

## Inflation Hits Consumer Confidence as UK Economy Contracts

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The British Retail Consortium (BRC) reports that inflation has dented consumer confidence in July, coinciding with the U.K. economy contracting for the second month in a row. The persistent rise in prices, particularly for essentials like food, has tightened household budgets, casting a shadow over economic optimism.

Data from the BRC-Opinium survey shows consumer expectations for the economy over the next three months slumped to -33 in July, down from -28 in June. Confidence in personal finances also took a hit, dropping to -7 from -5 over the same period. Despite this gloom, shoppers remain cautiously optimistic about retail spending, with expectations rising to +3 from +2, and overall spending projections climbing to +16 from +12. Savings expectations also saw a modest uptick, moving to +3 from -4.

Helen Dickinson, CEO of the BRC, remarked in a recent interview: “With the UK economy shrinking for the second consecutive month, it’s no shock that consumer confidence has waned. Soaring inflation, especially for groceries, is squeezing household finances, driving up the cost of living.” She pointed to the Chancellor’s previous Budget, which hiked employment costs, as a key driver of retail inflation over the past nine months. Dickinson warned: “Further tax hikes in the next Budget could fuel inflation even more, forcing retailers to pass on higher prices to consumers.”

The retail sector faces mounting pressure as competition fails to curb price rises. Dickinson urged the government to reconsider its approach, suggesting that proposed business rates reforms could ease the burden on retailers and high streets, provided no store faces increased costs.

Recent data underscores the strain on households. The Asda Income Tracker reported that 40% of U.K. households saw their spending power shrink in June as inflation climbed to 3.6%. Low-income families bore the brunt, with their spending power growth plummeting by 8.1% year-on-year. Meanwhile, Worldpanel by Numerator revealed on 22 July that grocery bills could surge by £275 annually, with inflation reaching its highest level since January.

As the Labour government navigates these challenges, its fiscal policies face scrutiny. Retailers and consumers alike are bracing for tougher times unless decisive action is taken to address inflationary pressures and support economic recovery.