

# UK DATA RESPONSE

21<sup>st</sup> Jan. 2011



## UK Retail Sales (Dec.)

### Snow hits sales

- December's official UK retail sales figures provided further confirmation of the adverse effects of the snow on high street spending last month. Obviously this is just a temporary factor and spending should bounce back this month. Nonetheless, rising inflation, falling employment and a weakening housing market are hardly conducive to consumers spending much this year.
- Sales volumes posted a 0.8% monthly drop, taking the annual growth rate down from 1% to zero. This echoed the drop in the BRC's measure of retail sales growth, as well as reports from many retailers that the snow knocked 2% or so off sales growth.
- Food, petrol and clothing sales were worst affected.** Department store sales rose by 0.3% m/m, perhaps as the snow made "one-stop" shopping more appealing.
- Household goods sales dropped by almost 1%, suggesting that the snow prevented households bringing forward spending on big-ticket items to beat the VAT rise. Sales volumes in this sector have fallen for six months in a row now, taking the annual growth rate down to -8.6% in December.
- We would not get too gloomy about any of this.** Anecdotal evidence suggests that consumers flocked to the post-Christmas sales, meaning that spending should rebound in January.
- But at the very least, the dip in sales at the end of the year increases the chances of a slowdown in overall GDP growth in the final quarter.** Retail sales in Q4 as a whole rose by 0.2%, compared to Q3's 0.9% increase – meaning that they will knock about 0.2% or so off quarterly GDP growth in Q4 compared to Q3. (See Chart.)
- What's more, the outlook for spending this year remains pretty bleak.** Note that the Bank of England's latest Trends in Lending Report revealed a fall in mortgage approvals from 45,000 to 40,000 in December. Although the snow may again have been partly to blame, the housing market is clearly weakening – adding to the numerous other pressures building on consumers.

Vicky Redwood

Senior UK Economist

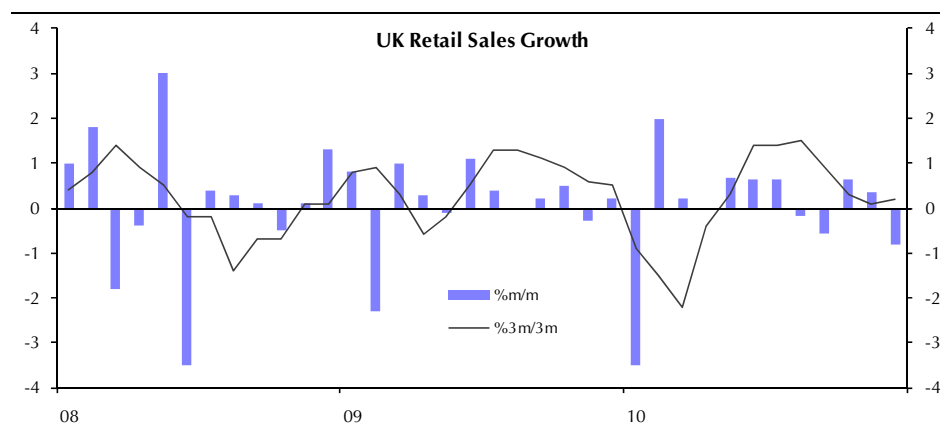
Direct Line: (020) 7808 4989

Switchboard: (020) 7823 5000

Fax: (020) 7823 6666

victoria.redwood

@capitaleconomics.com



### RETAIL SALES

	All retailing (inc. auto fuel)			Ex. auto fuel	Food stores	Non-food stores					Non store
	%m/m	%3m/3m	%y/y			Total	Non-spec.	Clothing	H'hold	Other	
Sep.	-0.5	0.9	0.2	-0.3	-0.2	-0.1	0.2	-0.3	-0.4	0.0	-2.4
Oct.	0.6	0.3	0.3	0.4	0.1	0.5	-1.1	0.9	-0.9	2.2	1.2
Nov.	0.4	0.1	1.0	0.3	0.6	0.2	-0.4	-0.4	-1.4	2.3	-0.4
<b>Dec.</b>	<b>-0.8</b>	<b>0.2</b>	<b>0.0</b>	<b>-0.3</b>	<b>-0.9</b>	<b>-0.6</b>	<b>0.3</b>	<b>-2.0</b>	<b>-0.9</b>	<b>0.5</b>	<b>5.4</b>

Source – Thomson Datastream