

Latest UK & SW Data

Nigel F Jump, November 2011

Background

The UK economy entered the autumn in a shaky condition. Uncertainty from many quarters, particularly the euro-zone but also domestic business and household confidence put the dampeners on the prospects for growth whilst doing little to bring down inflation. Against this context, we review the latest signals.

Retail Sales

UK retail sales volumes were a bit better in October, increasing by 0.6% on the month. Much of the improvement, however, reflected price discounting by major retailers and could not be ascribed to improved consumer confidence. With the labour market deteriorating and real incomes under pressure, prospects for the Christmas period are muted and early 2012 may be even worse (depending on when the inevitable bad weather actually falls).

In the 3-months to October, retail volumes were only 0.3% higher than a year earlier. This is better than the previous negative readings in this time series but still very weak. Intense supermarket price competition helped recent food store volumes. Discounting slowed the pace of decline in household goods stores. Clothing & footwear stores were still recording negative changes. There was some growth in non-specialised stores and, of course, still lots of positive increases in non-store retailing.

Given international-to-local uncertainty about incomes, jobs and credit, subdued spending is likely to continue and the outlook for retail sales volumes remains poor. SW households' ability and appetite to increase spending will stay restricted. Indeed, the more Christmas holds up the worse it could be in the early New Year.

Unemployment

The labour market is weakening. In the third quarter of 2011, several statistics on employment and unemployment deteriorated markedly. The headlines were grabbed by the 197,000 drop in overall UK employment and the fact that youth unemployment reached a record 1 million. Total unemployment reached 2.62 million, the highest level since 1994, sending the unemployment rate to a 15-year high of 8.3%. The claimant count measure of unemployment in October edged up only slightly but that probably reflects seasonal shifts in education and is not much solace.

Wage growth (excluding bonuses) slowed to an annual rate of only 1.7% in the three months to September. With inflation well above this (see below), real incomes are under pressure for those in and out of work. With demand weak, investment will remain constrained mostly to replacement and unemployment will rise further

PMI Survey

The SW purchasing managers index for output improved to 53.7 in October. For the first time in six months, it was above the UK average (50.7). With the South East, East of England and Wales contracting, however, this may be a pyrrhic change. Moreover, the regional employment reading was only 50.3 compared with a UK average of 49.7. What little growth there is, it is insufficient to generate much, if any, net new jobs. Given other surveys and anecdotes that suggest October and November have been soft economic months overall, we are not hopeful that a corner has really been turned.

Inflation

Consumer price inflation was slightly lower at 5% in the year to October - down from 5.2% in September. The Bank of England has already suggested September was the peak in UK inflation. Food, transport fuels and the VAT rise have driven inflation higher this year. All three may now be beginning to fade from the rate – if not the levels.

Looking ahead, with demand in the economy weakening, it will start to bear down on any upward price momentum. Commodity price influences are already moderating in line with the slowdown in global economic activity. In January, the year ago VAT hike will drop out of the index. With the economy in the doldrums, inflation is widely expected to fall back towards the target rate of 2% per annum during 2012.

Conclusion

The economy is in a negative phase. Demand is softening and, given events in the securities markets, it is not clear whether this is “the darkest hour before the dawn or “the darkest hour before the lights go out”. The near term prospects for SW output and jobs are clearly unfavourable. The hope is that, by the spring, the euro-zone wound has been staunched, America and the Far East are growing a bit faster, and domestic spirits have improved.

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Contact information:

Due to the closure of the South West RDA, the Economy Module will cease to function at the end of 2011. Several of its staff, past and present, may be available to undertake economics and evidence work for you in 2012. In the first instance, contact Nigel Jump, at www.strategiceconomics.co.uk