

UK Retail - 2015 Review

The performance of UK retail in 2015 can be characterised as lack lustre, especially when compared to the resurgence seen in 2014. Overall the UK retail sector contracted in value in comparison to the prior year, albeit underlying price deflation of 2.3% saw volumes increase.

Powered by Internet retail, the direct channel continued to register strong growth but at the expense of store visits which fell for the eighth consecutive year.

Sales of automotive fuel are excluded throughout this review.

Retail overview

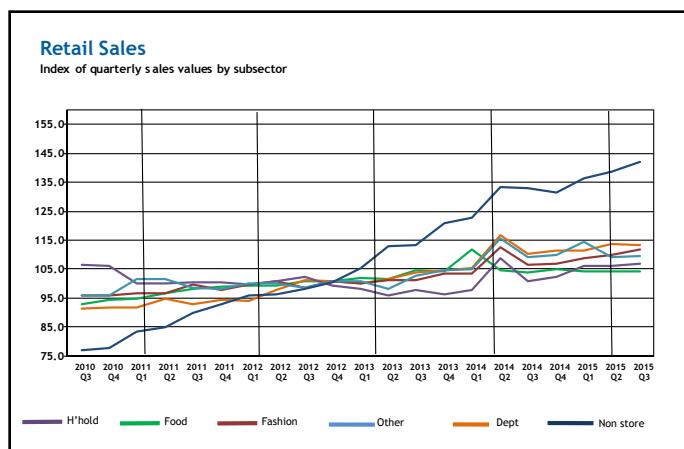
UK retail was worth £340.3 billion in 2015. Key factors were:-

- a 0.1% decrease in value on 2014
- volume grew by 2.2%
- underlying selling price deflation of 2.3%
- conversely in 2014 value & volume grew by 6.1% & 6.3% respectively.

The three major sectors which make up UK retail performed quite disparately:

	Growth	Share (by value)
Food	-2.0%	44.6%
Non-food	0.5%	46.9%
Non-store	7.4%	8.6%

Non-food comprises four subsectors, shown in this chart, against food and non-store (direct).



Internet channel - growth slowing

The Internet retail channel continues to increase its share of UK retail, however the rate of growth is slowing.

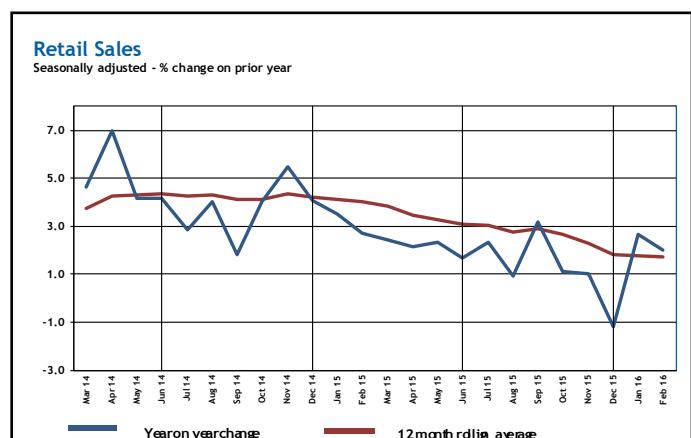
	2013	2014	2015
Annual growth	15.5%	15.3%	10.5%
Share of UK retail	10.4%	11.3%	12.5%

Note:- Internet retail is a channel encompassing goods from all retail subsectors.

Declining growth trend

The chart shows monthly retail growth for 24 months to February 2016, where the trend is declining. Q4 of 2015 fell to only 0.1% value growth on 2014, due to a particularly poor December.

2015	Q1	Q2	Q3	Q4
Growth %	-4.5	2.0	2.2	0.1



Sentiment of 2015 retailer statements

During 2015 CI reviewed 187 individual retailer statements. Some were retailers who published more than once during the year.

Of those reviewed 78.1% were positive, compared with 71.5% in 2014. The food sector performed poorly with 50% of all statements reflecting negative growth. A more detailed analysis follows.

Subsector	Total	Positive		Negative	
	Qty	Qty	Qty	%	
Food	34	17	17	50.0%	
Variety	16	10	6	37.5%	
Fashion	44	38	6	13.6%	
Home	23	22	1	4.3%	
Other	38	29	9	23.7%	
Non-Store	32	30	2	6.3%	
Total	187	146	41	21.9%	

2015 Subsector Analysis

The three headline retail sectors, Food, Non-food and Non-store, are analysed below along with the four subsectors which comprise Non-food: Department Stores, Fashion, Household Goods and Other Stores. Internet retail is also examined - a channel through which all retail subsectors trade.

UK Retail (excluding automotive fuel)

The value of seasonally adjusted retail sales was £340.3 billion in 2015 compared to £340.5 billion in 2014, a decrease 0.1% on the year.

Sales volumes increased by 2.2% meaning underlying selling price deflation was 2.3%

Retail Sales Data - Growth % on prior year

Period	Value			Volume		
	Food	Non-food	All	Food	Non-food	All
2014						
Q1	1.8	6.2	4.4	-0.3	6.8	3.8
Q2	2.8	5.3	5.0	2.3	5.5	4.8
Q3	-0.5	5.2	2.8	-0.2	6.2	3.4
Q4	0.9	7.1	4.5	1.4	8.1	5.4
Total	1.3	6.0	4.2	0.8	6.6	4.4
2015						
Q1	-6.8	-3.5	-4.5	-4.5	-2.0	-2.4
Q2	-0.3	3.4	2.0	1.5	5.6	4.1
Q3	0.1	2.7	2.2	2.3	4.9	4.6
Q4	-0.7	-0.2	0.1	2.1	1.6	2.7
Total	-2.0	0.5	-0.1	0.3	2.5	2.2

Food

Food was the poorest performer of the three headline retail sectors with a decline in value of 2.0% and only minimal volume growth of 0.3%. This was due to food sector price deflation of 2.3%, as the major food retailers fought to regain share lost to the Value Market entrants. Recent trading statements reflect this.

Relative positive performance:-

- M&S (food) up 0.4% (lfl) - 13 wks to 26 Dec
- Morrisons up 0.2% (lfl) - 9 wks to 3 Jan

Poor performance:-

- Asda down 4.5% (lfl) - 13 wks 9 Jan
- Tesco (UK) down 1.5% (lfl) - 13 wks to 9 Jan

The future holds:- sharply competitive market with more selling price deflation from Value traders.

Non-food

After exceptional growth in 2014 (7.9%) the non-food sector saw growth slow to just 0.5% in 2015. With price deflation of 2.0% driving selling prices down, volume growth was 2.5%.

Department stores (variety stores)

The department store sector was worth £32.6 billion in 2015, growth of 2.5% compared to 2014. The sector slightly increased its share of UK retail from 9.4% to 9.6% in 2015.

Good performance:-

- Debenhams up 1.9% - 19 wks to 9 Jan

Poor performance:-

- M&S UK retail down 2.5% (lfl) - 13 wks 26 Dec

The future holds:- growth is attainable in this aspirational sector, with the internet retail channel a key driver of growth for John Lewis and House of Fraser.

Fashion

The fashion sector was worth £47.2 billion in 2015, growth of 1.6% compared to 2014. The sector improved its share of UK retail from 13.6% to 13.9% in 2015.

Good performance:-

- JD Sports up 10.6% - 5 wks to 2 Jan
- Primark up 7.0% - 16 wks to 2 Jan
- New Look up 5.6% - 39 wks to 26 Dec
- Ted Baker up 20.5% - 13 wks to 14 Nov

Poor performance:-

- No fashion retailer issued a downbeat trading statement in Q4 2015.

The future holds:- more success for this sector as consumers continue to take on more debt and a well developed online presence pushes growth.

Household goods

The household goods sector was worth £32.3 billion in 2015, posting growth of 2.9% and to some extent reversing the declines of years prior to 2014. This subsector's share of UK retail increased to 9.5% in 2015 against 9.2% in the previous year.

Good performance:-

- Carpetright up 3.7% (lfl) 26 wks to 31 Oct
- Topps Tiles up 4.4% (lfl) 13 wks to 2 Jan

Poor performance:-

No downbeat trading statements issued in Q4 2015.

The future holds:- the continued strength of the property sector will drive demand for household goods.



Other stores (ONS miscellaneous)

The 'other' stores sector was worth £47.7 billion in 2015 a decline of -3.2%, the poorest performer of the non-food sector. Consequently the sector lost share of UK retail - down from 14.5% to 14.0%

Good performance:-

- Superdrug up 6.8% (lfl) - 5 wks to 2 Jan
- Pets at Home up 2.2% (lfl) - 12 wks to 31 Dec

Poor performance:-

- Game Group down 11.4% 21 wks to 19 Dec
- Poundland down 2.8% 26 wks to 27 Sep

The future holds:- difficult trading as a lack of new technology impacts consumersí desire to upgrade.

Non-store (catalogue & pure play internet)

Non-store retail, comprising catalogue, online pure play and market trading, was worth £28.7 billion in 2015, an increase of 7.4% compared with 2014 again outstripping all other sectors. As non-store retail continues to enjoy the impetus of Internet growth its share of UK retail increased from 7.9% to 8.4%.

Good performance:-

- ASOS UK up 25.0% - 16 wks to 11 Dec
- N. Brown up 4.1% - 18 wks to 2 Jan
- Boohoo up 45% - 16 wks to 31 Dec

Poor performance:-

No downbeat trading statements issue in Q4 2015.

The future holds:- continued growth for this direct-to-consumer sector, assisted by continued strength of Internet channel.

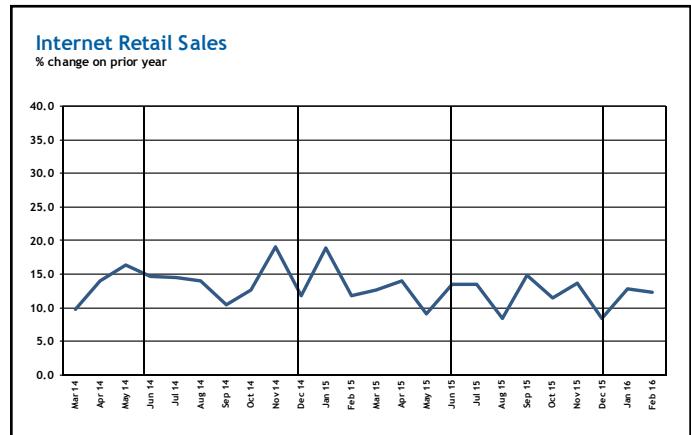
Internet Channel

Retail sales via the Internet were £42.6 billion in 2015 compared with £38.6 billion in 2014, This represented:-

- growth of 10.5%
- 12.5% of total UK retail

Annual growth and participation					
Subsector	2011 £bn	2012 £bn	2013 £bn	2014 £bn	2015 £bn
Total Retail Sales	302.4	310.8	320.8	340.5	340.3
Online Retail Sales	25.1	29.0	33.5	38.6	42.6
Annual growth	18.1%	15.3%	15.5%	15.3%	10.5%
Participation	8.3%	9.3%	10.4%	11.3%	12.5%

Although growth of the internet channel remained in double digits in 2015, it is slowing from peaks of almost 20% in earlier years.



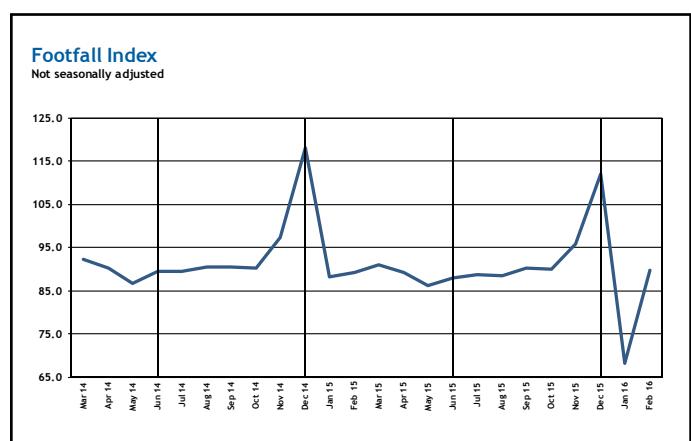
Growth through this channel is at the expense of in-store sales; it is not adding to total UK retail. Whilst some retailers are gaining share in the online retail market, it will be at the expense of store-based trading for both themselves and others.

Shopping visits

As Internet retail again increased its share of the overall UK retail in 2015, consumer shopping visits continued to fall. Compared to 2014 visits were 1.5% lower.

Annual store footfall has fallen (year-on-year) for the fifth consecutive year.

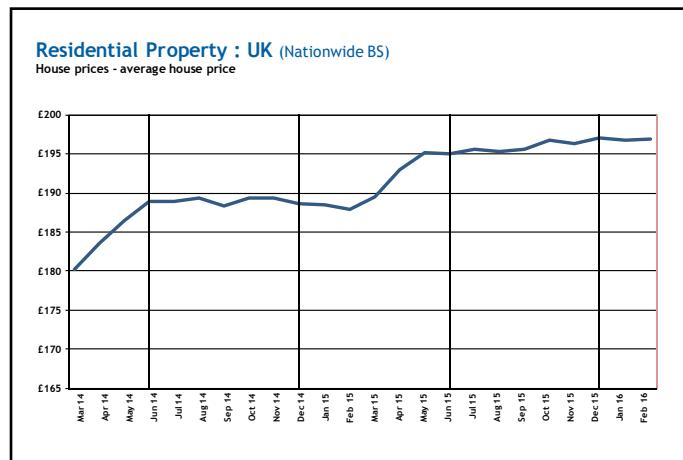
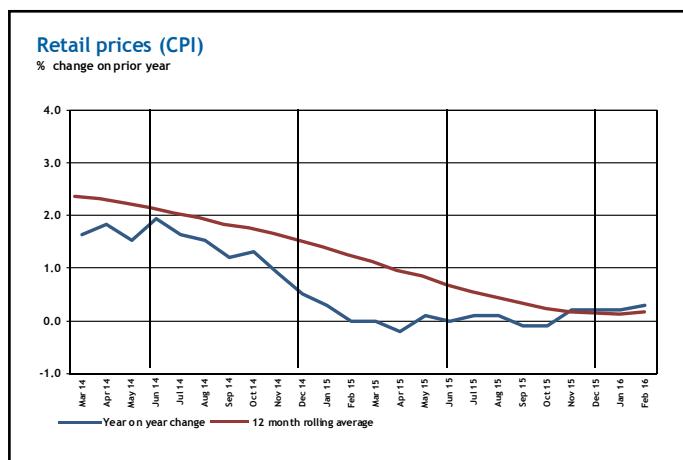
- 2011 down 1.3%
- 2012 down 3.2%
- 2013 down 3.8%
- 2014 down 0.6%
- 2015 down 1.5%



Consumer price inflation

The annual headline rate of consumer price inflation (CPI) was 0.2% as at December 2015, down from 0.5% on the prior year. Movements in key retail sectors were:-

- Food down from -1.7% to -2.9%
- Clothing /footwear unchanged at -0.3%
- Furniture & HH goods down from 0.2% to -0.2%
- Alcohol and tobacco down from 5.0% to 0.3%



Residential property

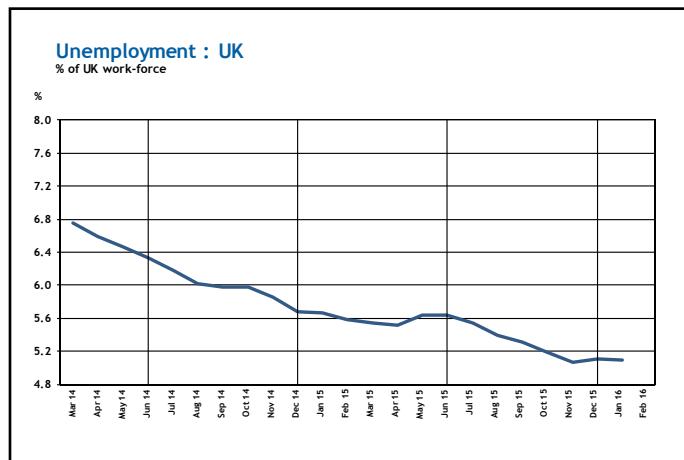
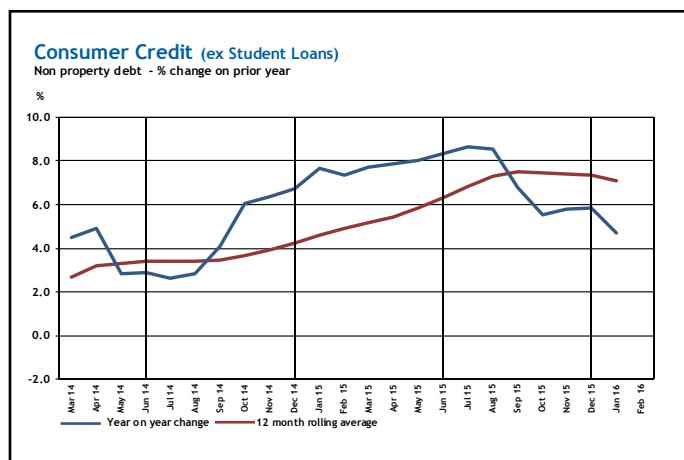
The average UK house price ended 2015 at £196,999 up £8,553 (4.5%) compared to a year earlier. UK house prices have now eclipsed the high reached in October 2007, standing £10,955 higher. Compared to the low point of February 2009 prices have improved significantly - by £49,553 (33.3%).

This important aspect of UK consumer confidence will drive both consumer confidence and retail demand in the forthcoming year.

Consumer credit (non-property/ex student loans)

Consumers increased their indebtedness on non-property borrowing in 2015, ending the year at £178.3 billion - a significant increase of £10.4 billion, which was 5.6% up on a year earlier.

Having reduced their exposure to this form of short-term debt, since its recent peak of £188.9 billion in 2010, UK consumers appear to be content to see it increase at an accelerating rate.



Unemployment

The level of UK unemployment decreased by a further 172,367 during 2015, ending the year at 1.689 million people unemployed.

This is a rate of 5.1% unemployed, the lowest for over 10 years and compares to 5.7% a year earlier.

Compared to the high reached in November 2011 there were 1,023,797 fewer people unemployed in the UK, by 2015 year end.