UK: Consumers tighten belts in face of GDP slump

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By David Milliken

LONDON (Reuters) - The scale of Britons' belt-tightening was laid bare on Tuesday by data showing record consumer credit repayments in August and a five-year high in households' savings ratio in the second quarter.

Official data confirmed the economy suffered its worst 12 months since modern records began in 1955, with output falling by 5.5 percent year-on-year in Q2.

Faced with a growing risk of unemployment, households reduced debt levels and increased savings -- as well as finding it harder to access cheap loan deals.

But economists focused on a more positive outlook ahead, with most expecting a hesitant return to GDP growth in the third quarter amid signs that the economy has passed its low-point.

The Confederation of British Industry's September retail survey reported the first sales growth since April -- which analysts had viewed as a blip caused by the late timing of Easter -- while August mortgage lending was much better than expected and its highest since February.

"The September CBI survey lifts hopes that retail sales are holding up pretty well after losing momentum in August. This is important to overall growth prospects given that consumer spending accounts for some 65 percent of GDP," said Howard Archer, economist at IHS Global Insight.

RECORD DEBT REPAYMENT

The positive news from the CBI came despite data from the Bank of England which showed consumers repaid a record net 309 million pounds of unsecured debt -- mostly credit card balances -- trumping the 259 million pound record set in July.

This chimed with figures from the Office for National Statistics which showed the household savings rate rose to 5.6 percent in Q2 from 3.9 percent in the first three months of the year, its highest since late 2003 and further evidence that the credit boom earlier in the decade is now long gone.

Nonetheless, BoE figures showed growing signs of a turnaround in mortgage finance -- a precondition for sustaining tentative rises in house prices, which boost consumer confidence and some types of retail spending.

The number of mortgage approvals slipped fractionally in August to 52,317 but remained close to July's upwardly-revised 52,404, the highest since April 2008. Net mortgage lending rose by 1.009 billion pounds, the biggest rise since February.

But evidence the Bank of England's 175 billion pound quantitative easing policy -- printing money to buy assets and boost the economy -- was increasing the broad money supply as intended, remained elusive.

The BoE's preferred measure rose just 0.2 percent in August after a 0.4 percent rise in July.

"There is still enough in this report to keep the MPC concerned about money and credit growth. And although we expect nominal GDP growth to recover in Q3, the current pace is still a far cry from the near 5 percent trend in nominal demand the MPC wants to see," said Allan Monks, UK economist at JP Morgan.

Q2 BLEAK BUT HOPE FOR Q3

New GDP estimates confirmed the broad picture of economic woe for the first half of 2009.

The economy shrank by 0.6 percent between April and June rather than 0.7 percent as earlier estimated, after construction output turned out to have been stronger than first thought due to public investment and infrastructure projects.

But from January to March the economy shrank by 2.5 percent, more than the previous 2.4 percent estimate after it transpired that the services sector had done worse.

As a result, the record 5.5 percent contraction in the 12 months to June remained unrevised.

"It changes nothing really. We care a bit more about what happened in Q3, and I think given the survey indicators and monthly data we can look forward to a reasonable positive in Q3," said Alan Clarke, UK economist at BNP Paribas.

Separately, the ONS released data showing a current account deficit of 11.424 billion pounds, the biggest since Q3 2007 and equivalent to 3.3 percent of GDP.

* For a graphic showing UK mortgage approvals and house prices, seehere

* For a graphic showing UK GDP and PMI data, seehere

(Additional reporting by Christina Fincher, Fiona Shaikh and Luke Baker, editing by Mike Peacock)