



# UK Retail outlook

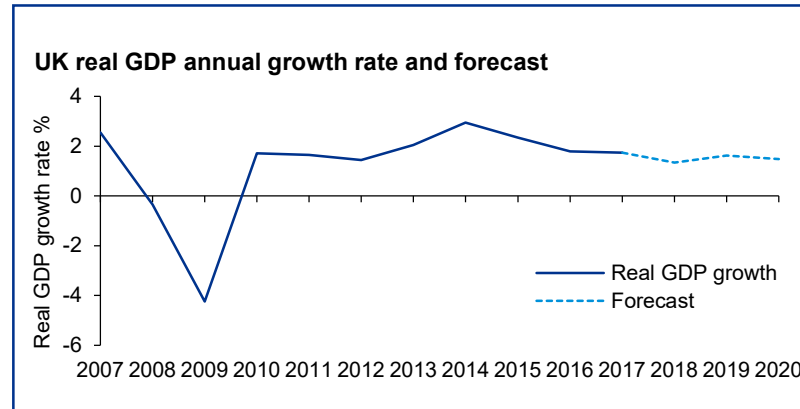
Brian Burchfield, Director

—  
March 2019

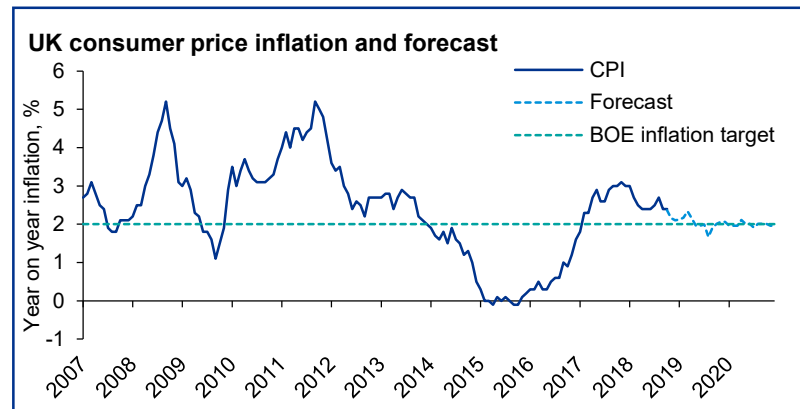


# Economic outlook

## UK Economy



Source: ONS and KPMG Macroeconomics forecast



Source: ONS and KPMG Macroeconomics forecast

- As March 29 approaches, we will hopefully see a narrowing of the different directions Brexit could take, allowing businesses to make more targeted contingency plans and potentially unlocking some of the investment that has stalled this year
- Should the Withdrawal Agreement clear the UK and EU parliaments and the UK avoids a no-deal scenario, we expect to see a short-term surge in investment growth to 1.6-1.7%. As a result, we see a slight uplift in growth momentum, with the UK economy growing by 1.6% in 2019 followed by 1.5% growth in 2020
- However, if a no-deal scenario cannot be avoided, GDP growth could fall to at least 0.6% in 2019 and 0.4% in 2020 due to temporary disruptions to supply chains and trade
- With the impact of sterling depreciation and oil price hikes moderating, the rise in import prices is likely to be more limited, putting a check on aggregate business costs. We expect inflation to move closer towards its 2% target in the next year
- The Bank of England has confirmed its commitment to continue raising interest rates gradually if the economy evolves as expected. The Bank has been reluctant to say what it will do in the event of a more negative Brexit outcome, but in practice it is more likely to keep rates low in order to cushion a blow to demand



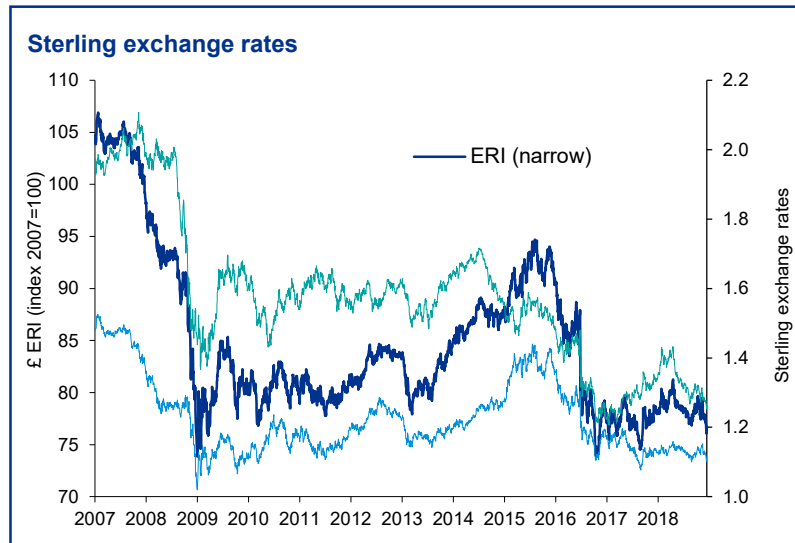
# Economic outlook (cont.)

## Forecast Sterling exchange rate

	2015	2016	2017	2018	2019	2020
Exchange rate US\$/£ (average)	1.53	1.36	1.29	1.34	1.28	1.31
Exchange rates £/€ monthly average	1.38	1.22	1.14	1.13	1.11	1.08

Note: 2018-2020 figures are forecasts.  
 Forecast for US Dollar exchange rates from KPMG Macroeconomics.  
 Forecast for EURO exchange rates based on market data from Refinitiv.  
 Source: Bank of England, Refinitiv, KPMG Macroeconomics forecast

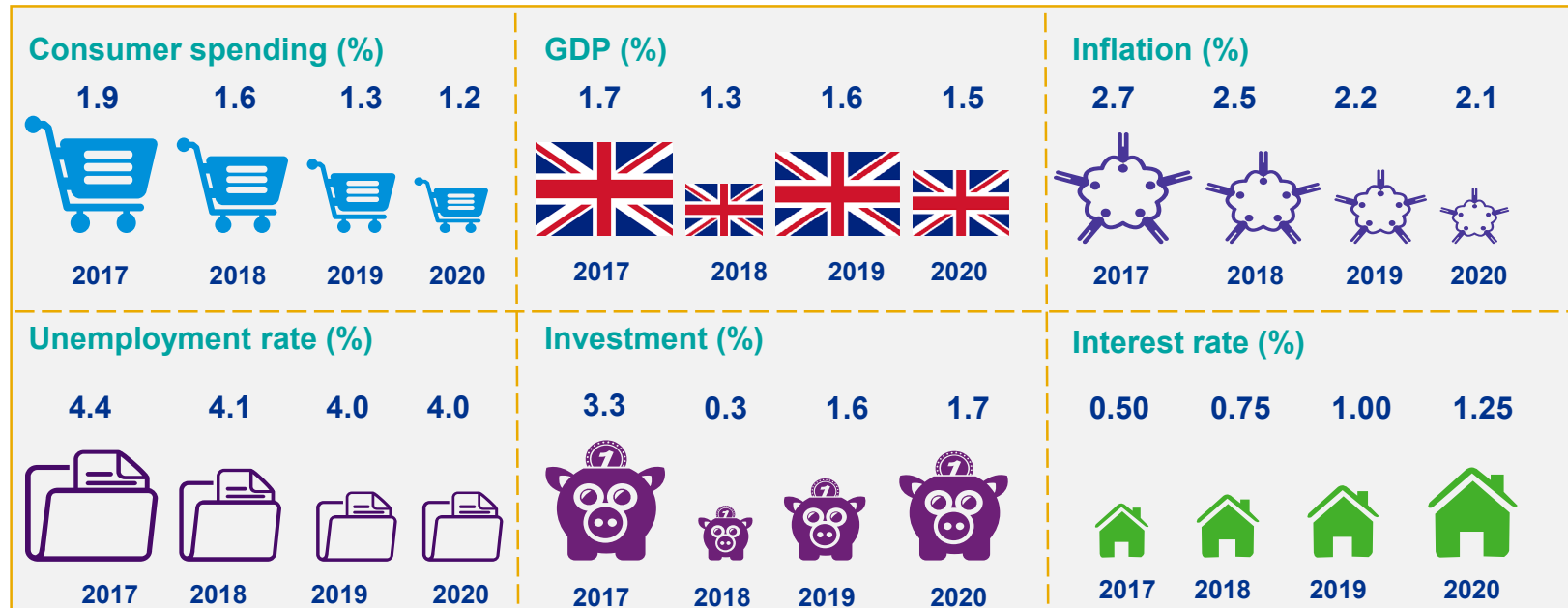
- Sterling has depreciated significantly against major currencies since the Brexit referendum in June 2016
- Sterling weakness has been a major driver for above-target levels of inflation since early 2017 as a large segment of the UK consumer goods basket is sensitive to the price of imports, but this effect has now begun to wane
- In recent weeks we have seen more volatility in sterling. That is likely to persist as we move closer to Brexit day and the market reacts to any news that veers away from expectations
- We expect the extent of any volatility to be limited in the event the Withdrawal Agreement takes effect and therefore do not expect higher imported inflation either
- A no-deal scenario, on the other hand, would see a significant depreciation in sterling and a rise in inflation



Source: Bank of England



# Short term outlook for the UK Econ



- UK economy experienced a period of weaker growth in 2018. If the possibility of an abrupt Brexit is removed and businesses are in a better position to make more targeted contingency plans, we expect a slight improvement in overall economic growth in 2019 to 1.6% (from an expected 1.3% in 2018) followed by growth of 1.5% in 2020
  - Weak productivity continues to hold back potential economic growth
- A recent pickup in wages, coupled with falling inflation, alleviated some pressure on household budgets
  - However, economic uncertainty and the need to rebuild household savings are likely to hold back the extent to which earnings growth can drive up consumption in the near term
- More clarity around the Brexit deal would ease some of the restraints we have witnessed in business investment this year
  - But many of the other factors contributing to weakness in investment in 2018 – including rising interest rates and global supply chain risks – will persevere
- We expect tightness in the labour market to continue, with the unemployment rate remaining near its 4% historic low. Recruitment difficulties are likely to continue into 2019

Note: Figures represent our central scenario under which the UK secures a transition agreement after Brexit and a relatively friction-free trade deal after that. Figures for GDP, consumer spending, investment and inflation represent % change on previous year. Figures for house prices are house price changes over the course of the year and interest rates are quoted at the end of year

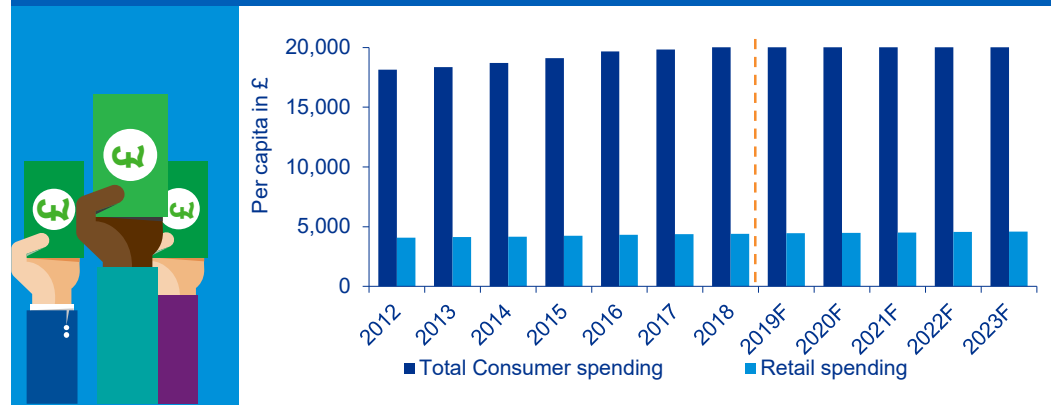


# British Retail Consortium / KPMG retail sales

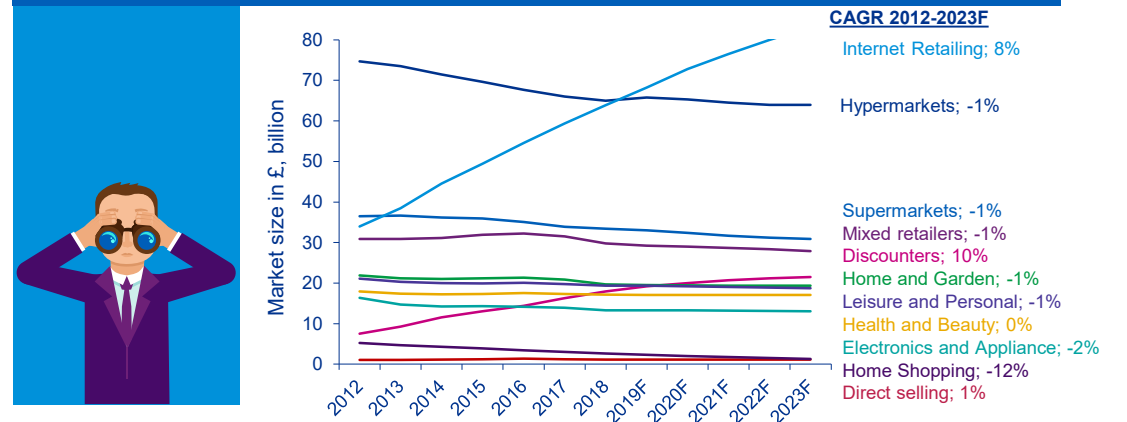
	Jan 2019	Jan 2018
UK retail sales (LFL)	1.8%	0.6%
UK total sales	2.2%	1.4%
Online sales – non-food	5.4%	5.3%
Online penetration rate	29.4%	28.2%
	Three months to Jan 2019	12 month average to Jan 2019
Food sales (LFL)	1.3%	
Total food sales	2.4%	3.0%
Non-food retail sales (LFL)	(0.8)%	
Non-food retail sales (total)	(0.4)%	(0.2)%
Online sales – non-food	4.8%	7.0%
Instore sales – non-food (total)	(2.6)%	(2.3)%
Instore sales – non-food (LFL)	(3.2)%	(3.4)%

# UK retail outlook

## UK consumer spending



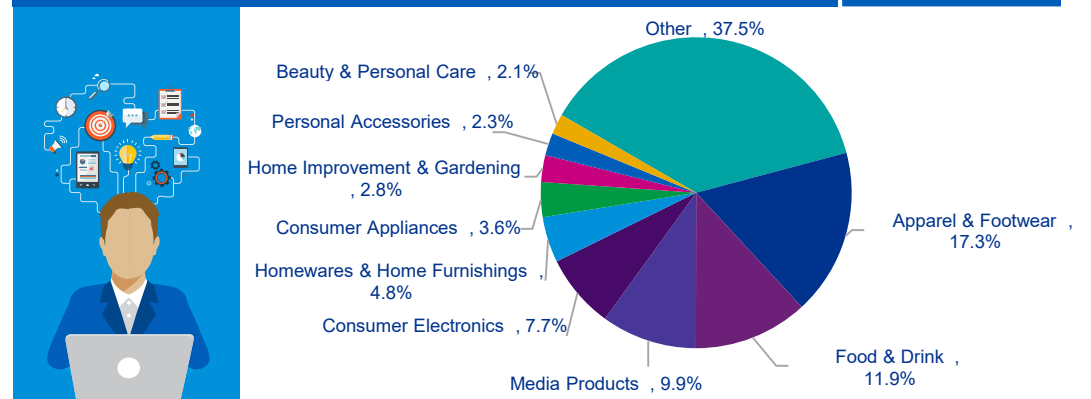
## UK channel overview



## Store versus Non-store



## Internet retailing, 2018



Note: The market size data is 'retail value RSP excl sales tax' at constant prices 2018. Forecasts are at constant 2018 prices. Retail spending is calculated as the sum of consumer spending on food and non-alcoholic beverages, clothing and footwear, household goods and services, and alcoholic beverages and tobacco.

Source: Euromonitor



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# Retail ~~think~~ UK retail health index



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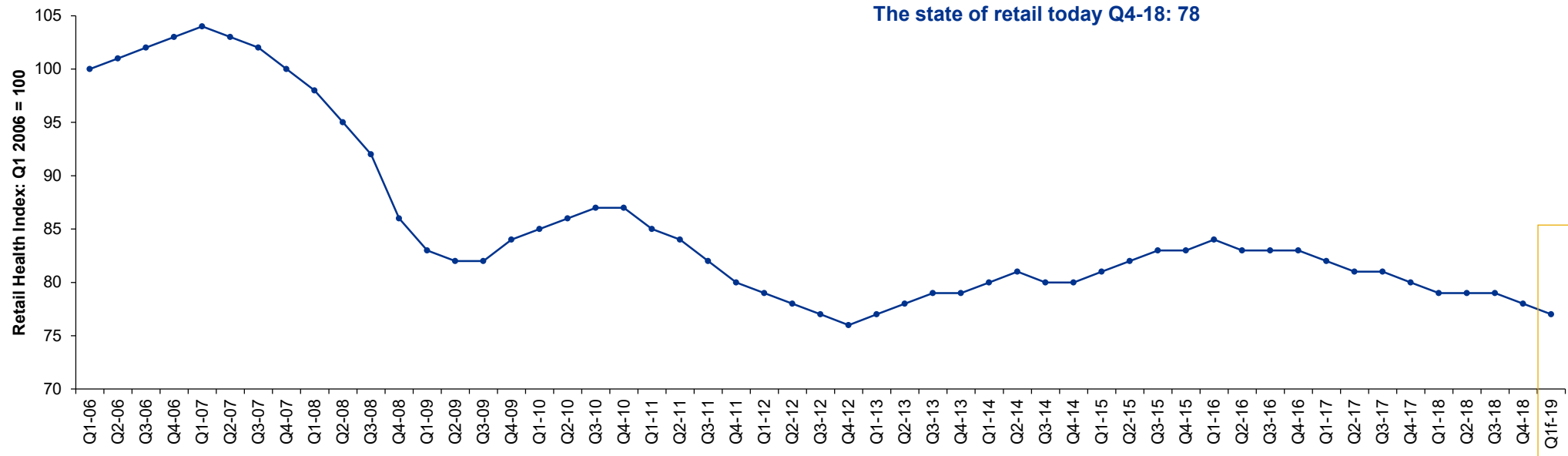
**Martin Newman**  
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# Top 10 retail trends and the high street distressors





# 10+1 key trends shaping the retail landscape



Key

Growth

Cost and Efficiency

Customer

Protection and compliance

People

# 6 Points that are driving the greatest stress on retailers

## Geo-political and macro-economic



Instability both locally and globally causing increased costs and reduced consumer confidence

## Regulatory and compliance related costs



Looking forward and back two years there are a long list of key themes which are affecting retailers. 46 new regulations in this period

## Structural changes to the sector



10 years ago, online penetration was 6%, it is now 29%<sup>(a)</sup> a shift in how shoppers are using channels

## Over-supply of physical stores



We estimate a 30% over supply of physical stores

## High-levels of debt



Over the last 2 decades the retail sector has accumulated a significant amount of debt (technology, property and employee) often resulting in higher leverage

## Lack of leadership talent

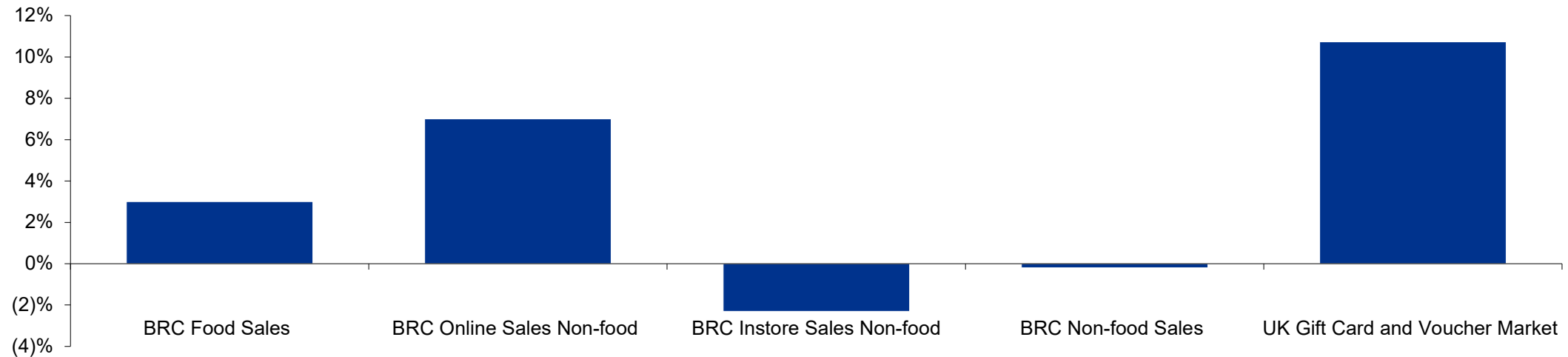


There is not enough leadership talent across the sector as those that led the growth of 90s and 00s often do not have the toolkit to drive the necessary changes


Note: (a) January 2019 KPMG BRC

# UK Gift card spending

## Comparison of annual performance



Despite issues in the wider economy and Retailers in particular having record low sales, the growth in the gift card market in this period has been a very encouraging **10.73%** in the rolling year



Digital has shown highest growth at **64.97%** overall



Consumer sales have recovered from their slight decrease in H1 2018, growing by a modest **3.94%** in H2 2018



Source: Economic and retail overview for UKGCVA



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