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# U.K. Retail Sales Drop Amid Bad Weather, Political Uncertainty

By ILONA BILLINGTON

LONDON--Sales volume at U.K. retailers slumped in May to the lowest level since March 2009, while retailers' business confidence and investment intentions also dropped sharply, a survey by the Confederation of British Industry showed Thursday.

The monthly Distributive Trades Survey's retail sales balance dropped to a balance of -18 in May from +13 in April. The balance is the difference between the percentage of retailers reporting higher sales and those reporting lower sales compared with a year earlier.

Market participants had been expecting the balance to rise a little to +14, according to a survey of economists last week.

"These retail sales figures for the early part of May are clearly disappointing, with many sectors failing to achieve higher sales than a year ago," said Ian McCafferty, CBI chief economic adviser. "Unseasonal poor weather at the start of the month is likely to have dented clothing sales while some signs of slowing momentum in the housing market may help to account for the renewed weakness in sales of big-ticket items and other household goods."

The slowdown in spending may also reflect wider concerns about the economy and domestic politics.

"It may also be that consumers were deterred from spending by the heightened political uncertainty that resulted in a hung parliament and coalition government," said Howard Archer, chief U.K. and euro-zone economist for IHS Global Insight. "Significantly the survey was carried out between 27 April and 12 May."

He was referring to the new U.K. coalition government that took five days to form after the May 7 general election because voters failed to elect a single-party majority government.

The retail survey also showed that the volume of orders placed with suppliers fell sharply to a balance of -24 in May from +1 in April.

For June, the CBI survey also showed a balance of -15 of retailers expecting higher sales. Last month, a balance of +17 were expecting higher sales in May.

The survey also included some quarterly questions that showed that retailers' confidence regarding the business situation in the three months to May fell to a balance of -5. That compares

with +2 in the three months to February and is the lowest level since -8 in the three months to May 2009.

At the same time, retailers' investment intentions dropped to a balance of -13 in the three months to May from -2 in the three months to February.

While the survey was completed before the new Conservative-Liberal Democrat coalition Government was formerly agreed and announced, the weaker level of business confidence and spending plans probably reflected retailers' concerns over new government spending cuts and tax rises as well as the still fragile economic recovery.

Other details of the survey show that a balance of +49 retailers increased their selling prices in the three months to May. That compares with +40 in the three months to February and is the highest level since +59 in the three months to May 2008. A balance of +50 retailers plan to raise prices in the coming three months, the survey shows.

"Although sales were quite weak, inflation remains high," said Michael Saunders, U.K. analyst for Citi Group Inc. "The balance for expected price hikes is the third-highest of the last 15 years. With the weak pound and large gains in import prices over the last 2-3 years, UK inflation is likely to remain sticky and well above target."

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