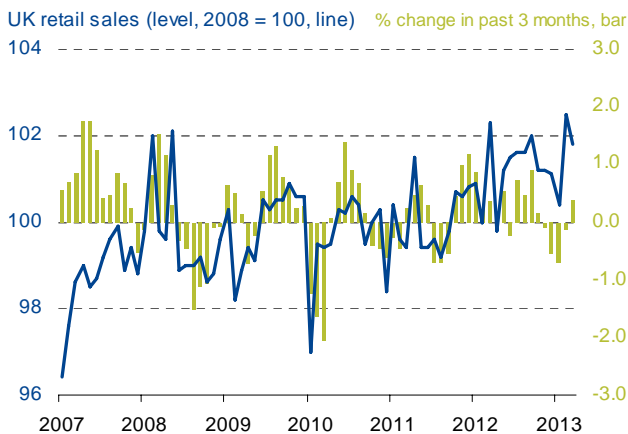


United Kingdom

Retail sales rise in first quarter despite weather-related fall in March

- UK retail sales fall 0.7% in March, in part due to coldest weather since 1962
- Sales up 0.4% in first quarter as a whole compared to 0.6% fall in fourth quarter

UK retail sales



Source: Markit, ONS via Ecow in.

Despite falling in March, which was in part attributable to bad weather, UK retail sales returned to growth in the fourth quarter, adding to signs that the economy is staging a steady recovery. However, this upturn could lose its legs in coming months as incomes are increasingly squeezed by weak pay growth and rising inflation.

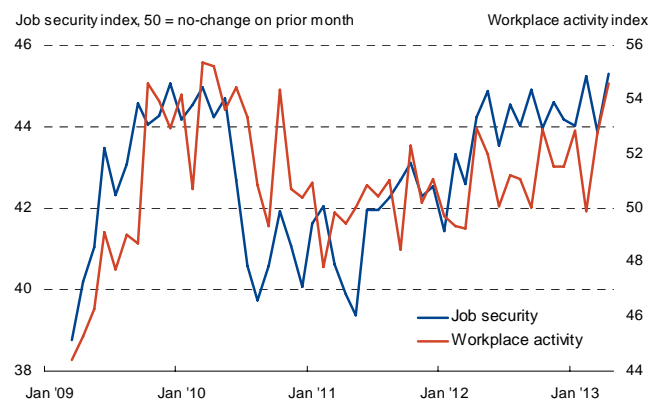
Official data showed the volume of retail sales falling 0.7% in March but, thanks to a 2.1% surge in February, sales rose 0.4% over the first quarter as a whole. That was the strongest quarterly growth rate seen for six months. By comparison, sales had fallen 0.6% in the final quarter of last year, which contributed to a 0.3% contraction of the economy. The upturn in sales in the first quarter therefore adds to evidence that the economy has returned to growth, avoiding a 'triple-dip' recession. Furthermore, the fact that sales of seasonal items such as clothing and food were dampened by cold weather – March was the second-coldest on record – suggests that the underlying trend in consumer demand is in fact firmer than these data imply.

The upward trend in sales has followed a steady improvement in consumer confidence since late last year. Surveys of households show confidence had picked up further in March, linked in part to people being busier at work, which both improved job security and raised take-home pay. However, there is a worry that rising unemployment, weak pay growth and high inflation could reverse this trend in coming months.

While pay and inflation moved more or less into line late last year, helping buoy spending in early 2013, the squeeze on incomes has once again intensified. Recent data have shown pay growth slipping to the lowest since records began in 2001, up just 1.0% in the three months to February. Inflation is meanwhile running at 2.8%.

At the same time, official data showed an increase in unemployment, which may reignite job worries among households and lead to an increased reluctance to spend on non-essentials. The improvement in consumer spending that we have seen in the first quarter as a whole will therefore prove all-too short-lived unless the economy picks up again in the second quarter, fuelling a further improvement in consumer confidence.

Household confidence boosted by being busier at work and improved job security



Source: Markit Household Finance Index survey.

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