

Retail Review - UK - June 2010

Report Price: £1695 / \$2593 / €1907



What is this report about?

The problems for retailers after the financial crisis of late 2008 proved relatively short-lived because of the massive cuts in interest rates. Trading over the last year has been much stronger, mainly because the Election put off any serious attempts to tackle the budget deficit. But now that we have a new government that believes it will last a full term and have seen the sovereign debt crises in Southern Europe, tough measures to cut the deficit can no longer be deferred.

We have already had the first round of spending cuts and the tax increases in the 'emergency' budget. Next will come higher interest rates, rising unemployment and, probably, weakness in the housing market and a switch by consumers from spending to saving.

What have we found out?

- Consumers were disappointed by the outcome of the election, but recognise that the tough budget was inevitable.
- They have been increasingly concerned about their finances for the last 18 months, apart from a brief spell over Christmas.
- The VAT increase, rising interest rates and spending cuts will make life very difficult for consumers, but the biggest impact will not be felt till 2011.
- Consumers most want to spend money on holidays and fashion. So these are likely to feel pressure as consumers cut back but be the first to benefit when the recovery eventually comes.
- Leisure and fashion have supplanted the home as the prime focus for spending.
- This change happened around 2006/07 during the peak of the consumer boom. It is a fundamental shift in attitudes and has not been affected by the onset of recession.

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