

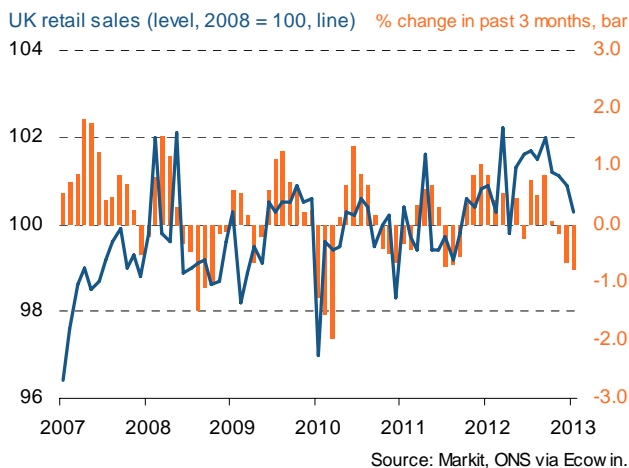
United Kingdom

Retail sales suffer steepest downward trend for almost three years

- Sales drop 0.6% in January as snowfall deters shoppers
- Sales now down for four straight months
- Decline not as severe as previously snow-hit months, lessens 'triple-dip' fears

Widespread heavy snowfall deterred high street shoppers in January, causing retail sales to drop 0.6% during the month, also down 0.6% on a year ago. However, while the underlying trend in sales has been increasingly negative in recent months, reaching the worst since early-2010, there are signs that the household sector is slowly beginning to revive. The drop in sales in January was also not as bad as we have seen in previous months that were affected by heavy snowfall, which suggests that the weather will not have been a big drag on the economy in the first quarter, therefore easing concerns about the risk of a 'triple-dip' recession.

Retail sales



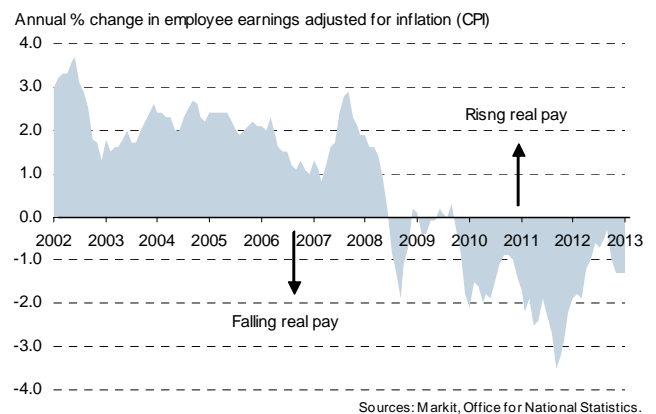
Analysts wrong-footed

Analysts had been expecting a monthly increase of 0.4% according to Reuters, no doubt wrong-footed by basing their expectations on the positive survey data that had been collected before the snow had fallen. However, [Visa Expenditure data](#) had indicated that sales had fallen on the year.

Not just the snow to blame

However, it is clear that it is not just snow that is to blame for falling sales, and that there has been a marked downward trend in consumer demand in recent months. Sales have now fallen for four straight months, and the previously-estimated 0.1% fall in December was revised down to show a steeper, 0.3% decline. The rate of growth of sales consequently fell by 0.8% in the three months to January, indicating the steepest downward trend since March 2010.

Income squeeze



Worst possibly over?

With real incomes having fallen back to a level ten years ago according to official data, it is likely that the retail environment will remain subdued in coming months.

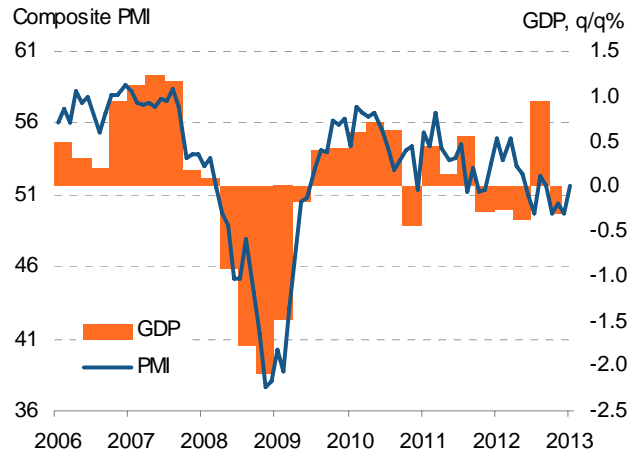
However, while the squeeze on incomes caused by the combination of rising prices and weak pay growth has picked up recently, and may intensify further in coming months as inflation looks set to accelerate, the rate at which real pay is falling is not likely to be anything like as severe as prior to last summer. There was also a noticeable [upturn in household confidence](#) at the start of the year, and there are signs that the Funding for Lending Scheme is having a positive impact on the housing market, with new data released today showing that [house price optimism](#) has risen to its highest since June 2010.

There is therefore no doubt that consumer spending is going to remain under pressure from falling real incomes this year, but household confidence is showing signs of rising, credit availability is improving and the housing market is picking up, suggesting that the worst may be over and that a modest consumer recovery will be seen in 2013.

‘Triple-dip’ worries ease

While the snow clearly had an impact on sales, the decline was nothing like as severe as we have seen in previous years. For example, the 0.6% decline in January compared with a 1.9% monthly fall in December 2010 when the country was also hit by heavy snow. The data therefore add to other survey evidence which suggests the economy got off fairly lightly from snow disruption, further allaying fears of a weather-related ‘triple dip’ recession. We should also remember that retail sales are not used in the calculation of the first estimates of GDP, which the PMIs suggest is still on course to recover from the downturn seen late last year, though it remains too early to draw any firm conclusions.

Economic growth



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