

UK consumer spending

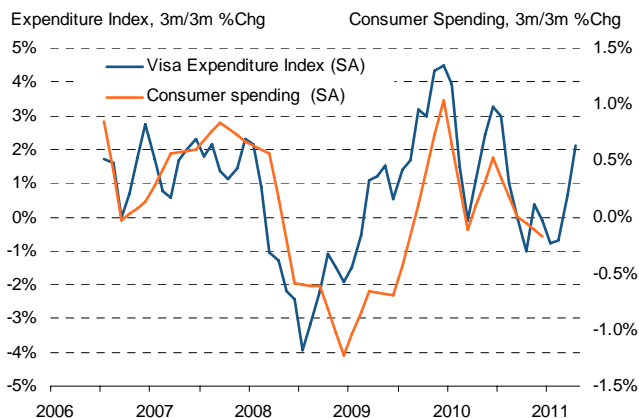
Consumer spending jumps in April but fundamentals have not improved

- **Consumer spending jumps 3.6% on a year ago in April.**
- **Unusual factors drive the upturn, raising worries about the strength of sales in coming months.**

Warm weather, an extra bank holiday and the timing of Easter all encouraged the UK consumer to spend in April.

The Visa Europe: UK Expenditure Index, published earlier this week, showed a 3.6% year-on-year increase in consumer spending in April. That took the three-month average rate of increase up to 2.1% from a paltry 0.7% in March and the declines earlier in the year. The reading was the best since July 2010 – just before consumer confidence was hit hard by the growing reality of impending government spending cuts, falling real incomes and rising prices.

Visa Europe: UK Expenditure Index



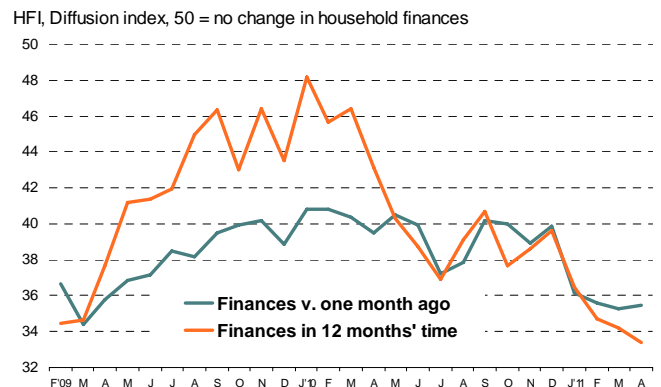
Sources: Markit, Visa Europe, ONS.

The uplift in spend was confirmed by an even more upbeat survey from the British Retail Consortium, which showed the total value of sales surging 5.2% higher than a year ago, recovering from a 3.5% decline in March, to register the best annual growth for five years.

The data signal a good start to the second quarter and raise hopes that consumer spending may be on course

to rise for the first time since the third quarter of last year. However, it is hard to see what has caused the uplift in sales signalled by the BRC and Visa data in April, other than the extra shopping days arising from the extended weekends and the exceptionally warm weather. The increase is especially surprising given the weakness of household confidence in April. Markit's monthly HFI survey found that household's views on their finances over the next year were the most downbeat since data were first collected in early-2009, when the economy was in the grips of the financial crisis.

Markit Household Finance Index survey



Source: Markit.

It therefore seems unlikely that the spending data for April represent a fundamental upturn in the consumer sector. The concern is that sales could fall back sharply in May, as seasonal purchases such as outdoor furniture, clothing and footwear, may have simply been pulled forward earlier in the year than usual. The Visa data, for example, showed that the strongest annual growth of any sector was recorded in clothing and footwear (an increase of some 12%).

Once again, it looks like economy watchers and the Bank of England's Monetary Policy Committee will need to await further data releases before the true picture of the health of the UK economy becomes apparent.



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