Spending spree sets 11-year record

Shop sales soar in rush to beat VAT rise

By Colin Narbrough, Economics Correspondent

RETAIL sales leapt 3.7 per cent last month, the biggest monthly rise for more than 11 years.

But Treasury officials were quick to stress that the provisional data were "highly distorted" by consumers rushing to beat the April 1 rise in value-added tax, announced in the Budget, and taking advantage of extra shopping days over Easter.

City economists largely dismissed the surprise surge in volume sales, seeing it as a one-off event and finding little underlying change in consumer spending. Most said talk of a shopping recovery was premature.

Government hopes of the economy starting to recover this summer rest on consumers regaining sufficient confidence to lead the way out of recession. But most economic pointers suggest the recession has some way to go.

The March rise in retail sales was the biggest since a 7 per cent jump in June 1979, when consumers went on a shopping spree before a near-doubling of VAT to 15 per cent.

Keith Skeoch, chief economist at James Capel, recalled that the June 1979 rise was followed in July by a 10 per cent fall. "The problem is one of stolen spending from the months ahead. The March rise will probably be more than reversed next month," he said.

In value terms, last month's retail sales totalled £12.2 billion, up 8 per cent on March last year. The forecasts had centred on a volume rise of 0.5 per cent, after a seasonally adjusted 0.1 per cent fall in February. Compared with March last year, sales were 2 per cent higher.

The latest Confederation of British Industry survey suggested only a modicum of growth in retail sales on a year-on-year basis.

Neil MacKinnon, chief economist at Yamaichi Securities, said: "The consumer has no incentive yet to go on a spending spree. The next set of figures is likely to show the March rise was just a one-off."

He said the VAT increase would prove to be a "big mistake", as it would dampen consumer spending.

In the first quarter of this year, volume sales were 0.9 per cent up on the final 1990 quarter, but still 0.6 per cent below the first quarter last year, despite the March surge.

Reversing the pattern seen during the recession so far, all sectors except food showed higher sales in March. Sales of household goods displayed particular strength.

Kevin Darlington, economist at UBS Phillips & Drew, said the data reflected improved consumer confidence since the end of the Gulf war and interest rate cuts. He expects consumer spending to start rising now. But Gerard Lyons, chief economist at DKB International, sees little to suggest a sustained recovery in consumer spending, as unemployment rises sharply and wages are squeezed.

● Employment will go on falling until spring 1993, with no return to growth in the numbers employed until 1994, said Business Strategies Limited, the labour market analyst. It predicts a rise of about 400,000 in unemployment.

Dollar at 16-month high against mark

By Our Economics Correspondent

THE dollar continued its advance, reaching a 16-month high against the mark in New York as the crushing defeat of Chancellor Helmut Kohl's Christian Democrats in German regional elections further undermined market sentiment for the mark.

Remarks from a Bundesbank official, saying the bank had no target rate exchange rate, combined with signs that the Group of Seven leading economies are in disarray over policy co-ordination to push the mark lower.

The apparent G-7 split fuelled speculation that there would be no central bank intervention to hold back the dollar before finance ministers and central bankers meet in Washington next weekend.

The mark plunged more than 3 pfennigs against the dollar, ending in London at DM1.7660. In New York, the dollar continued its advance before subsiding a little, finishing at DM1.7620.

Sterling stayed on the sidelines, gaining a little against the uncertain mark during the day, but easing back to close almost half a pfennig down at DM2.9882. Against the surging dollar it slumped 3.2 cents to $1.6930. The trade-weighted sterling index was 0.6 down at 91.6. Today's trade figures should give more guidance.

On the stock exchange, shares fell sharply and the FT-SE 100 index ended 29.3 points lower at 2,490.8, its lowest in three weeks.

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