

Retail sales and inflation

The official forecasters and many commercial economic forecasters have now joined me in expecting around 2% growth in 2016 and 2017. They took their forecasts on a wild big dipper which I avoided, plunging their estimates to low growth or no growth. They thought both investment confidence and consumer confidence would bomb after the Brexit vote, but they now admit they were wrong.

Today our disagreements are a bit more technical and limited. I have agreed with them that inflation would pick up from the very low levels of last summer. It is doing so and may rise a bit more. I disagree with them that this is mainly owing to the fall in the value of the pound. It has been mainly owing to the surge in oil and other commodity prices, and some domestic wage drift in hotels and catering in particular as the living wage comes in. The rising inflation is an advanced world phenomenon where there is reasonable growth, not a Brexit one. German inflation has risen in lock step with ours, and US inflation has risen more.

I also disagree with them that the fall in the pound is the sole result of Brexit. There was a large fall in sterling from July 2015 to April 2016 before the vote, when most market participants and the polls were confident Remain would win. The yen and the Euro have also been weak against a strong dollar over much of this period. Interest rate differentials are the main factor likely to be affecting these cross rates. The US signalled early its wish to put up rates, has now put rates up to 1%, and intends to take them higher again this year. All the time the Bank of England and the ECB keep their rates on the floor the dollar is likely to be more favoured by those with footloose cash.

My other disagreement has been over retail sales. I saw no likelihood of a big fall in consumer confidence and retail sales after the vote. Even I was surprised by the acceleration, to reach an unsustainable growth rate of over 7%. The latest retail sales for the year to February show a solid 3.7% growth. If you take out motor fuels, hit by the oil price hike, volumes are up 4.1%. Many have been saying that rising inflation will wipe out real income gains, throttling back spending. We already have an inflation rate around the level of wage rate growth, yet retail sales growth sails on.

How can this be? People are working more hours, getting more bonus and overtime, more are joining the workforce. More are now willing to borrow to buy a car or a new home because there is more confidence about employment levels and employment prospects.