

# Data Alert

## Recent UK data release round up

June 2011

## Shades of grey

We know from the experiences of Scandinavia and Japan that it takes a much longer time to recover from crises in the financial sector than the sort of bounce back that is generally experienced after recessions caused by other types of shock. De-leveraging by households and the banks, coupled with fiscal deceleration, inevitably depress demand in the economy and consequently there is little potential for robust levels of overall growth. So it really comes as no surprise that most of the UK macro economic indicators are less than buoyant. This Data Alert rounds up the official releases in the second half of June.

### Retail Sales (May)

The weather, the timing of Easter and an extra public holiday have introduced a bit of month on month volatility into retail sales activity, flattering in April and correcting in May. The more reliable approach of taking the latest three months together shows an annual volume growth of 1.4% but this does include recovery from a sharp contraction a year ago. As this event moves out of the comparison period, the annual growth rate will trend down towards zero unless current volumes pick up. One cause for optimism is the retreat in the oil price from over \$125 a barrel to around \$110 which, if sustained, would in due course feed through to higher volumes of fuel sales.

### Bank of England – Monetary Policy Committee (June)

Although the MPC left the base rate and their quantitative easing measures unchanged in June the minutes of their meeting signalled a significant shift in the Bank's outlook. The most 'hawkish' voice on the committee, Andrew Sentence, has recently been replaced and the debate has shifted from whether or not to raise rates to whether or not to start a new round of Quantitative Easing. This reflects a shift in the perceived balance of risks away from overshooting on inflation towards undershooting on growth. This move puts the UK, along with the US, squarely at odds with the Bank for International Settlements who made a very pointed call for an international squeeze to drive down inflationary pressures in the global economy by rapidly normalising interest rates.

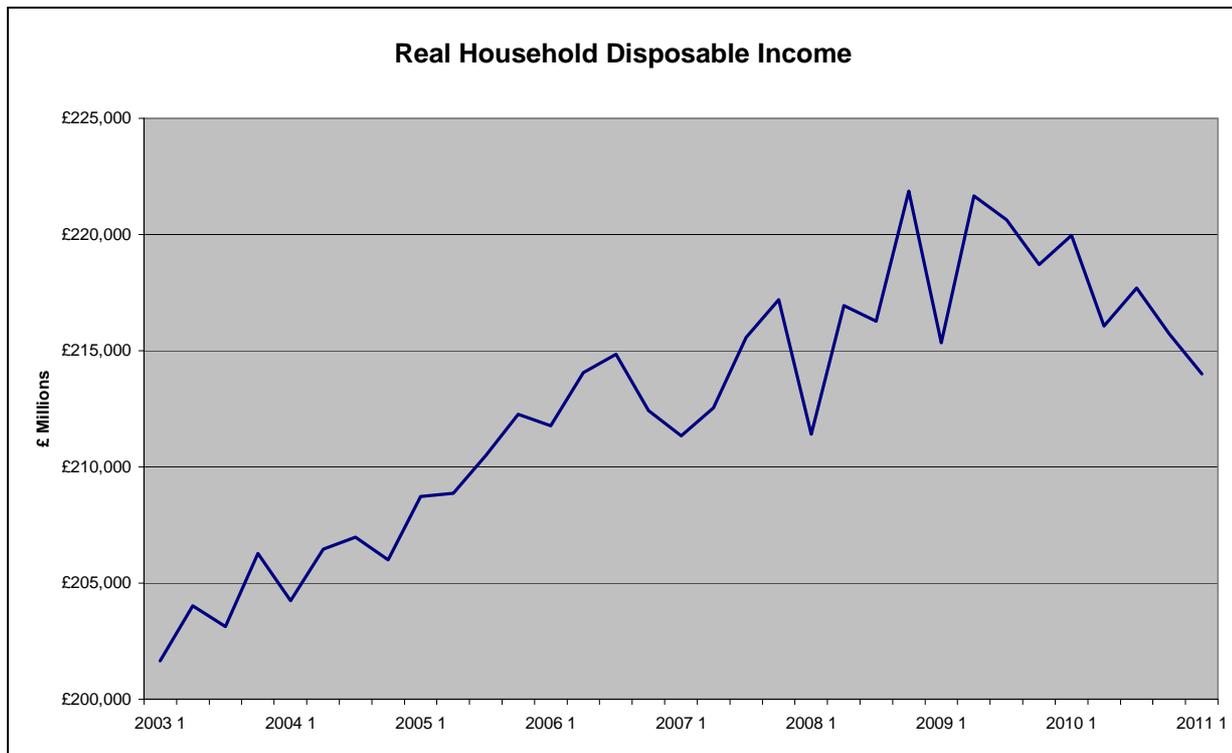
The upshot has been that without the support from expectations of interest rates increases and with growing doubts about economic performance Sterling is falling further out of favour.

### First Quarter GDP (Final release)

The overall growth figure for January to March was left unchanged at +0.5% which just about cancels out the contraction of the economy in the final quarter of 2010. The sector composition was amended to show a smaller fall in output from construction but less growth in manufacturing. If anything this is disappointing because volatility in the former is expected and we would happily trade it for robust forward momentum in manufacturing.

What has caught more attention is the breakdown of the 'Household Sector: Secondary Distribution of Income Account' which includes a figure for Real Household Disposable Income – see chart below. This is the amount that we collectively have available to consume, invest or save. There are two ways in which this measure can turn negative: firstly nominal increases in income can be outstripped by inflation or secondly by increases in the proportion of resources

taken up by taxes and social security contributions. What we have witnessed so far is only the effect of inflation running well ahead of earnings growth – the tax take has not risen yet. Even if this inflation effect is to prove temporary, as expected, there will be further downward pressure on real household income from the fiscal measures coming into effect from the second quarter of this year.



### Index of services (April)

Service sector output appears to have fallen in April in comparison with March, which may have been a negative effect of the same factors which boosted retail sales in April, see above. This is broadly consistent with the more timely Service Sector PMI which posted a further small drop in May. Taken together the indication is that there has been little or no growth in the largest part of the UK economy at the start of the second quarter.

As we have said before, after the (relatively) painless recession comes the joyless recovery.

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