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Markit Economic Research

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United Kingdom

Triple-dip fears ease on retail sales, tax and manufacturing data

- **Retail sales show strong rebound after falling in January**
- **Manufacturers' optimism surges higher**
- **Government deficit on target as taxes rise and spending falls in February**

The risk of the UK sliding into a triple-dip recession has fallen sharply following news of a rebound in retail sales, rising tax revenues and an improved outlook in manufacturing.

Retail sales revival

Official data showed the volume of retail sales rising 2.1% in February, growing 2.6% on a year ago. Both increases were the largest seen since last March, but reflected in part a rebound from January, when snow and cold weather deterred shoppers and led to a 0.7% month-on-month decline. Nevertheless, looking at the latest three months as a whole to remove some of the volatility in the data, sales are down just 0.1%, which compares well with the 0.5% decline seen over the final quarter of last year. This puts sales on a strong footing to contribute to a rebound in economic growth in the first quarter. Even if sales were to fall by as much as 1.5% in March, the first quarter would still see an overall increase in retail sales compared to the final quarter of last year.

Upbeat manufacturers

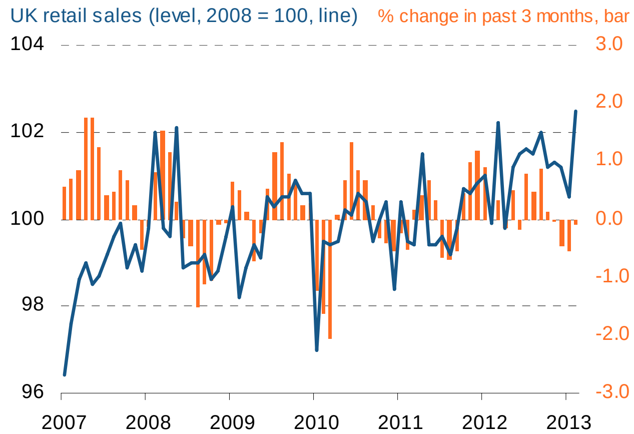
There was also better news from manufacturing. The CBI monthly survey showed firms' expectations of output growth over the coming three months rising to the highest since April of last year, with the number of companies expecting output to rise outnumbering those expecting output to fall by 22%, up from 5% in February. Firms have reported that the downward trend in order books has eased in February and March compared to previous months, with companies significantly less downbeat about the export situation in March, which can be in turn attributed to the recent fall in the value of the pound.

Deficit on target

Thursday also saw the publication of government borrowing figures, which came in far better than generally expected. Borrowing excluding the bank bail outs was just £2.8 billion in February, down sharply from £11.8 billion last year. The comparison is flattered by the latest data including £2.7 billion of transfers from the Bank of England's asset purchase scheme, and a £2.3bn one-off increase in revenues from the sales of 4G telecoms licences, which helped push revenues up 8.7% on a year ago. However, it was encouraging to see government spending down by 1.5% on a year ago, which was the largest fall since June 2012, and central government receipts were also reported to have risen even excluding one-off factors.

For the fiscal year to date, covering the period April 2012 to February 2013, public sector net borrowing excluding the Royal Mail pension plan transfer and the proceeds from the Bank of England asset purchases was £101.3 billion, down from £104.2 billion last year – a difference of £2.9 billion that is more or less equal to the 4G licence revenues. Excluding just the Royal Mail pension fund, borrowing so far this year is £94.9 billion, down 8.9% on last year and putting the government in a good position to meet its borrowing target of £114.5 billion for the full year.

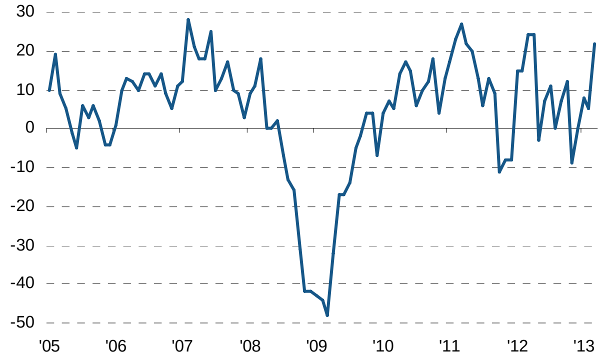
Retail sales



Source: Markit, ONS via Ecowin.

Manufacturing optimism

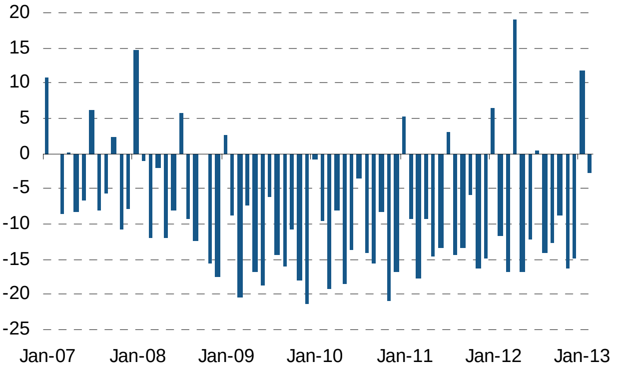
CBI Industrial Trends Survey, expected output in next three months



Source: Condederation of British Industry.

Government deficit

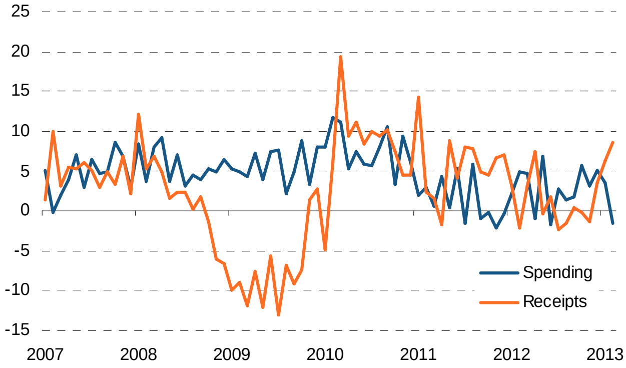
UK net public sector borrowing excluding financial interventions, £bn



Source: ONS via Ecowin.

Government spending and revenues

Central government spending and receipts, annual % change



Source: Markit, ONS via Ecowin.

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