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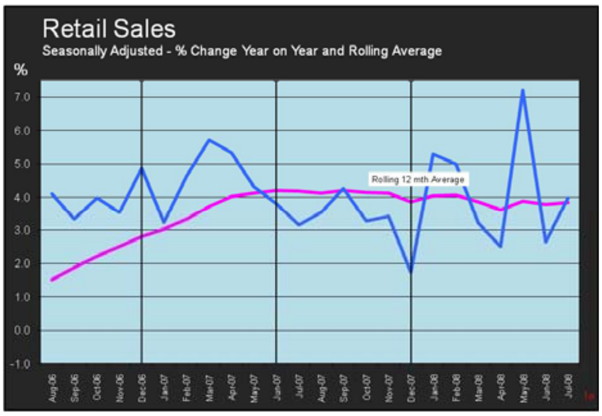
Non Food Retail Sector endangered by “negative differential inflation” while Food Retailers “enjoy” growth from price inflation



Retail Sales Data seasonally adjusted

	Value growth			Volume Growth		
	Food	Non Food	All	Food	Non Food	All
	% on Prior Year			% on Prior Year		
Jan	5.2	5.1	5.3	2.2	8.3	6.3
Feb	6.1	3.6	5.0	3.3	5.9	5.4
Mar	4.7	1.1	3.2	2.0	4.3	4.3
Apr	3.8	0.6	2.5	1.0	3.9	3.5
May	8.9	6.5	7.2	4.9	9.5	7.5
Jun	5.5	-0.5	2.7	1.1	1.6	2.4
Jul	7.3	1.1	4.0	1.4	2.5	2.6

There has been much agitated debate regarding the validity of the July ONS retail sales figures (4.0% up on 2007 seasonally adjusted) compared to those published by the British Retail Consortium (up 1.7%). In last months overview we did state that looking forward to the July numbers it should be expected that that they would look OK, this due to:

- Last year, July 2007 was only 3% up on 2006, the lowest performing month of the summer, hence a easier comparison.
- The weather in July 2008 was summer sunshine, an improvement on June and compared to nationwide flooding in July 2007.
- Retailers started summer sales early, discounting across broader product ranges and cut deeper earlier, encouraging spending.

The ONS numbers bear out this prediction.

Conclusion; the ONS and BRC numbers are not derived from the same basket of retailers and whilst both may be accurate based on their respective samples, overall the ONS trends are more believable. While values are struggling in the Non Food sector it is unlikely that volumes are negative, considering the above, as would be the case if the BRC numbers were indicative.

Looking deeper into the ONS numbers we can see the Food and Non Food sectors of retailing continuing to experience very different trading dynamics.

Food sector:-

- Worth £120 billion in the month.
- Realised growth on 2007 of 7.3% in value
- But only 1.4% in volume growth.
- The value growth being driven by the continued high levels of inflation from oil, rice, wheat and dairy. Grouped together Energy, Food and Drink rose by 12% in the month, the highest level since 1980.
- The comment in the TNS grocery market share survey is telling:-

“Total Grocers grew turnover by 7.2% compared with last year which is clearly better than many non-grocery sectors although this apparent buoyancy is largely reflecting inflation with volumes effectively static.”

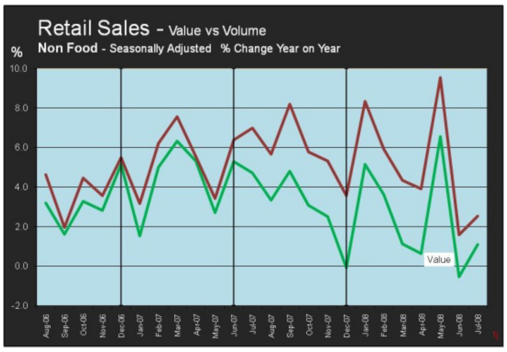
- ***Year on year value growth at brand level was:-***
- ***Aldi 19.8% / Lidl 12.3% / Iceland 14.4% compared to Tesco 6.5% / Sainsbury 5.3% / Waitrose 4.0%***

- When it comes to food, clearly the consumer is following the price!

Non Food sector:-

- Worth £146 billion in the month.
- Value growth on 2007 only 1.1%
- Volume 2.5%, clearly driven by discounting.
- The underlying trend shown in this chart where a year ago value and volume were tacking together. Since mid 2007 value growth has been around half that of volume.

- This is leading to negative differential inflation:-
  - ***costs are rising***
  - ***selling prices are falling.***



We will need to wait and see how Autumn Winter 2007 unfolds, but there are signs that trading is going to be very tough, particularly in the Non Food Sector.

Consumer Indicators - trends which influence and derive from consumer behaviour

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