

RETAIL SALES & SHOP PRICE INFLATION FORECASTS

COVERING 2021 & 2022

NOVEMBER 2021



UK SALES & PRICES FORECASTS

This report presents forecasts produced in August 2021. Forecasts are of the year-on-year growth for BRC-KPMG Retail Sales and year-on-year inflation of the BRC-Nielsen Shop Price for 2021 and 2022.

SALES

- **We have downgraded our forecasts of total sales performance for both 2021 and 2022.** For 2021, we now project Total Sales to increase by 9.9% (a downward revision from 10.6% projected in Q3), with Food sales rising by 3.1% (no change from our Q3 forecast), and Non-Food sales increasing by 15.5% (a downward revision from our Q3 projection of 16.7%) (Table 1).
- **Year to date (to October), Total Sales growth stands at 11.3%**, with Food growth at 3.7% and Non-Food growth at 17.6%.
- **For 2022 we forecast Total Sales to decrease by 4.4%** (an upward revision from our Q3 forecast of -4.9%), **with Food sales projected to increase by 1.0%** (up from -2.0% projected in Q3), while Non-Food sales projected to decline by 8.8% (a downward revision from -7.3% forecasted in Q3).
- **We have downgraded our Non-Food forecasts as we believe that financial worries will trigger a more cautious approach to spending** from many households. The combination of rising prices, especially the surge in energy and fuel prices, the expiry of Universal Credit uplift and the forthcoming raise in taxes will squeeze households' budget. Energy bills rose by 12% in October for a significant share of households, and it's likely prices will rise again as

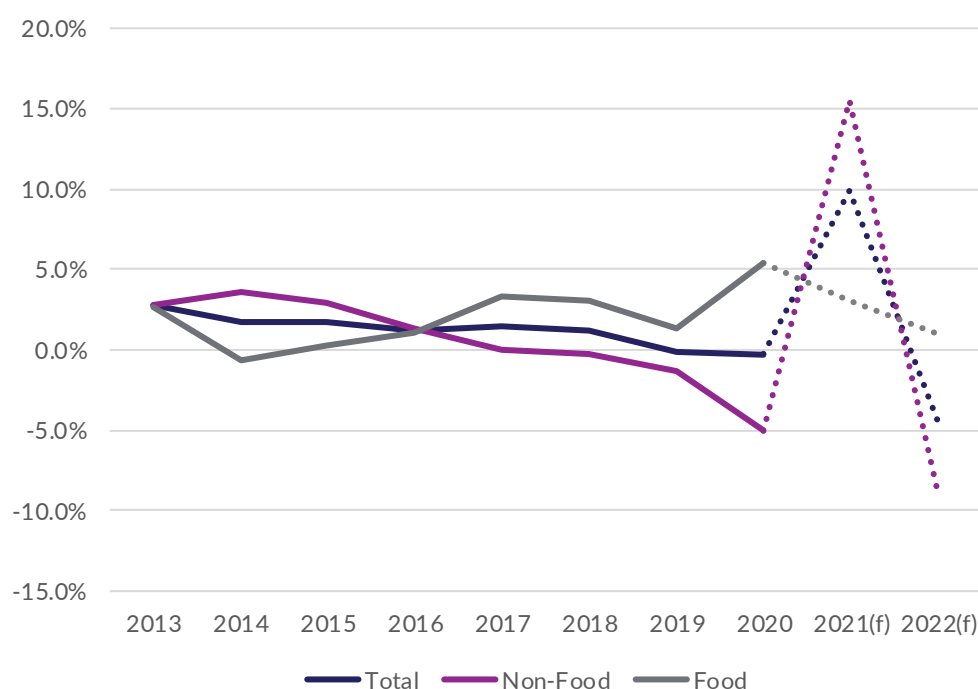
TABLE 1: RETAIL SALES FORECASTS, NOVEMBER 2021

Year-on-year growth	2015-2017	2018-2019	2020	2021 (f)	2022 (f)
Total UK sales	1.5%	0.6%	-0.3%	9.9%	-4.4%
Non-Food	1.4%	-0.8%	-5.0%	15.5%	-8.8%
Food	1.6%	2.2%	5.4%	3.1%	1.0%
Online (Non-Food)	10.1%	5.1%	36.2%	14.7%	-8.5%
Instore (Non-Food)	-1.9%	-2.8%	-24.0%	33.5%	-9.1%

- **Heightened uncertainty about the economic outlook and personal finances has depressed consumers' optimism** and wiped out the gains in consumer confidence achieved during the summer. In October, five (out of six) sub-measures of the GfK Consumer Confidence Index have decreased to their lowest levels since February. Households signalled that they were worried about the future of their financial situation and the future of the economy. It's likely that households will rein in their discretionary spending. Intentions to make major purchases saw a significant decline in October. Many other measures of consumer confidence have reverted to their winter levels. This suggest worries about increased cost of living have now replaced worries about Covid recovery.

- **As a result, we have revised downwards our predictions for Non-Food sales both for this year and the following one.** In doing these predictions, we have assumed that tourism would not rebound to levels close to 2019 ones in 2022, but rather that it would only pick-up slightly. If tourists return to the UK in larger numbers, then it's possible that Non-Food sales would see a better performance than our prediction of -8.8%.
- **We have revised upwards our 2022 Food forecasts.** The main reason is that we believe that financial concerns will mean that people will attempt to save more in 2022, and that will mean not only reduced discretionary spending on Non-Food goods, but also a cut to service spending, including eating-out. In turn, they would end up cooking at home more, boosting Food sales.

FIGURE 1: RETAIL SALES ANNUAL GROWTH, OUTTURN AND FORECASTS, NOVEMBER 2021

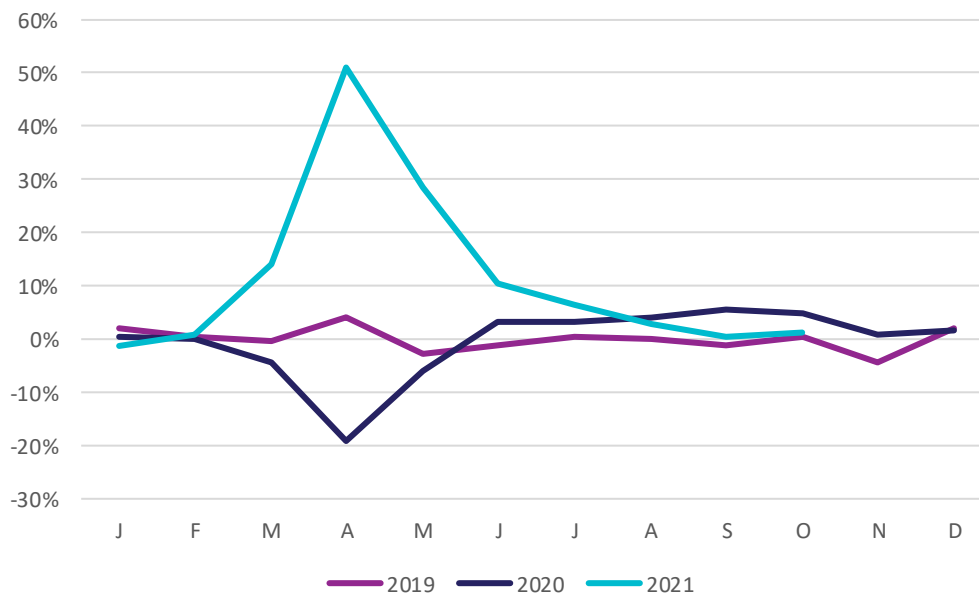


Source: BRC-KPMG Retail Sales Monitor, BRC Analysis.

- **As we now deem Non-Food sales to be lower, we have downgraded Online and In-store forecasts** as well (as our BRC-KPMG figure for Online and In-store comprise Non-Food only). We think that Online sales will see a growth of 14.7% in 2021 (down from the Q3 projection of 16.5%) and will *decline* by 8.5% in 2022 (down from -7.0% projected in Q3). In-stores are forecasted to rise by 33.5% in 2021 (down from our Q3 forecast of 35.7%) and will *decrease* by 9.1% in 2022 (down from -7.6% projected in Q3). The large declines are an outcome of the large increases seen in 2021.
- **Moreover, the lockdown and the relaxation of restrictions introduced increased variability in the 2021 data.** Over the first three months of 2021, online sales rose by 76%, while In-store sales rose by over 200% over April and May. These high comparables will mean that year-on-year growth rates will be distorted in 2022.
- **Widespread shortages of labour and materials add to the consumers' pessimism, as these are deemed to hold back the economic recovery.** The labour market is tight, seeing high vacancies while more people are unemployed and fewer employed than before the pandemic hit. However, some labour market indicators have been improving, with September employment at 75.4% (1.1 percentage below February 2020) and unemployment at 4.3% (above February's 2020 rate of 4.0%). The inactivity rate remains higher than before the pandemic, largely unchanged.

- The tight labour market has put upward pressures on some wages.** Wage inflation fuels longer-term inflation, building people's inflation expectations. This has the potential to lead to a persistent wage-price spiral. And this could be amplified by current inflationary pressures, albeit those being perceived as temporary by many analysts. The Bank of England had signalled that it might raise interest rates to slow down inflation. A rise in interest rates has the potential to further slow the recovery in the short term, as the cost of borrowing rises.

FIGURE 2: BRC - KPMG RETAIL SALES (TOTAL) YEAR ON YEAR GROWTH



Source: BRC-KPMG Retail Sales Monitor.

- Labour and raw materials weigh on growth.** In September, the UK economy grew by 0.6%, above August's performance of 0.2%. In September, the output sector of the economy fell by 0.4% as supply constraints started to bite. Moreover, Q3 business investment remained 12.4% below its pre-pandemic levels. This suggests businesses perceive the current market conditions as highly uncertain, so they put off new capital purchases and projects.

SHOP PRICES

The BRC-Nielsen Shop Price Index is a measure of price changes of a basket of goods found in retail outlets. Unlike the Consumer Price Index, the Shop Price Index does not include non-retail goods (such as cinema tickets, housing, and fuel) and services. Shop Price inflation is usually lower than overall consumer price inflation, largely because cost reductions in the production of retail goods are realised much faster than those of services. Our forecasts are of year-on-year changes in the price index.

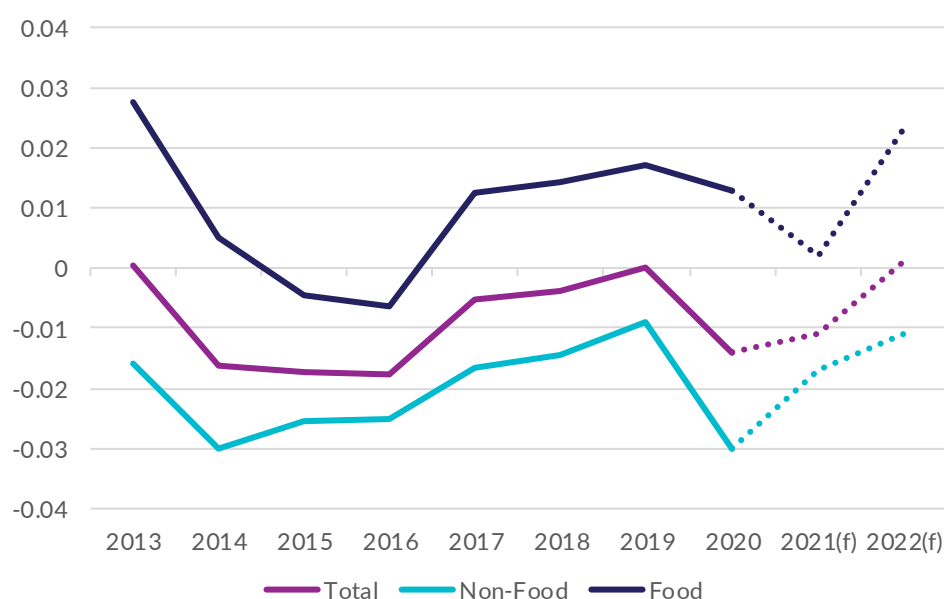
- **We revised our Shop Prices forecasts for 2021: we now expect Non-Food prices to fall by 1.7% (an upward revision of our Q3 forecast of -1.9%), and Food prices to rise by 0.2% (the same projection we had in Q3).** This implies that overall Shop Prices would *decrease* by 1.1% compared to our Q3 projection of -1.2%.
- **For 2022, our price forecasts have been revised upwards from our Q3 projections.** We expect Food prices to rise by 2.3% (an upward revision of our Q3 forecast of 2.0%) and Non-Food prices to fall by 1.1% (compared to our Q3 projection of -1.5%), bringing overall Shop Prices to rise by 0.1% (compared to our Q3 forecast of -0.4%).
- **Year to date (to October), Food prices recorded no growth (0.0%) and Non-Food prices fell by 2.0%, with overall Shop Prices recording a decline of 1.2%.**

TABLE 2: SHOP PRICES FORECASTS, NOVEMBER 2021

Year-on-year inflation	2015-2017	2018-2019	2020	2021 (f)	2022 (f)
Shop Prices	-1.3%	-0.2%	-1.4%	-1.1%	0.1%
Food	0.0%	1.6%	1.3%	0.2%	2.3%
Non-Food	-2.2%	-1.2%	-3.0%	-1.7%	-1.1%

- **We have revised our forecasts upwards for 2021 and 2022 as Non-Food deflation slowed in the three months to October** more than we have expected and inflationary pressures coming through the supply chains have intensified.

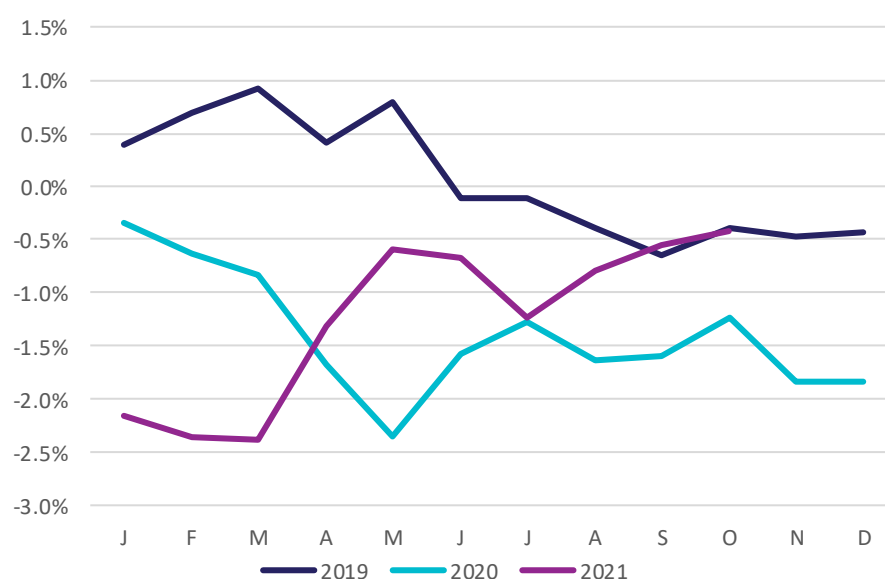
FIGURE 3: SHOP PRICE INFLATION, OUTTURN AND FORECASTS, NOVEMBER 2021



Source: BRC-Nielsen Shop Price Index Monitor, BRC Analysis.

- **Month-on-month, prices of both Food and Non-Food have been rising for 3 consecutive months**, signalling that cost rises have now started filtering through into final consumer prices, with Food prices on an inflationary path. Costs will continue to climb, as retailers face a trialling set of market conditions: from labour shortages, supply chain crunches and input costs rises, to forthcoming tax rises and the wind down of business rates.
- **Global commodity prices have been rising since November 2020, now almost 50% higher than a year ago.** Shipping costs have quintupled since November 2019. Global Food prices have seen double-digit increases on an annual basis since January 2021, and oil price have hit \$86/ barrel for the first time in three years.
- **Current economic challenges do not seem to be waning any time soon, with fresh ones coming into play.** Chronic labour shortages, input costs rises, supply chain crunches and cautious spending are set to continue well into next year, with record energy prices adding to the mix of trialling conditions. Moreover, next year retailers will face higher costs as corporation tax, the National Insurance tax and the National Living Wage rate are rising, while the business-rate holiday is winding down. This means that cost rises will continue unabated for the medium-term.

FIGURE 4: BRC-NIELSEN SHOP PRICE INFLATION



Source: BRC-Nielsen Shop Price Index Monitor.

- **But not all retailers will be able to pass on these cost increases to the consumers, as negative shocks are hitting households' finances.** Heightened uncertainty will dampen discretionary spending, as households will increase their savings to create a safety cushion against future negative shocks.
- **This means that Non-Food retailers would find it very difficult to raise prices.** Moreover, as Christmas and Black Friday promotions are expected, businesses will have to carefully decide their pricing equation not to alienate customers and to remain competitive. With profit margins eroding, retailers find themselves between a rock and a hard place.
- **Although food is an essential item, Food retailers find themselves in a challenging position as well.** While it would appear that Food retailers have more of an ability to pass on cost rises, in doing so, they risk losing customers to their lower-priced competitors, hurting their market share. Food prices have started rising, with both Fresh and Ambient Food prices rising month-on-month since August. IN October, Fresh food prices rose year-on-year too, following ten months of deflation.

For enquiries or more information on analysis and insight services at the BRC please contact the BRC Retail Insight & Analytics team: insight@brc.org.uk.