

# RETAIL SALES & SHOP PRICE INFLATION FORECASTS

COVERING 2021 & 2022

FEBRUARY 2021



## UK SALES & PRICES FORECASTS

This report presents forecasts produced in February 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

- **The introduction of the new national lockdown in January meant that we revised our forecast for 2021. We now project Total Sales to increase by 1.2%** (a downward revision from 1.4% projected in Q4), with Food sales rising by 0.3% (an upward revision of our Q4 forecast of 0.0%), and Non-Food sales increasing by 2.0% (a downward revision from our Q4 projection of 2.5%) (Table 1).
- **For 2022 we forecast Total Sales to increase by 0.7%, with Food sales projected to rise by 1.5%**, while Non-Food sales projected to remain at the same level as in 2021, so growth of 0.0%.

**TABLE 1: RETAIL SALES FORECASTS, FEBRUARY 2021**

Year-on-year growth	2015-2017	2018-2019	2020	2021 (f)	2022 (f)
Total UK sales	1.5%	0.6%	-0.3%	1.2%	0.7%
Non-Food	1.4%	-0.8%	-5.0%	2.0%	0.0%
Food	1.6%	2.2%	5.4%	0.3%	1.5%
Online (Non-Food)	10.1%	5.1%	36.2%	-11.0%	2.0%
Instore (Non-Food)	-1.9%	-2.8%	-24.0%	13.0%	-2.0%

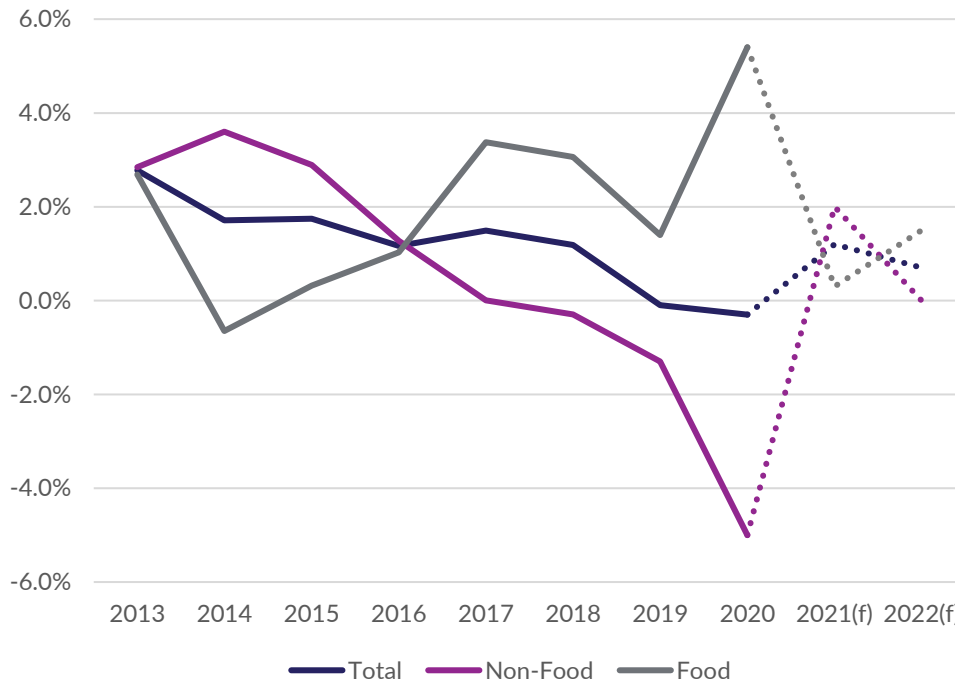
Note: Sales data are from the BRC-KPMG Retail Sales Monitor, figures are not adjusted for inflation.

- **2020 was definitely a test year for retailers**, with different challenges and contrasting performances depending on product categories, channels and customer income. Food sales were the highest since 2009, while Non-Food performed the worst on record.
- **The Grocery sector saw sustained demand throughout the year starting March** owing to several rounds of restrictions, the on and off closure of pubs and restaurants and the reluctance of some to socialise in busy places during the pandemic. For 2020 overall, Food sales saw growth of 5.4%, the highest since 2009.
- **The performance of the Non-Food sector was highly contrasting by product categories.** Throughout the coronavirus crisis period, sales of homewares goods, TVs, computers and accessories, and gym equipment benefitted from consumers remaining indoors and many working from home. The fashion and health & beauty categories suffered for the same reason. Non-Food sales fell by 5.0% in 2020, the worst performance on record.
- **However, the most remarkable change in the industry in 2020 was the significant growth of the online channel.** While the share of online purchases has been steadily increasing over the years, the pandemic has created the perfect ground for the online channel to rise at an accelerated speed. For 2020 overall, Online sales of Non-Food goods rose by 36.2%, compared to 3.3% in 2019 and 6.9% in 2018. The Non-Food penetration rate reached 47.8%

in December 2020, a 15-percentage point improvement on 2019.

- **The natural consequence of the rise of online has been that in-store sales took a great hit:** In 2020, In-store Non-Food sales fell by 24.0%, compared with a decline of 3.1% in 2019 and 2.5% in 2018.

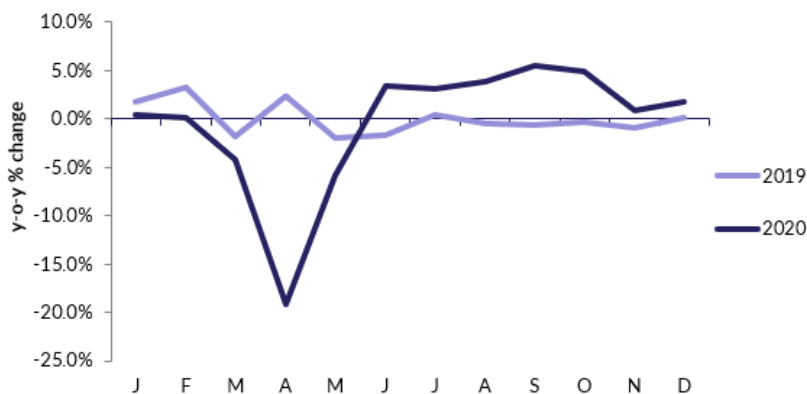
**FIGURE 1: RETAIL SALES ANNUAL GROWTH, OUTTURN AND FORECASTS, FEB 2021**



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

- **2021 has started under the auspices of exceptional uncertainty.** 2020 GDP was 9.9% below the level of 2019, which means that the pandemic wiped out six years’ worth of growth, with current output at a similar level to 2013. The success of the vaccination rollout is expected to lead to a rapid recovery in output, as restrictions would be eased. There is a slight possibility that virus mutations may lead to strict restrictions during the winter months of the year. And while strong monetary and fiscal support is likely to be maintained in 2021, uncertainty is likely to hold business investment in a holding pattern.

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



Source: BRC-KPMG Retail Sales Monitor.

- **Households, although they have built a significant amount of savings in 2020**, might not be ready to release their pent-up demand if they are pessimistic about the future. Also, it's high-income and retired households that built the most savings. People on lower incomes are more likely to be furloughed, and hence to face higher uncertainty about their future incomes. In October, when it was believed that the furloughing scheme would end on October 31<sup>st</sup>, there was a noticeable polarisation in sales by household income, with shoppers on more precarious or reduced income tended to hold on to their money, creating a mid-month lull and Pay Day boost more accentuated than usual for low ticket items and essential categories. In November the scheme was extended until the end of March, and now is set to end on April 30<sup>th</sup>.
- **On the other hand, with the hospitality industry shut for several months this year**, and with international travelling facing challenges from required testing, potential quarantine needed at either end, and rules changing at a minute's notice, it's likely that some hospitality spend will be substituted for retail spend.
- **We expect Total Sales to rise this year by 1.2%**. Food sales are projected to rise by 0.3%, from 5.4% in 2020. We project Food inflation at 1.3% for 2021. In other words, we expect Food volumes to be lower by 1 percentage point in 2021. We assume restaurants are likely to open in May only, no more lockdowns and no "Eat Out To Help Out" government support scheme. In addition, we assume that some people will be reluctant to socialise in public spaces, even if the vaccination programme will be completed by the summer. As such, Food sales will remain at historically high levels. The 1 percentage point loss in volume is assumed to be lost to the hospitality sector.
- **For 2022, we expect Total sales to rise by 0.7%, with Food sales rising by 1.5% and Food inflation projected at 2.0%**. Which means that rise in Food sales are driven by inflation and that in volumes terms Food sales for 2022 are 0.5% lower than in 2022.
- **We expect Non-Food sales to rise by 2.0% in 2021 and by 0% in 2022**. As in 2020 Non-Food sales fell by 5.0%, this means that Non-Food sales at the end of 2021 and 2022 will be below the level seen in 2019.
- **Online sales are predicted to fall by 11% in 2021**. As Online sales rose in 2020 by 36.2%, this still means that 2021 will see higher sales than in 2019. However, with stores opened, we expect to see a rise of In-store sales, which we project to rise by 13.0%. For 2022, we expect Online sales to rise by 2.0%, and In-store sales to fall by 2.0%.

## 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 expect overall prices to *fall* by 1.0% (compared to our Q4 forecast of -0.8%), with Food prices increasing by 1.3% (a downward revision of our Q4 forecast of 2.0%), and Non-Food prices *decreasing* by 2.2% (unchanged from our Q4 forecast) (Table 2).

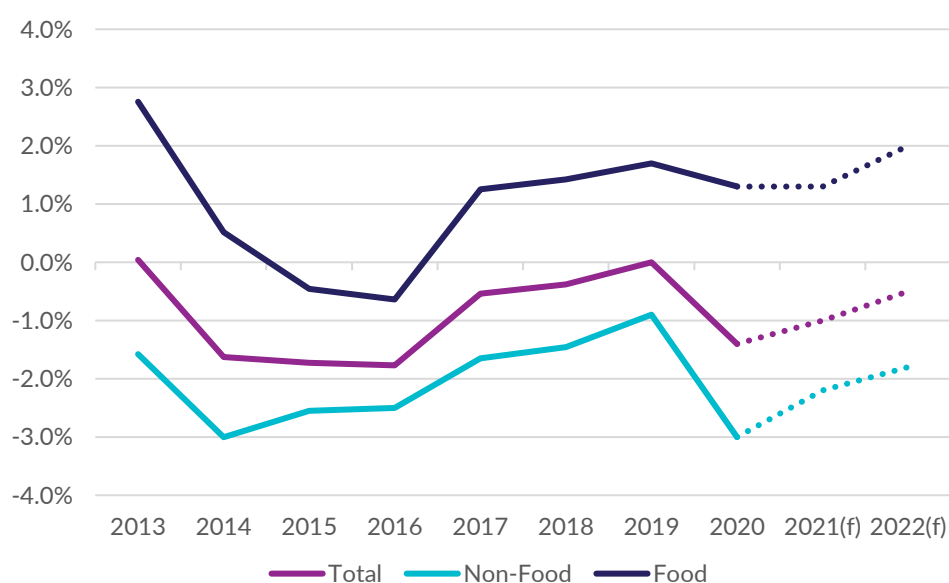
**TABLE 2: SHOP PRICES FORECASTS, FEBRUARY 2021**

Year-on-year inflation	2015-2017	2018-2019	2020	2021 (f)	2022 (f)
Shop Prices	-1.3%	-0.2%	-1.4%	-1.0%	-0.5%
Food	0.0%	1.6%	1.3%	1.3%	2.0%
Non-Food	-2.2%	-1.2%	-3.0%	-2.2%	-1.8%

Note: Data are from the BRC-Nielsen Shop Price Index Monitor.

- **We think prices will see upwards pressures in 2021, as headwinds are gathering pace.** The new border requirements, in the form of new checks and paperwork, are costly, putting upward pressure on prices. Global shipping costs have been rising since November due to a shortage of empty containers in the right ports (a result of the fall in global trade at the start of the pandemic). Food prices also face upward risks from the evolution of global food prices, which have persistently risen from mid-2020 to reach their highest level in six years in December. This is due to poor weather conditions in different regions of the world, as well as large purchases by China, of cereals, in particular.

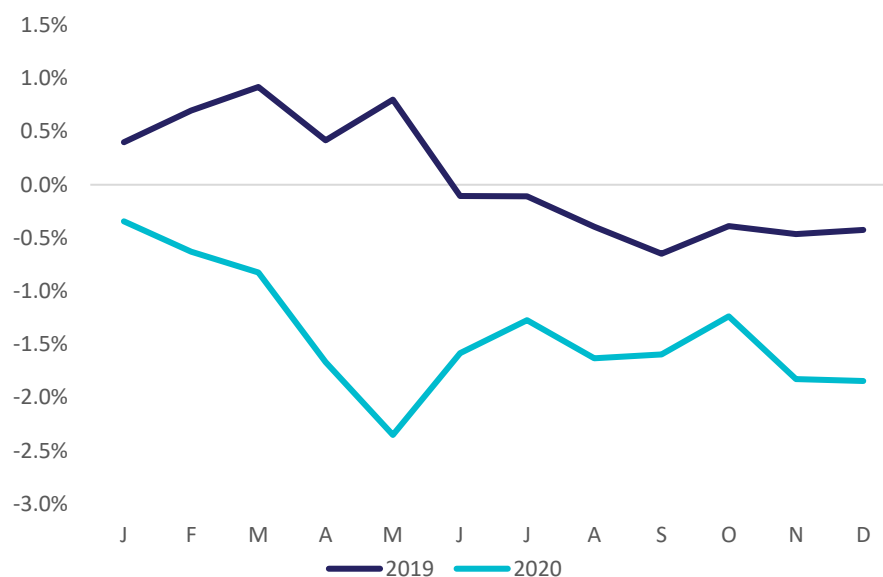
**FIGURE 3: SHOP PRICE INFLATION, OUTTURN AND FORECASTS, FEBRUARY 2021**



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

- **It takes time for costs rises to filter through to final consumer prices**, so it's likely we'll see some impacts starting with Q2. However, some factors at play might limit the magnitude of price rises. In the Food sector, fierce competition is likely to result in retailers absorbing some of the costs increases (and hence, sacrificing margins) to maintain market share.
- **The non-essential retail sectors are up against a fine balancing act.** Losses since the pandemic might mean that there's no room left to absorb any cost rises, but unless demand makes a comeback, price rises are not feasible either.
- **For 2022, we predict Food prices will rise by 2.0%** and Non-Food prices will *fall* by 1.8% (a downward revision on our previous forecast of -1.9%), bringing Shop Price growth to -0.5%.

**FIGURE 4: BRC-NIELSEN SHOP PRICE INFLATION**



Source: BRC-Nielsen Shop Price Index Monitor.

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](mailto:insight@brc.org.uk).