

Consumer spending set to increase?

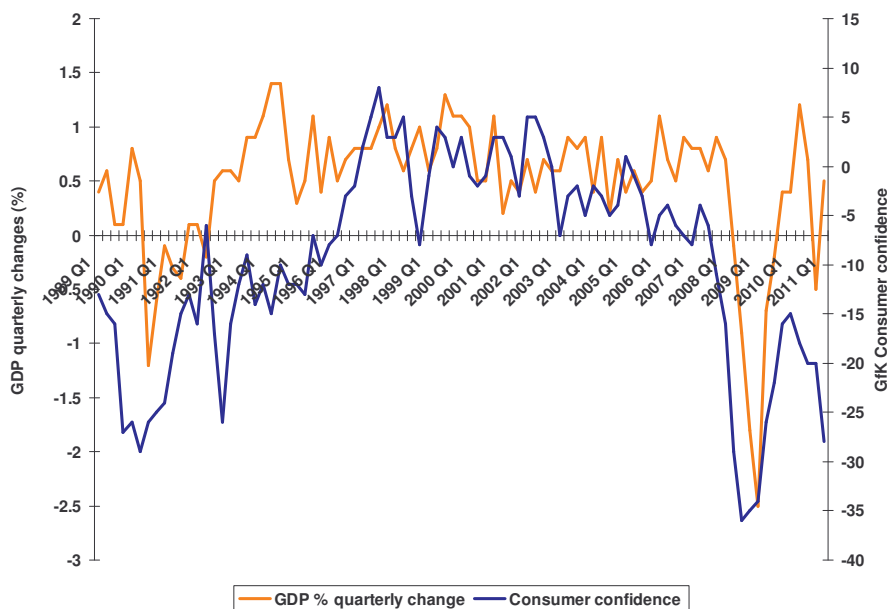
Figures recently released by the Office for National Statistics show GDP growth for Q1 unrevised at 0.5% and up from -0.5% in Q4 2010.

Household expenditure – accounting for almost two-thirds of GDP – fell by 0.6% in Q1 2011 partly reflecting a 0.8% fall in real household income in Q1 2011, the second successive quarterly decline, falling by 0.9% in Q4 2010. For 2010 as a whole real disposable income fell by 0.8% - the first annual fall in real disposable income in 3 decades.

The household savings ratio fell to 4.6% in Q1 2011, compared with 5.1% in the previous quarter.

During Q1 both consumer confidence and financial activity indicators have pointed to consumers adopting recessionary behaviour resulting in falling economic activity. Consumer confidence measures of GfK and Nationwide have moved sharply down into recession levels. The JGFR Financial Wellbeing Index that covers measures of savings, spending and personal finances fell 34 points in Q1 to -74, its lowest level since Q1 2009. Both measures reflect declines in real disposable income and uncertainty about job prospects.

Chart 1: GDP quarterly growth and consumer confidence



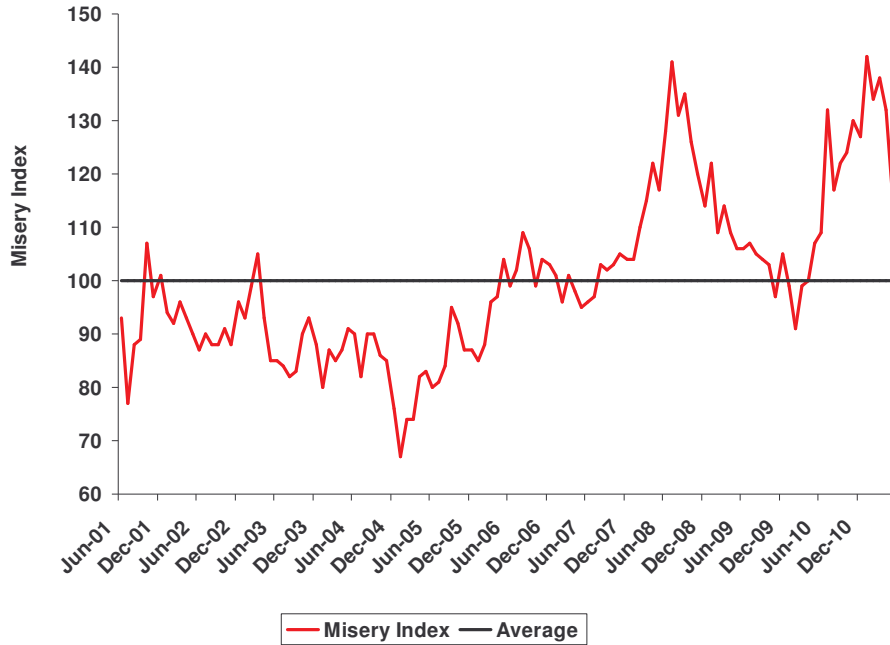
Source: ONS/GfK NOP/ European Commission/JGFR

By type of spending, the biggest decrease in Q1 was in clothing and footwear and the biggest rises in food and drink and transport. The rise in VAT in January resulted in many big-ticket purchases being brought forward, deferred or cancelled, while the sharp rise in consumer prices is having a big impact on discretionary spending as more income is needed to pay for heat, light, food and fuel.

To highlight the surge in inflation in the first quarter, survey data shows consumer prices up 11.5% (source GfK NOP) over the past 12 months compared to 4.25% on the CPI and 5.2% on the RPI. For women (13.8%) and low- income households (14.6%) the levels of inflation were far higher.

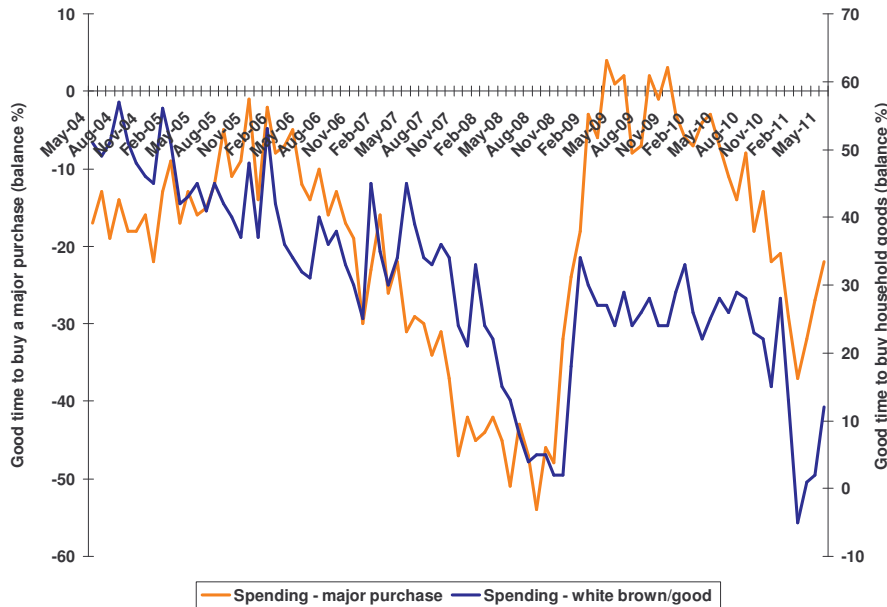
What are the prospects for consumer spending in Q2 and H2?

An improving jobs and inflation outlook are essential and here the prospects appear better with the JGFR Misery Index reflecting unemployment and inflation expectations jumping to its best level in May (116) in a year (a lower score indicates an improving Misery Index).



Source: GfK NOP / European Commission / JGFR

At the same time both spending measures in the May Nationwide confidence survey suggest a pick up in spending confidence.



Source: Nationwide / TNS / JGFR