Tullett Prebon Research, a blog by Dr Tim Morgan

The big squeeze – retail, the economy and the surging cost of essentials

by Tim Morgan on February 20, 2013

- Today we are launching the monthly Tullettt Prebon UK Essentials Index - the real cost of living measured, exposing how the cost of non-discretionary purchases has continued to out-grow broader inflation indices.
- The cost of essentials rose 3.7% in 2012, much faster than CPI inflation (2.8%), whilst nominal growth in incomes rose just 1.6%. 2011 was even worse – the cost of essentials rose 7.8%.
- Numbers confirm that British High Street retailing is in very big trouble.

The recent succession of failures of prominent High Street names confirms, if confirmation were needed, that retailing in Britain is in very big trouble. The larger picture, of course, is that UK plc is in very big trouble as well. Successive official forecasts for economic growth have proved fanciful, and the government appears resigned to abject failure over its deficit and debt targets. The currency markets, meanwhile, seem to be witnessing the start of the reversal of “safe haven” flows into sterling.

A series of common factors link the local (retail) and the national (economic) slumps. Perhaps the most important of these links involves the consumer. Though there are other factors involved – including scarce, over-priced parking, extortionate business rates, high household indebtedness and the rise of e-commerce – one of the main reasons for the retail slump is simply that people have too little money to spend. The same problem has stymied official growth forecasts, too, since the consumption driver, upon which economists at the OBR (Office for Budget Responsibility) and elsewhere have placed so much faith, simply hasn’t happened.

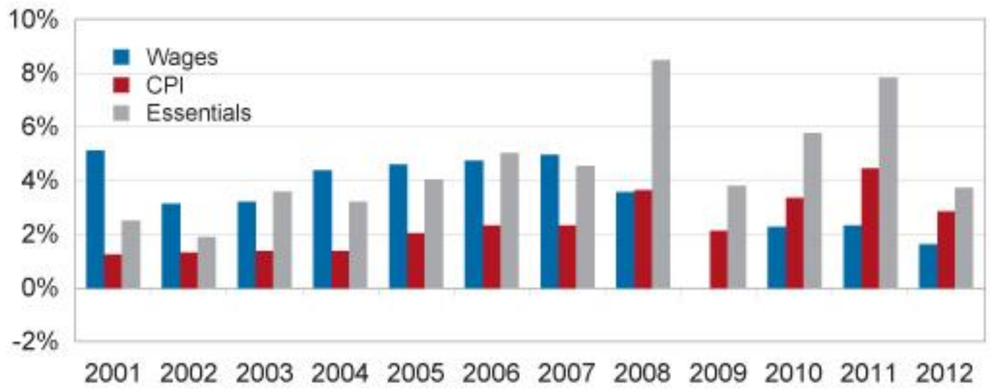
We know, of course, that real incomes have come under sustained pressure since the slump. In the period between 2007 and 2012, nominal wages increased by just under 10%, but prices, as measured by the CPI (Consumer Prices Index), rose by 17%, so real incomes declined by 6.3%.

I believe that a vital component is missing from this equation. CPI inflation may have risen by 17% since 2007, but the costs of a string of essential purchases have risen much more markedly. Comparing 2012 with 2007, we have seen sharp increases in the costs of vehicle tax and insurance (+88%), petrol (+56%), electricity and gas (+46%), bus and rail fares (+32%), food (+30%) and water charges (+24%). These and other unavoidable expenses have risen by much more than CPI (+17%), let alone nominal wages (+10%). Households, it seems, are being squeezed between the Scylla of stagnant incomes and the Charybdis of escalating essentials.

So important is this issue that we are launching the ***Tullettt Prebon UK Essentials Index***, which measures overall changes in the costs of: food, alcohol and tobacco; council tax, water charges and home insurance; electricity and gas; vehicle excise tax, insurance and fuel; and bus and train fares. This Index has risen sharply over the last decade, but its effects have been particularly pronounced since the slump, increasing by 33% since 2007. The rate of increase did fall markedly in 2012 – to 3.7%, compared with a truly scary 7.8% in 2011 – but it remains far ahead of either wage growth (1.6%) or CPI inflation (2.8%). In due course, we plan to publish an explanatory report, and we also intend to monitor our Essentials Index on a monthly basis.

Our main conclusion is that consumers are being squeezed by the steady escalation in the cost of essentials. Not only does this crimp discretionary incomes to the point where no expansion in consumer spending can be expected, but it also bears particularly heavily on pensioners and other low-income households. It is a critical missing component in the business, economic and political debate.

Tullett Prebon UK Essentials Index



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Wages	5.12	3.17	3.24	4.40	4.58	4.68	4.92	3.52	-0.04	2.21	2.36	1.59
CPI	1.18	1.27	1.36	1.34	2.04	2.30	2.35	3.63	2.12	3.34	4.45	2.80
Essentials	2.48	1.87	3.54	3.19	3.98	5.00	4.52	8.44	3.82	5.72	7.80	3.69