading areas at the same time as on line retail has provided formidable competition to them. Discount retailers have kept their prices down, whilst use of the web has enabled shoppers to look around for the best deals especially for the larger items. The pound is now strengthening again, some 8% up on its lows. I do not expect that to suddenly cut prices, just as I did not expect a price surge from the previous falls in sterling.

The construction outlook has also brightened. Recent figures imply good growth in house building coming through, and a quickening of the pace in industrial property. New offices are weaker. Overall the PMIs and the recent starts figures point to a growing industry with more investment in buildings.

It is interesting to note that the FTSE 250 Index of smaller companies with more UK business as a proportion is now up by one third since June 27th 2016, whilst the large companies in the FTSE 100 with more exposure to foreign currency earnings are up by 23%.

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