

## Retail Sales in 2008 – getting behind the numbers

Annual retail sales in the UK total £262 billion, account for 20% of the UK economy, 8% of GDP and employ 2.9 million people, 11% of the workforce.

On the face of it the retail sales growth performance of 2008 has been reasonable and one might even say better than to be expected in light of the UK and global economic downturn which has blighted consumer confidence.

September, the most recent month available at the time of writing, delivered 3% growth in value compared to 2007, as reported by the Office of National Statistics.

Over the last 15 years of benign economic climate, retail sales have typically grown in value on the prior year by around 3 to 4%, nicely keeping pace with cost inflation. However when one looks deeper into the 2008 performance a more interesting trend is apparent. This becomes evident when the Food and Non Food Sectors are viewed separately by value and volume performance.

The table shows retail sales in the first three quarters to September 2008 achieving an average monthly value growth of 4%, compared to 3% in September. However there is a wide disparity between Food and Non Food sectors and value and volume performance.

<b>Retail Sales Data - seasonally adjusted</b> <small>Source ONS</small>						
	<b>Value growth</b>			<b>Volume Growth</b>		
	<b>Food</b>	<b>Non Food</b>	<b>All</b>	<b>Food</b>	<b>Non Food</b>	<b>All</b>
	<small>% on Prior Year</small>			<small>% on Prior Year</small>		
<b>Jan</b>	5.2	5.1	5.3	2.2	8.3	6.3
<b>Feb</b>	6.1	3.6	5.0	3.3	5.9	5.4
<b>Mar</b>	4.5	1.2	3.1	2.4	4.4	4.2
<b>Apr</b>	3.7	0.6	2.3	1.6	3.9	3.3
<b>May</b>	8.6	6.5	7.0	1.0	9.7	7.3
<b>Jun</b>	6.1	-0.8	2.7	1.4	1.4	2.3
<b>Jul</b>	7.3	1.1	3.9	1.3	2.7	2.7
<b>Aug</b>	5.6	2.4	4.0	-0.2	4.9	3.4
<b>Sep</b>	5.4	0.7	3.0	-0.2	2.7	2.2

### Food Sector

The UK Food Sector is worth £120 billion annually and represents 45% of total retail sales. It is defined by the ONS as “retailers selling predominantly food”, so does include some non food products like clothing and electrics sold through supermarkets such as Tesco and Asda.

Volume growth in the food sector has been declining since the beginning of the year.

<b>Growth on 2007</b>	<b>Volume</b>	<b>Value</b>
Q1	2.3%	5.1%
Q2	2.1%	6.1%
Q3	0.2%	6.1%

In contrast value growth has been strident to say the least. The cause for this disparity has been inflation in food, fuelled mainly by commodity prices; wheat, rice and of course oil which peaked at \$147 per barrel in mid 2008 and has now fallen back to less than half the peak at \$65.

In simple terms food retailers have “enjoyed the benefit” of inflation whilst shipping less volume through their systems and hence keeping costs down.

**Non Food Sector**

The UK Non Food Sector is worth £144 billion annually and represents 55% of total retail sales. It is defined by the ONS as “all retailers except those selling predominantly food”.

Here we see the reverse trend to that of Food, in that both value and volume growth have declined since the beginning of the year, but with volume significantly outstripping value.

Growth on 2007	Volume	Value
Q1	6.1%	3.3%
Q2	4.8%	1.9%
Q3	3.3%	1.3%

Source Office of National Statistics



The cause is retailer’s price discounting to drive volume, which is having the impact of costing more to sell more, but at lower prices. This is leading toward reduced margins and negative differential inflation between costs and sales. It remains to be seen how much this is impacting the Non Food Sector P&L and balance sheet.

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