

# UK economy

## Consumers hold key to poor growth outlook

- **CBI survey highlights weak consumer sector**
- **OECD nudges down UK growth outlook**

A disappointing CBI survey paints a picture of falling retail sales in May, but the outlook is one of modest sales growth in coming months. Sales growth should pick up again in June, in line with retailers' expectations, though any strong resurgence in consumer spending is clearly very unlikely to take place any time soon. Until real wages start rising, downbeat consumers will keep a lid on the UK's recovery prospects.

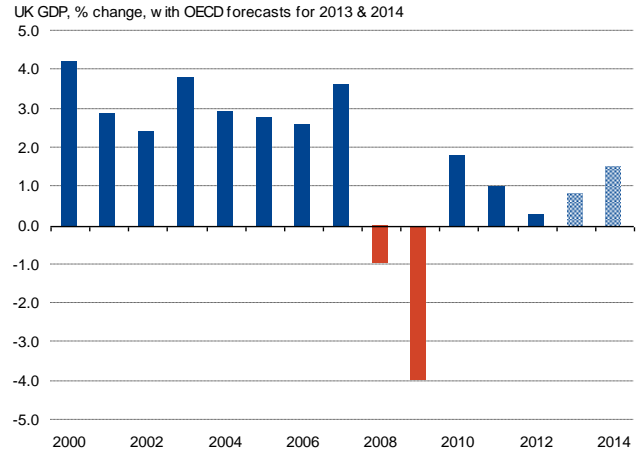
The CBI survey is published on the same day that the OECD forecast UK growth of just 0.8% this year, down from a prediction of 0.9% six months ago. Growth is set to climb to a meagre 1.5% next year. This is a far from healthy pace of economic expansion, and illustrates how the country continues to face the twin headwinds of a beleaguered consumer and ongoing recession in its main export market, the eurozone.

The Confederation of British Industry's monthly survey of retail and other 'distributive' trades pointed to the worst performance since the start of last year in May. The net balance of retailers reporting increased sales volumes during the month were outnumbered by those reporting a decline by 11%, the strongest negative reading since January of last year. The survey has signaled a marked weakening of the trend in the retail environment since peaking last November (with a net balance of some +33%).

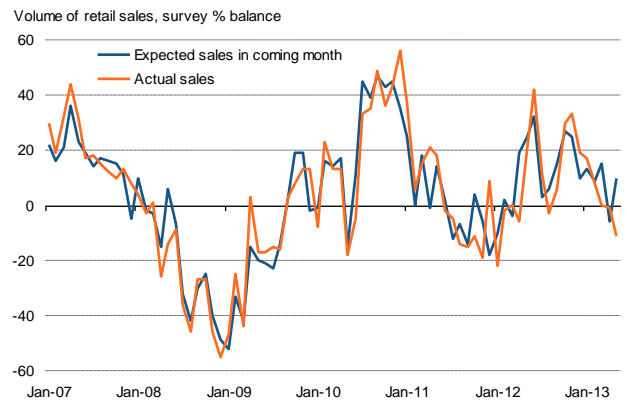
The downbeat performance in May had been expected by retailers in the prior survey, and encouragingly the latest survey indicated that sales are anticipated to rise again in June. The number of retailers expecting sales to rise in June outnumbered those expecting a decline by 10% (up from a net balance of -6%).

The weakness of sales in May is clearly disappointing, and will raise some concerns that consumer spending is still being squeezed by high inflation and weak pay growth; a real income squeeze that has now been with us for five continuous years (inflation is running at 2.4% while regular pay is growing at an all-time low rate of just 0.8%).

### Growth outlook

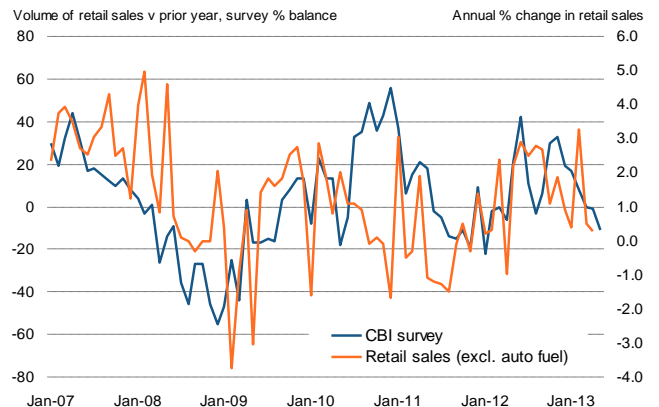


### CBI survey



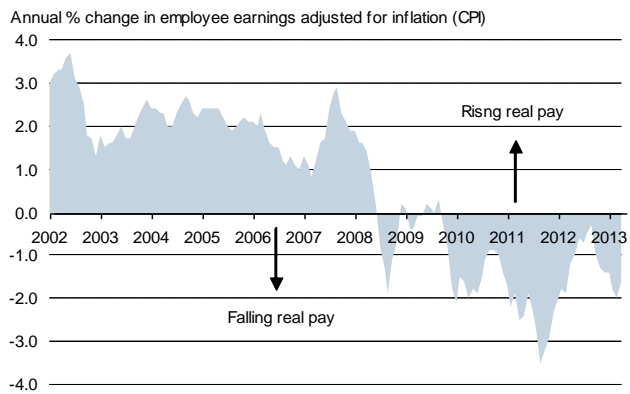
Source: CBI (via ecowin).

### CBI survey v retail sales



Source: CBI, ONS (via ecowin).

## Income squeeze



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