

United Kingdom

Bad weather blamed as retail sales fall for second month running

- Retail sales down 1.3% in April after a 0.6% decline in March
- Underlying picture suggests modest growth on the back of improving consumer sentiment

A weather-related drop in retail sales in April brings a reminder that the economy remains in a fragile state. It is likely that spending will revive again in coming months, helping keep the country out of another downturn, though the recovery will be only gradual as incomes continue to be squeezed.

UK retail sales volumes fell for a second month running in April, according to the Office for National Statistics, dropping 1.3% after a 0.6% decline in March. However, the picture may not be as bad as the headline data suggest. The ONS reported that poor weather contributed to a particularly steep drop in food store sales, mainly supermarkets, which slumped 3.8% below levels of a year ago, down to their lowest since December 2003. Supermarkets reported especially poor sales for items such as garden furniture, blamed on bad weather.

The fall had been signalled in advance by the [Visa Expenditure Index](#), which had likewise recorded a steep fall in food-store spending.

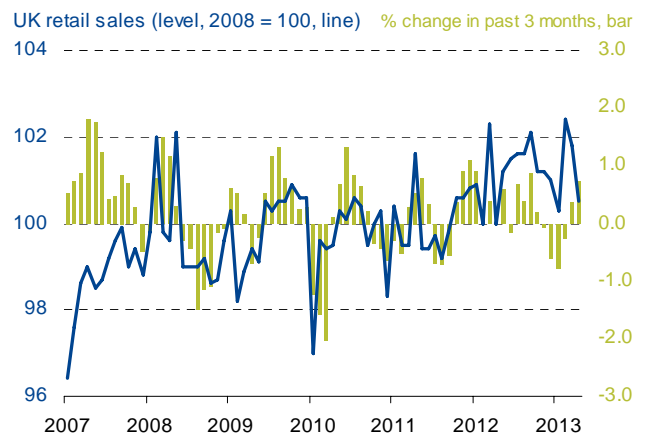
Stronger underlying trend

The underlying picture is more likely one of modest growth of sales (in the latest three months sales were 0.7% higher than the prior three month period; the strongest rate of increase since last September), which reflects an improvement in consumer confidence. Households' views on their finances are the brightest for three years, according to [Markit's Household Finance Index](#) for May. Being busier at work, rising house prices, news of the country having avoided another recession and buoyant equity markets have all helped generate more of a 'feel-good factor'.

We still therefore expect consumer spending to provide a mild boost to the economy in the second quarter, although GDP growth may fail to match the 0.3% expansion seen in the first quarter.

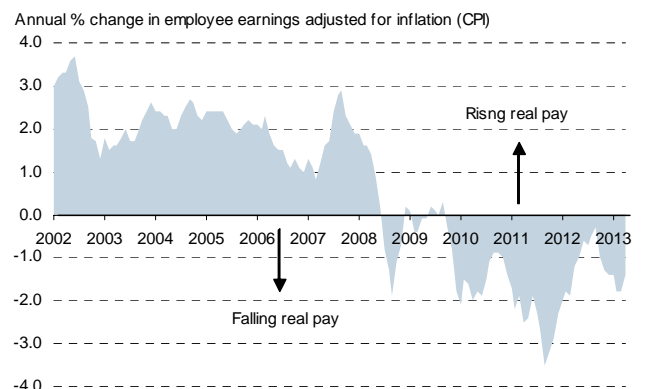
There are many factors which will continue to limit the extent to which consumer spending can rise, meaning economic growth is likely to remain frustratingly weak compared with the rates seen prior to the financial crisis. Despite the rise in household sentiment, the number of households expecting their finances to deteriorate over the coming year continues to outstrip those expecting an improvement. The degree of pessimism has merely eased. Most importantly, incomes continue to be squeezed due to a combination of still-high inflation and record low pay growth. Until pay starts to rise in real terms, economic growth is likely to remain below its long-term trend rate.

Retail sales



Source: Markit. ONS via Ecow in.

Income squeeze



Sources: Markit, Office for National Statistics.

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For further information, please visit www.markit.com