

UK retail sales drop not as bad as feared

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UK retail sales dropped by a much smaller margin than expected last month, as the turbulence in financial markets that dominated the headlines failed to translate into a sharp drop in spending

Sales fell 0.1pc in October and follow a 0.5pc fall in September, which was not as bad as analysts had expected, and an unexpected rise in sales in August. City economists had penciled in a 0.9pc drop for last month.

The figures triggered accusations that the Office for National Statistics figures did not reflect what was really happening on the UK high street.

In a sign of how difficult trading has become, many retailers have announced pre-Christmas sales, indicating their difficulties at what is traditionally their busiest time of year.

Marks & Spencer is holding a one-day sale today, cutting all prices by 20pc with some stores open until midnight. Yesterday Arcadia Group announced sales at its Dorothy Perkins, Wallis, Evans and Burtons stores, and Debenhams is also holding a three-day 25pc off sale.

Customers have been spending less as soaring inflation has eaten into their disposable incomes. Even though inflation is now coming down, consumers are less willing to spend in the face of an imminent UK recession and the prospect of rising unemployment. Those who are prepared to spend are more likely to take time hunting for bargains.

Retailers will be hoping that the Chancellor Alistair Darling introduces measures to encourage spending when he presents the Pre-Budget Report on Monday, including reductions in the rate of income tax or VAT.

The Bank of England has already made moves to ease the plight of the borrowers, cutting interest rates from 5pc to 3pc in the space of just a month.

That should help consumers by putting more money back in their pockets, but the full impact of interest rate cuts takes time to feed through to consumers, and as the UK braces itself to enter a recession by the end of the year, there is no guarantee that they will choose to spend that money.

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