

UK interest rate cuts needed to spur discretionary spending

The Bank of England kept its bank rate unchanged at a 16-year high of 5.25% last month, with some policymakers saying their decision not to cut rates was "finely balanced".

"Customers are continuing to be cautious, particularly in areas of discretionary spending," Sainsbury's CEO Simon Roberts told reporters after updating on first quarter trading.

"Until we see sequential interest rate cuts, hopefully as soon as possible, I think that caution in the consumer is going to continue in those products that are more discretionary to buy," he said.

Last week, when Britain enjoyed a few days of hotter weather, Sainsbury's sold more fans and cooling equipment than it had sold in all of the rest of the year.

"It just shows that when the weather does turn, customers do want to buy into what they need to enjoy the summer," said Roberts.

Roberts said he wanted to see the urgent reform of business rates and the apprenticeship levy, a long-term plan for the UK food sector, stability and strong engagement between business and government.

SOURCE: <https://www.reuters.com>

QUESTIONS

1. Define the term 'consumer spending' [2]
2. Explain two factors which might affect consumer spending. [4]
3. Analyse how a cut in interest rate might affect a firm. [6]
4. Discuss whether or not consumers will benefit from a cut in interest rates. [8]