

## UK Retail - 2016 Review

2016 saw a distinct resurgence in the performance of UK Retail (excluding sales of automotive fuel). In Value terms, the year was one of two halves, with H1 (pre-Brexit vote) showing growth of only 1.7% and H2 a much healthier 4.5%. In terms of Volume, the pattern was similar with H1 growth of 3.8%, increasing in H2 to 5.6%. Visits to retail stores saw the same trend of growth - up by 4.9% in the second half - the first real sign of growth in recent years. Retail sales via the Internet followed the same pattern, with increases of 15.4% in H1, and 25.6% in H2

### Retail overview

The value of seasonally adjusted UK retail was £351.3 billion in 2016 - an increase of 3.1% on 2015. With selling price deflation at -1.6%, sales volume increased by an exceptional 4.7% in the year.

### Food

The food sector saw volume sales growth of 3.7%. Value growth was held back due to price deflation of -2.0% (caused by intense competition), leaving value growth of just 1.7%. The sector was worth £154.6 billion in 2016

The future holds:- continued competitive market, with pressure on margins, due to the low value of £-sterling impacting on imports.

### Non-Food

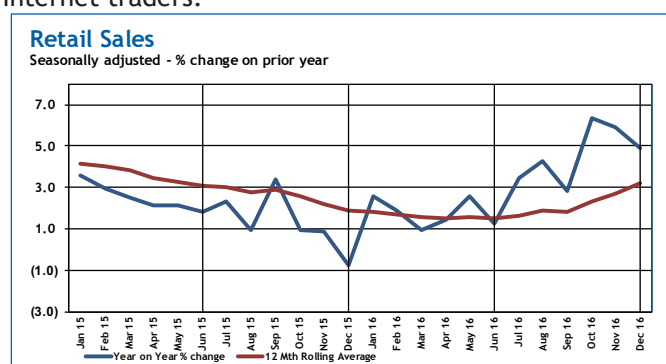
The non-food sector sales volume increased by 3.6% in 2016, with underlying price deflation of -1.3% leaving value growth of 2.3%. The sector was worth £163.5 billion in the year.

The future holds:- inflationary pressure, combined with political uncertainty are likely to affect performance in this sector, whilst growth of Internet retail will continue to adversely impact store profitability.

### Non-Store (catalogue & pure play Internet)

Non-store retail, comprising catalogue, online pure play and market trading, was worth £33.2 billion in 2016, growth of 15.4% compared to 2015, outperforming all other sectors. As non-store retail continues to enjoy the impetus from Internet growth its share of UK retail increased from 8.4% to 9.4%.

The future holds:- continued growth for this direct-to-consumer sector, assisted by the strength of pure play Internet traders.



### Internet Channel

Total retail sales via the Internet were £51.4 billion in 2016 compared with £42.6 billion in 2015.

This represented:-

- growth of 20.6%
- 14.6% of total UK retail

#### Internet Retail Sales - not seasonally adjusted

Annual growth and participation					
Subsector	2012	2013	2014	2015	2016
	£bn	£bn	£bn	£bn	£bn
Total Retail Sales	311.9	321.1	340.7	340.6	351.3
Online Retail Sales	29.0	33.4	38.5	42.6	51.4
Annual growth	15.3%	15.4%	15.3%	10.6%	20.6%
Participation	9.3%	10.4%	11.3%	12.5%	14.6%

Source ONS - excluding auto fuel (not seasonally adjusted)

### Sustained online growth

After a decline in growth intensity between 2014 and 2015 the Internet retail channel kicked-on in 2016 and continues to increase its share of UK retail.

	2013	2014	2015	2016
Annual growth	15.4%	15.3%	10.6%	20.6%
Share of UK retail	10.4%	11.3%	12.5%	14.6%

Note:- Internet retail is a channel encompassing goods from all retail subsectors, not just pure play.

### Shopping Visits

Despite the continued growth of Internet retail and many years of decline, footfall into stores actually increased in 2016 compared to 2015, the first such increase since before the 2008 crash.

All of the annual increase was achieved in Q4 when visits were 8.9% up on 2015, overcoming a significant decline in the first half. The annual trends since 2012 are as follows.

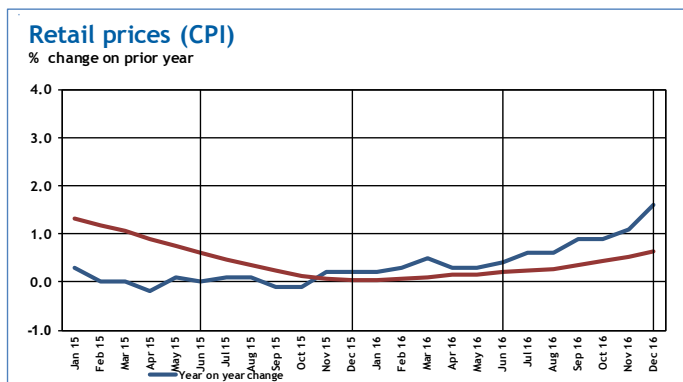
- 2012 down 3.2%
- 2013 down 3.8%
- 2014 down 0.6%
- 2015 down 1.5%
- 2016 up 0.3%

## Consumer price inflation

The annual headline rate of consumer price inflation (CPI) was 1.6% as at December 2016, up from December 2015 when it was just 0.2%. Movements in key retail sectors were:-

- Food moved from -2.9% to -1.1%
- Clothing /footwear up from -0.3% to 1.2%
- Furniture & HH goods up from -0.2% to 0.6%
- Alcohol and tobacco up from 0.3% to 2.4%

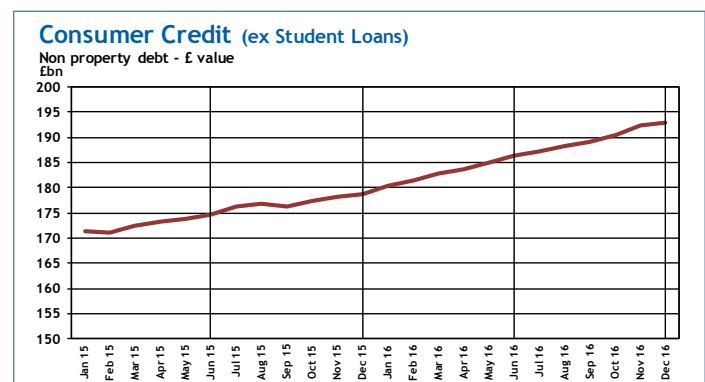
Much of this increase is currency exchange rate related, on imported goods, whilst strong competition in the food sector is still driving prices lower.



## Consumer credit (non property/ex student loans)

Consumers significantly increased their indebtedness on non-property borrowing in 2016, ending the year at £192,379 billion - an increase of £13,548 billion, which was 7.6% up on a year earlier.

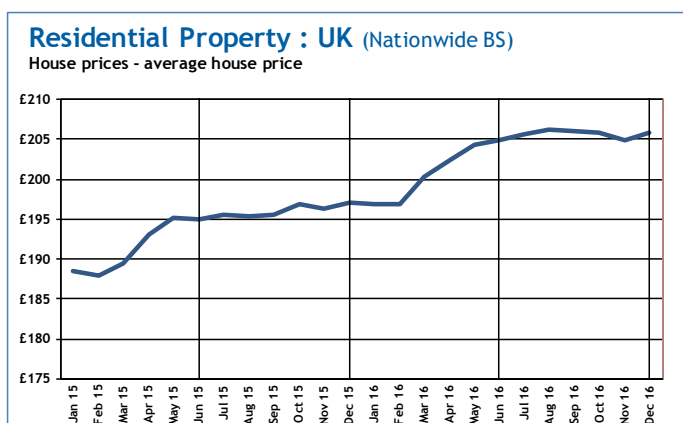
Having reduced their exposure to this form of short-term debt to £152.9 billion in November 2012, the trend then has been increasing. Consumers appear to be content to see it rise at this alarmingly high rate.



## Residential property

The average UK house price ended 2016 at £205,898, up £9,069 (4.6%) compared to a year earlier. UK house prices have now greatly eclipsed the pre-crash high reached in October 2007, standing £19,854 higher. Compared to the low point of February 2009 prices have grown by £58,152 (39.4%).

Growth of this UK home-owner asset has driven both consumer confidence and retail demand in 2016 and will likely continue to do so in the forthcoming year.



## Unemployment

The level of UK unemployment decreased by a further 97,493 during 2016, ending the year at 1.597 million people unemployed.

This is a rate of 4.8% unemployed, the lowest for over 10 years and compares to 5.1% a year earlier.

Compared to the high reached in November 2011 there were 1.111 million fewer people unemployed in the UK, by 2016 year end.

