

Sector Snapshot

Category overview

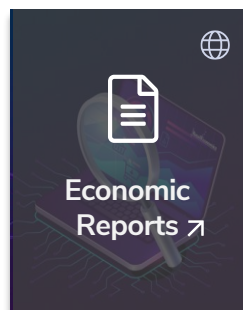
Monthly



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Food & Grocery Sales

- Food & Grocery sales rose 4.2% YoY in September, according to the Retail Economics Retail Sales Index (value, non-seasonally adjusted).
- Growth was driven by food prices rising at their fastest annual rate since 1980, which has seen consumers become more price conscious, turning to value, own-brand and frozen ranges to stretch budgets.
- In volume terms, Food & Grocery sales fell by 4.6% YoY in September.













Inflation nuances

- Data shows the increase in price for low-cost and staple items is greater than the overall rate of food inflation.
- Prices of the cheapest product ranges rose 14.2% YoY in September, compared to a 8.4% rise for the most premium items.
- With inflation rising quicker across lower price points, traditional coping strategies such as trading down to cheaper own label brands will have limited benefit, particularly for low income households who already face higher rates of inflation.

Online performance

- Online Food sales have been in decline for the last 12 months, with sales down 10.5% YoY in September, as pandemic habits unwind.
- However, on a monthly basis, online sales picked up slightly as inflation pushed up the value of spending. Online accounted for 8.5% of total Food sales, up from 8.3% in August.

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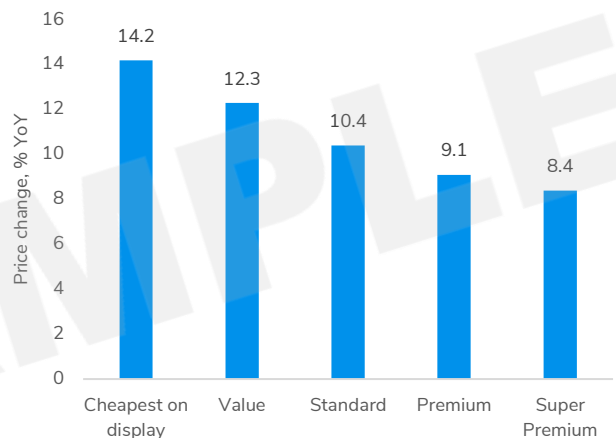
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Food sector
Year-on-year growth
+4.2%

Sector outlook

- Consumers are expected to further reign in their spending over the Autumn months, as shoppers return from summer holidays and prioritise essentials. As cost of living pressures become more acute, many consumers are likely to cut back on socialising and dining out.
- This presents opportunities for the grocers as shoppers seek to treat themselves at home instead. Retail Economics forecasts Food & Grocery sales to rise YoY in 2022.

Rising cost of living accelerates shift to discounters



Source: IRI, Retail Economics



Clothing & Footwear Sales

- Clothing and Footwear sales increased by 3.2% and 7.2% YoY respectively in September, according to the Retail Economics Retail Sales Index (value, non-seasonally adjusted).
- In volume terms (excluding inflation), Clothing retail sales fell by 1.6% in September.
- Footwear remained at the top of our retail sales sector rankings in September, boosted by back-to school spending, but Clothing sales continue to lose momentum as households feel the pinch from rising food and energy costs

Squeezed margins

- Against a soft consumer backdrop, retailers are experiencing mounting cost pressures amid supply chain disruption, the weak sterling, and a tight labour market.
- All of this is weighing on margins, with little room for businesses to reduce prices to help struggling customers.
- Pre-tax profit margins in the European apparel industry have almost halved over the last decade, falling from an average of 15.7% in 2012/13 to 8.8% in 2021/22.

Fresh uncertainty for consumers

- Our research shows 62% of consumers plan to spend less on non-essentials in Q4, with more than 26% planning to cut back on apparel – the highest of all retail sectors.
- However, most of this growth reflects high inflation, with sales volumes expected to decline throughout Q4.

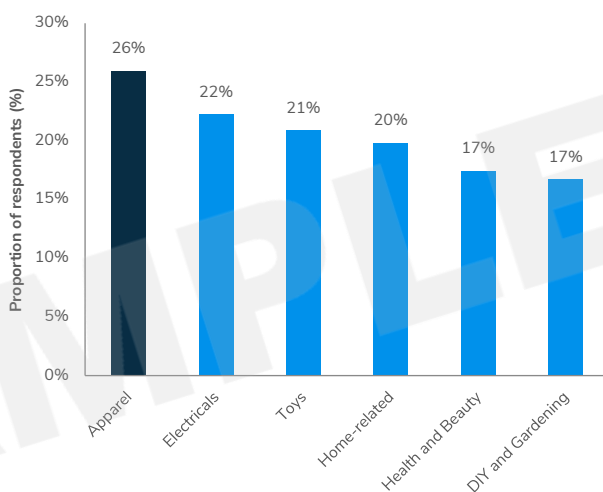
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Sector outlook

- Fashion retail has seen a bounce back over the first half of 2022, recording double-digit growth as people update wardrobes in preparation for long-awaited holidays, postponed weddings and other special events. New workwear has also been in demand, driven by the return to the office.
- However, the autumn and winter season is set to be more challenging for retailers as cost-of-living pressures intensify and consumers reduce their discretionary spending to offset sharp rises in living costs.
- Many consumers are also set to cut back on leisure and social occasions for which they may have previously bought a new outfit, further denting demand.

Fig. 1 Apparel set to be hard over peak season



Source: Retail Economics, Metapack

Homewares Sales

- Homewares sales increased by just 1.2% YoY in September, compared to a 2.7% decline in the previous year.
- Home-related categories are underperforming as consumers looking to cut non-essential expenses. But some ranges were being supported by efforts to reduce energy bills over winter including high-tog duvets, blankets and air dryers.

Volumes decline as prices rise

- The economic backdrop remains unsettled heading into retail's all-important golden quarter, against a revolving door of political change and fiscal U-turns. Supply chain pressure across home categories that rely on imports from the East has resulted in increased operating costs. After more than a year of cost pressure, retailers are having to pass on some heightened costs to consumers in order to manage profit margins.
- Household Goods prices continued to rise in double-digits, as they have done for more than half a year, with prices in the category up 10.0% in September. This means that after accounting for inflation, Homewares volumes are facing deep declines.

Discretionary budgets continuing to erode

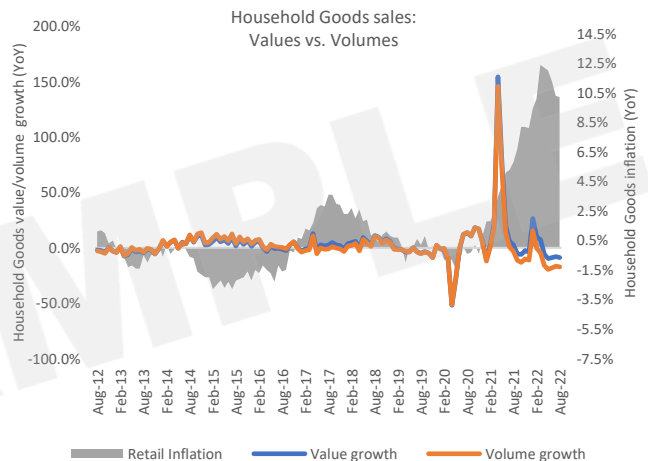
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- The value and volume of sales has detached as inflation creates a wedge between the two. Retail inflation among Household Goods has continued to rise in double-digits, with prices in the category up 10.0% in September (ONS).
- Such inflation is putting sales growth at risk, as consumers become price sensitive and look to reduce costs. The volume of Household Goods sales declined by 11.3% YoY in September (ONS).

Outlook













- Momentum across Homewares is beginning to wane after an industry-wide flip during the earlier stages of the pandemic when many people revamped home interiors.
- Cost of living pressures and a cooling housing market will drag on sales over the second half of 2022, but Homewares is still expected to perform better than Furniture & Flooring, given lower transaction values.

Fig 1: Household Goods inflation remains in double-digits



Source: ONS

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Furniture & Flooring Sales

- Furniture & Flooring sales edged up by 2.2% year-on-year in September, according to the Retail Economics Retail Sales Index.
- A return to growth after five months of decline comes on the back of a weak comparative last year, when sales declined 2.2% in September 2021.
- Big ticket sales ultimately remain at risk of reduced demand as prices are increasing at a time when consumers are looking to cut back. After accounting for inflation, sales volumes remain in deep decline. Retail Economics estimates that Furniture & Flooring inflation was in the region of 7% in September, while ONS data shows the wider Households Goods category faced 10.0% inflation in the month.

Delayed spending

- However, some ranges were supported by university preparations, following two years of pandemic upheaval for many, boosting demand for basic furnishings.
- As consumers become more price-conscious, end of season summer discounts supported sales, including outdoor furniture as retailers look to shift stock.

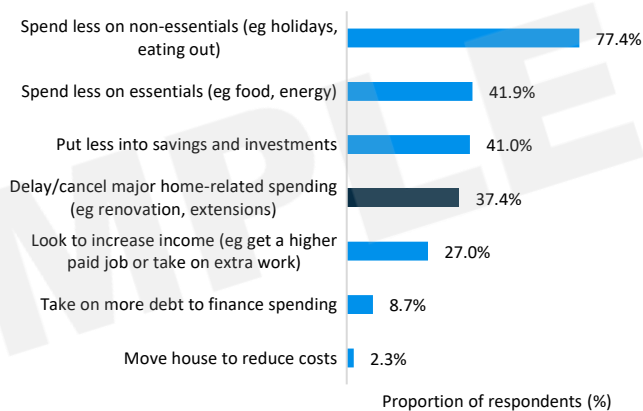
Weak sales come against harsh backdrop

- Category sales over the past six months declined by 4.0% on the previous year. It comes against a widening backdrop of pressure on personal finances. September's emergency budget spooked financial markets, which saw the value of the pound plummet and borrowing costs soar.

Golden quarter

- This has resulted in a rapidly evolving but ultimately more cautious outlook, at a time when many hoped that more normal levels of spending would return as Covid-related restrictions lifted. But going into this year's peak trading period, retailers face spiralling costs and consumers are experiencing the tightest squeeze on discretionary income in recent memory.
- Uncomfortably high inflation and increasing interest rates are leaving consumers questioning whether now is a good time to spend, just as retailers are passing on more costs to consumers as margins come under intense pressure.
- With the housing market intrinsically tied to Furniture & Flooring demand, it is worth noting that residential transactions are cooling compared with last year's boost in activity driven by temporary Stamp Duty relief and the pandemic-related 'race for space'.

Q. Are you likely to do any of the following to combat the rise in housing costs?



Source: Retail Economics-HyperJar Consumer Panel, October 2022, n1,498

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DIY & Gardening sales

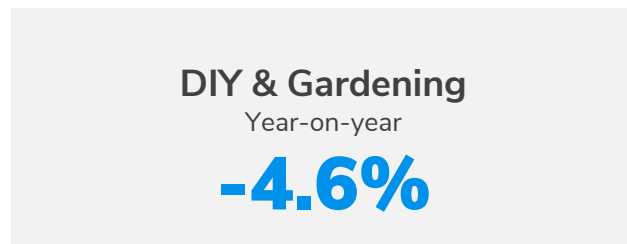
- DIY & Gardening sales fell 4.6% YoY in September according to the Retail Economics Retail Sales Index (value, non-seasonally adjusted). This is the seventh consecutive month of decline, although sales did pick up slightly after the summer heatwave.
- Our research shows 38% of consumers plan to delay major home-related spending (e.g. extensions, new kitchens) in response to the cost-of-living crisis.
- Online Household Goods sales declined by 16.1% YoY in September.

Housing market volatility

- The outlook for the housing market have weakened markedly in recent months as the general economic climate has become more pessimistic and mortgage interest rates have risen aggressively to the highest level since the financial crisis.
- As well as deterring prospective buyers, an estimated two million households are set to re-mortgage over the next 12 months and thus face considerably higher repayments. This will weigh on discretionary spending.

Q4 Outlook

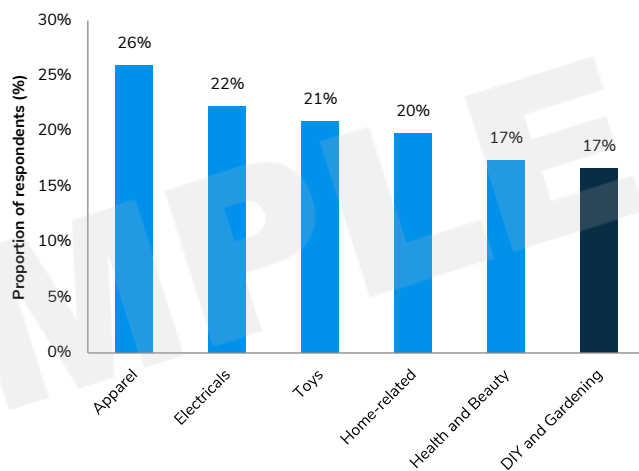
- Uncomfortably high inflation and increasing interest rates are leaving consumers questioning whether now is a good time to spend on home improvement, just as retailers are having to pass on more costs to consumers as margins come under intense pressure.
- Against this softer consumer backdrop, retailers are experiencing mounting cost pressures amid supply chain disruption, the weak sterling, and a tight labour market.



Sector outlook

- 17% of UK consumers said they were looking to cut back on DIY & Gardening spending in the final three months of the year – the lowest of any non-food retail sector.
- Big ticket purchases, such as new kitchens and bathrooms, are likely to come under the most pressure over the remainder of the year and into early 2023, as the housing market cools and inflation stays around double-digits.

Almost one in five plan to cut back on DIY spending in Q4



Source: Retail Economics, Metapack

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Electricals Sales

- Electricals sales fell 2.2% YoY in September, according to the Retail Economics Retail Sales Index (value, non-seasonally adjusted) against a 4.2% decline a year ago and the best performance since July 2021.
- Top line sales growth continues to be supported by elevated inflation levels, with a basket of Electricals c.7% higher than a year ago.
- On the whole, demand remained muted as consumers looked to cut back expenses where they could.

Push & pull factors

- Notably, heated clothing airers were in high demand as they reportedly offer households a cost-effective way to heat homes while simultaneously drying clothes. Similarly, online searches for air fryers remained elevated, indicating there was strong purchasing intentions (Google Trends data, Fig. 1).
- Elsewhere, demand for laptops improved as students headed back to in-person learning at university.
- Large appliances purchases, understandably remain limited to necessity with little appetite to make major purchases as household budgets are squeezed.
- Resultantly consumers are trading down to cheaper alternatives where possible, particularly for TVs where ranges are wide and across multiple price points.

Economic backdrop deteriorates

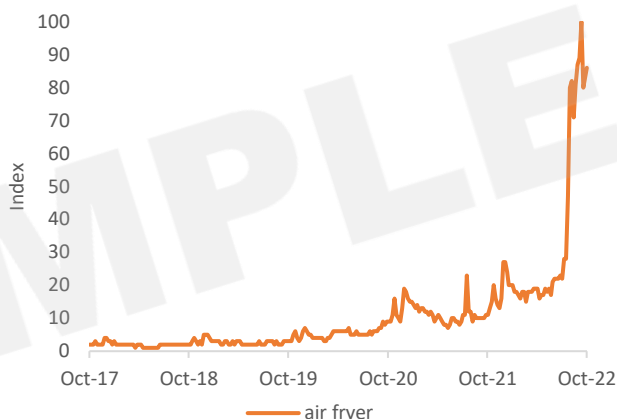
- The economic backdrop weakened further during September as the Bank of England increased interest rates at their fastest pace for 27 years to try and tame inflation which hit an eye-watering 10.1% YoY.

- The emergency mini-budget following the appointment of new PM Liz Truss saw the announcement of the biggest tax cuts in 40 years.
- Against this harsh backdrop, confidence plunged five points to a fresh record low of -49.
- The Retail Economics-HyperJar Cost of Living Tracker shows that average families saw their discretionary income drop 8.7% in September compared with the same month last year, leaving them with £96 less per month to spend on non-essential items.

Outlook

- Remote working and home entertainment were the norm during the pandemic, bringing forward the cycle of consumers upgrading electrical devices.
- Spending on Electricals in 2022 will therefore be set against tough comparisons at a time when underlying momentum is beginning to wane, particularly as the typical lifecycle of electricals spans a number of years.

Fig 1: Online searches for air fryers accelerate



Source: Google Search Trends

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Health & Beauty sales

- Health & Beauty sales increased 3.6% YoY in September, against a 3.5% rise a year ago, according to the Retail Economics Retail Sales Index (value, non-seasonally adjusted)
- This was the second consecutive month sales growth has eased amid weakening discretionary budgets.
- One-off factors weighed on performance in September, somewhat distorting the underlying trend.

Lipstick effect returns

- Analysis suggests consumers are reverting to previous downturn trends amid the cost of living crisis, treating themselves to small luxuries, mood boosting beauty products.
- Kantar reported that in the 12 weeks to 18 September sales of lipstick increased 10% on the previous year. During the period, over 300,000 new shoppers purchased a lipstick, an almost 20% rise - the largest uplift since a lockdown fuelled binge in May 2021.
- Both John Lewis and Boots have noticed an increase in demand of small beauty treats in recent months. Additionally, Boots has seen spending on own label and promotional goods grow as consumers become more cost conscience.
- Another emerging trend is the return of DIY manicures which in more recent times were popular during periods of lockdown. For some consumers, applying nail polish at home offers them a cheaper alternative to a trip to a nail salon.

Disruption

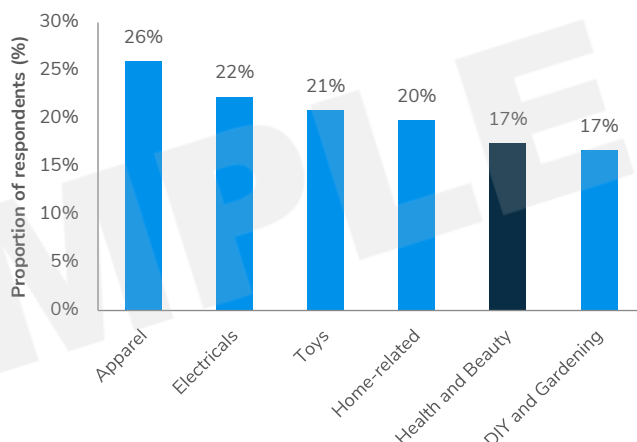
- The big news in the sector this month was the return of Sephora to the UK for the first time since 2005, a somewhat brave move amid the UK's harsh economic backdrop.

Outlook

- Health & Beauty is set to be one of the strongest performing retail sectors in 2022, driven by the post-pandemic rebound in socialising and ongoing return to workplaces.
- Demand for 'out-of-home' beauty categories has picked up considerably since restrictions eased and formal occasions return (e.g. office working, weddings).

Health and Beauty more defensible over the festive season

Q. Thinking about your shopping in the final three months of the year (e.g. Black Friday and Christmas), which areas of retail are you looking to cut back on the most?



Source: Retail Economics, Metapack

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