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U.K. Retail Sales Dip

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LONDON—The outlook for the U.K. economy darkened Thursday as retail sales fell more than expected in November and both manufacturers and mortgage lenders predicted weaker business.

The Office for National Statistics said sales volumes in non-food stores in November posted their sharpest monthly drop since February while sales in food stores were the weakest for six months. That suggests retailers are suffering as unemployment hits a 17-year high and consumers are squeezed by still-elevated inflation and low wage growth.

The volume of retail sales fell 0.4% in November from October and was 0.7% higher than in November last year, the ONS said. Although October's sales were stronger than initially reported and the data showed sales rising on a quarterly basis, economists said the sector could face a tough festive trading period.

"Anecdotal evidence suggests that the Christmas shopping period has started slowly and with consumer confidence at very low levels and wage growth continuing to lag behind the cost-of-living increases we see further downside risk for December retail sales," James Knightley, an economist at ING, said in a note.

A poll by the Bank of England did provide some relief on the outlook for prices. The survey of 1,853 people with pollsters GfK NOP found that on average they expected inflation to ease to 4.1% in the coming year and 3.4% in two years. The U.K.'s inflation rate was 4.8% in November.

In the industrial sector, the latest Confederation of British Industry survey showed manufacturers expect to cut production in the three months from December as a result of lower orders.

The business group's headline output balance, calculated by subtracting the percentage of manufacturers that expect output to rise over the next three months from those that are expecting a drop, was steady at minus 8 in December. But the balance measuring total orders fell to its lowest level since October last year and the export-orders balance sank to the weakest reading since January 2010.

"Conditions in the U.K. manufacturing sector remain difficult, with demand both at home and abroad subdued," Ian McCafferty, CBI chief economic adviser, said in a statement. "The weaker export performance no doubt reflects ongoing instability in the euro area, our biggest export market, and its knock-on impact on prospects for the real economy."

The latest report from the Council of Mortgage Lenders, which represents institutions that together undertake nearly all housing lending in the U.K., suggested the housing market will also remain under pressure. The CML forecast gross mortgage lending to fall to £133 billion (\$205.7 billion) in 2012 from £138 billion in 2011 and home repossessions to rise to 45,000 from 37,000 this year.

"As a by-product of sovereign debt worries, lenders face challenging conditions in wholesale funding markets, and these could have negative effects on the cost and availability of U.K. residential mortgages through some or all of next year," said Bob Pannell, the CML's chief economist.

— Ilona Billington, Paul Hannon and Jason Douglas contributed to this article.

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