

UK Retail - 2013 Review

In this annual review of 2013 we provide the CI 5minute Boardroom Digest of UK consumer retail. Here we highlight key insights to the year. The following pages provide more detailed analysis of subsector performance, examine consumer behaviour trends and point to retail brand winners and losers over the year-end trading period. Additionally we provide the 'CI view of the future' for each subsector.

Within the UK economy

As a fundamental element of the UK economy consumer retail performed well in 2013, when it represented over 11.0% of UK GDP (inc. wholesale to Q3) and outperformed UK GDP as a whole.

Retail overview

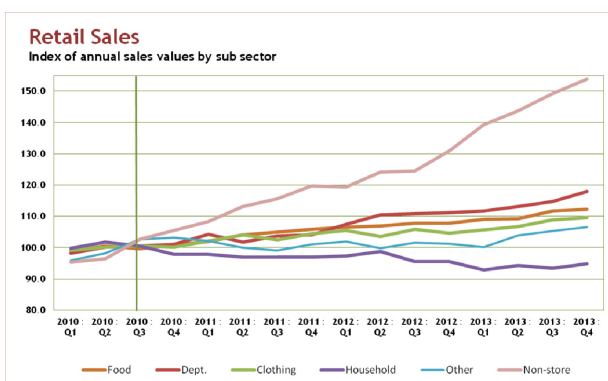
The sector was worth £320.9 billion in 2013

- growth of 3.4% value and 2.1% volume
- prior year growth 2.8% value and 1.4% volume
- price inflation accounted for 1.3%.
- trending upward in the 2nd half of 2013

The sectors which make up UK retail all added growth in value in 2013

	Growth	Share
• Food	3.0%	46.8%
• Non-food	1.8%	45.9%
• Non-store	17.5%	7.3%

Non-food comprises four further sub-sectors, as charted below. These are detailed on the following pages.



Note:- all figures quoted in CI exclude auto fuel.

Internet growth slowing

Growth velocity of internet retail is slowing

- down from 19.7% in 2010 to 15.2% in 2013
- Share of total retail is growing.
- up from 7.3% in 2010 to 10.4% in 2013

Shopping visits

As consumer use of the internet continues to grow, the number of visits they make to stores reduce, by a further 3.8% in 2013.

Sentiment of 2013 retailer statements

During 2013 CI reviewed a total of 219 individual retailer statements, with some retailers announcing more than once during the year. Of those reviewed 75.8% were positive, compared with 67.9% in 2012, reflecting the improvement in UK retail.

Total 2013 reviewed retailer trading announcements

Subsector	Quantity			
	Total	Positive	Negative	
	Qty	Qty	Qty	%
Food	40	28	12	30.0%
Variety	24	17	7	29.2%
Fashion	55	44	11	20.0%
Home	27	14	13	48.1%
ONS - other	32	23	9	28.1%
Non-store	41	40	1	2.4%
Total	219	166	53	24.2%

'Prize for daftness'

Arguably, the most absurd retail initiative in 2013 was Morrison's decision, to enter on-line food retailing. Why does CI say that?

- *no retailer has made it profitable*, given the low food margins coupled with increased on-costs.
- not surprising, Aldi and Lidl have avoided it.
- Brands already operating in this sector have resorted to charging increased delivery.

How can Morrison's be any different?

2013 in numbers

UK Retail (all - excluding auto fuel)

The value of seasonally adjusted retail sales increased to £320.9 billion in 2013, representing growth of 3.4% compared with 2012. This is a significant increase compared with 2.8% in the prior year. However price inflation accounted for 1.3% of this growth, leaving volume 2.1% ahead.

Food

Food volume growth was flat in 2013, down 0.1% compared with 2012. However sales value grew by 3.0% due to substantial input price inflation (3.1%) that was passed on to the consumer by the food retailers. Consumers continue to remain focused on reducing food waste, leaving volumes stagnant.

The top performing food brands were:-

- Majestic Wine up 2.8% (lfl) - 10 wks to 6 Jan.
- Waitrose up 6.8% - 26 wks to 25 Jan.
- Greggs up 3.1% - 5 wks to 4 Jan.

The worst food sector performance came from:-

- Morrisons down 5.5% (lfl) - 6 wks to 5 Jan.

CI's future view:- more flat volume growth.

Non-food

In 2013, the non-food subsector posted growth of 1.8% in value and 2.0% in volume compared with 2012. Selling prices were flat compared with the prior year, decreasing by just 0.2% despite stock sale clearance promotions throughout the year.

Department stores (ONS - variety)

The department store sector was worth £29.4 billion in 2013, growth of 4.1% compared to 2012. The sector slightly increased its share of UK retail from 9.1% last time to 9.2% in 2013.

The top performing brands were:-

- John Lewis up 8.0% - 26 wks to 25 Jan.
- HoF up 7.3% (lfl) - 3 wks to 28 Dec.
- Argos up 3.8% - 18 wks to 4 Jan.

The worst performance came from:-

- M&S (UK) down 2.1% (lfl) - 13 wks 28 Dec.

CI's future view:- more strong growth for this aspirational sector. The internet retail channel will continue to be a 'growth jewel' for John Lewis, HoF and M&S.

Retail sales growth - seasonally adjusted

Value - growth % on prior year				Volume - growth % on prior year			
Quarter	Food	Non Food	All	Quarter	Food	Non Food	All
2012							
Q1	4.5	1.4	3.4	Q1	0.5	0.4	1.0
Q2	2.8	1.7	2.7	Q2	-0.4	1.7	1.2
Q3	2.7	2.7	3.0	Q3	0.6	3.2	2.4
Q4	1.9	1.1	2.0	Q4	-1.0	1.7	1.1
2013							
Q1	2.2	-0.7	1.7	Q1	-0.6	0.0	0.8
Q2	2.1	1.6	2.8	Q2	-1.2	1.7	1.3
Q3	3.6	2.2	4.0	Q3	0.2	2.1	2.5
Q4	4.0	4.0	4.9	Q4	1.2	4.1	3.7

Source ONS - excluding auto fuel

Fashion

The fashion sector was worth £43.7 billion in 2013, growth of only 2.6% compared to 2012. The sector lost share of UK retail from 13.7% last time to 13.6% in 2013.

The top performing brands were:-

- Supergroup up 18.2% - 13 wks to 26 Jan.
- Ted Baker up 24.4% - 13 wks to 9 Nov.
- Primark up 12.0% - 16 wks to 4 Jan.

The worst performance came from:-

- Mulberry down 3.0% - 17 wks to 25 Jan.

CI's future view:- the sector is over supplied by too many brands, combined with strong growth in the internet retail channel placing pressure on costs. The strong will prosper but more weak brands will fail.

Household goods

The household goods sector was worth £29.1 billion in 2013, negative growth of -3.0% compared to 2012, the fourth backward year. Naturally the sector lost share of UK retail from 9.7% in 2012 to 9.1% in 2013.

The top performing retail brand was:-

- Dixons (UK) up 5.0% - 9 wks to 4 Jan.

The worst performance came from:-

- Dunelm down 0.9% - 26 wks to 28 Dec

CI's future view:- despite central government initiatives driving residential property sales, a fundamental precursor to growth, we don't see 2014 responding with increased demand for HH goods.



Other stores (ONS miscellaneous)

After two poor years 'other' stores saw a small resurgence in 2013, up 2.8% in value, making the sector worth £45.2 million.

However due to the strength of growth elsewhere the sector lost share of UK retail down from 14.2% to 14.1%.

The top performing brands were:-

- Halfords up 5.9% (lfl) - 15 wks to 10 Jan.
- Carphone WH up 3.6% (lfl) - 26 wks to 28 Sep.

The worst performing brand was:-

- WH Smith down 6.0% 10 wks to 9 Nov.

CI's future view:- a return to normal levels of growth 3.0 to 3.5% pa.

Non-store retail (catalogue & sole internet)

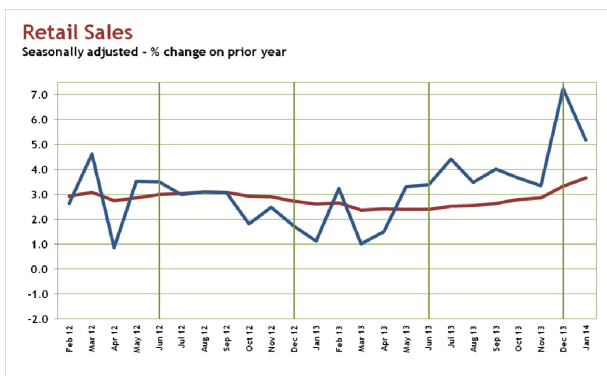
Non-store retail, which comprises catalogue, sole-internet, and market trading, was worth £23.3 billion 2013, a whopping increase of 17.5% compared with 2012. Driven by the impetus derived from the internet channel the sector increased share of UK retail from 6.4% to 7.3%.

The top performing brands were:-

- HoF online up 57.7% - 3 wks to 28 Dec.
- ASOS (UK) up 37.0% - 17 wks to 31 Dec.
- M&S online up 22.7% - 13 wks to 28 Dec.

There was no poor performer in this sector.

CI's future view:- more strong growth for this direct-to-consumer channel. Underpinned by continued strength of internet channel.



Internet channel

Annual growth and participation				
	2010	2011	2012	2013
Subsector	£bn	£bn	£bn	£bn
Total Retail Sales	292.3	302.8	310.8	320.9
Online Retail Sales	21.3	25.1	29.0	33.4
Annual growth	19.7%	18.1%	15.3%	15.2%
Participation	7.3%	8.3%	9.3%	10.4%

Source ONS - excluding auto fuel

Retail sales via the internet were £33.4 billion in 2013 compared with £29.0 billion in 2012.

- growth of 15.2%,
- accounting for 10.4% of UK retail.

Albeit still extraordinary, the growth of this burgeoning retail channel is slowing.

CI warns:- growth through this channel is at the expense of store-based retail, it is not adding to UK retail. And that whilst certain retailers are gaining share in the online retail market, it will be at the expense of store-based trading for somebody.

Shopping visits

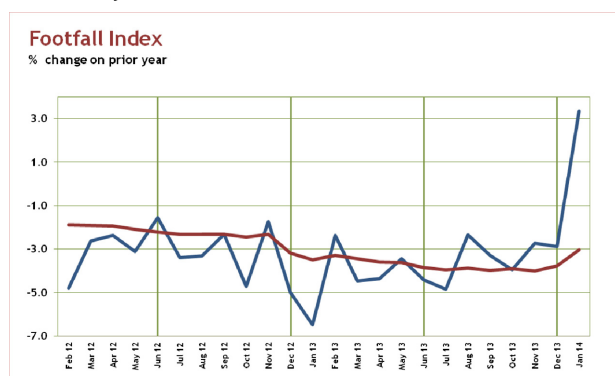
Whilst internet retail continued to increase its share of the overall UK retail in 2013, consumer shopping visits decreased commensurately.

Compared to 2012 visits last year were 3.8% lower. The annual drop off in shopping visits in recent years looks remarkable similar, albeit contrary in direction, to the growth of internet retail.

Shopping visits annual growth on prior year:-

- 2011 down 1.3%
- 2012 down 3.2%
- 2013 down 3.8%

The only redeeming factor is the decline must cease eventually.

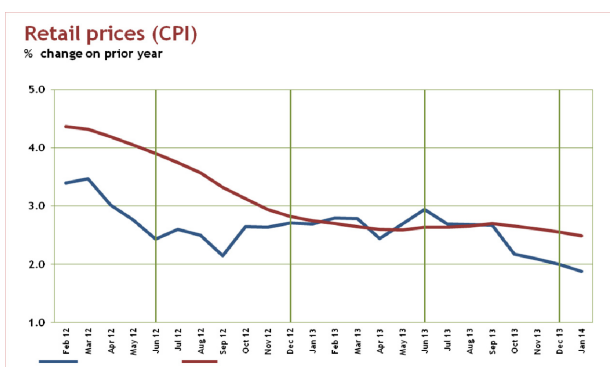


Consumer price inflation

The annual headline rate of consumer price inflation (CPI) was 2.0% in December 2013, down from 2.7% in December 2012 and 4.8% in 2011.

Key retail sectors changed in the month:-

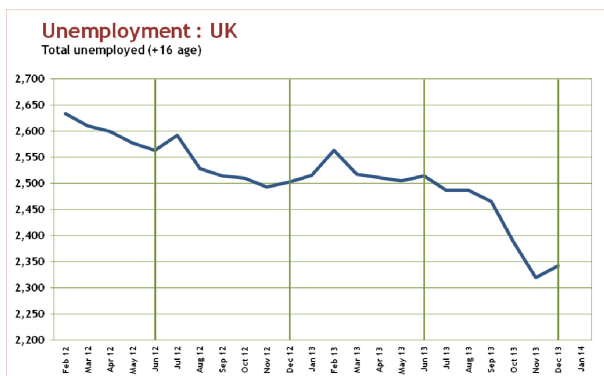
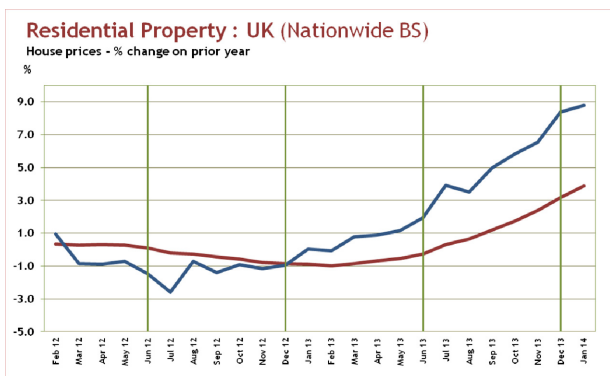
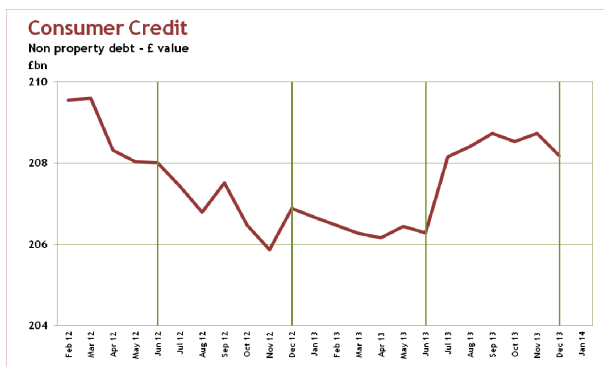
- Food down from 3.8% to 1.9%.
- Clothing and footwear up from 0.8% to 1.6%
- Furniture & HH goods up from 0.9% to 1.4%
- Alcohol and tobacco down from 6.0% to 5.8%.



Consumer credit (non-property)

Consumer non-property secured borrowing increased in 2013, ending the year at £208.1 billion in December. An increase of £1.3 billion (0.6%) compared to December 2012.

CI's future view:- Having reduced their exposure to this form of short-term debt, since its peak of £236.6 billion in September 2008, the UK consumer now seems a little more relaxed in taking on an increased debt burden. Or is it forced being forced to do so as the household account becomes more strained?



Residential

The average UK house price ended 2013 at £175,826 up £13,564 (8.4%) compared to December 2012.

UK house prices are still £10,218 (5.5%) lower than the high reached in October 2007. However, prices are now £28,080 (19.0%) higher than the low point of February 2009.

This important driver of consumer confidence with a virtually unbroken run of monthly increases through 2013 has continued the upward trend into 2014. This will drive both consumer confidence and retail demand in the subdued household goods sector.

Unemployment

The ONS reported in February 2014 that unemployment for the three month period to December 2013 had increased by 21,199 compared with the three months to November. Reversing the downward trends of the prior three months. Unemployment now stands at 2.34 million which is 159,025 lower than a year earlier.

The rate of unemployment was 7.2%, compared with 7.8% (2.5m) in December 2012. Compared to the high reached in January 2012 there are 343,143 fewer unemployed people in the UK.



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