



# UK CHRISTMAS 2015

## MACRO UPDATE

- *A slew of macro indicators are more positive this year than last: prices are down in food and groceries, consumer credit is up and saving is down, unemployment has fallen, and wages are rising.*
- *Yet the British consumer is proving cautious—consumer confidence has declining and retail sales growth has been slowing.*
- *We think the hints of consumer caution could lie in the government's planned austerity measures, including cuts to tax credits and a freezing of working-age benefits.*
- *Overall changes to taxes and benefits will negatively impact 13 million families, it is claimed. That is the equivalent of 49% of the UK's households.*
- *Disagreements on what will be the net gains or losses of benefit, tax and wage changes are fueling uncertainty for many consumers.*
- *The issue this holiday season is whether some consumers will be willing to spend more, given the uncertainty over their household budgets heading into 2016.*

**DEBORAH WEINSWIG**

EXECUTIVE DIRECTOR —  
HEAD OF GLOBAL RETAIL & TECHNOLOGY  
FUNG BUSINESS INTELLIGENCE CENTRE  
DEBORAHWEINSWIG@FUNG1937.COM  
US: 646.839.7017  
HK: 852.6119.1779  
CN: 86.186.1420.3016

## UK CHRISTMAS 2015 MACRO UPDATE

*Relative to the figures for Christmas 2014, we judge six of our key metrics to be positive and five to be negative.*

### EXPECTATIONS FOR SLOWER GROWTH THIS YEAR

We have already outlined our forecast for UK retail sales for Christmas: we expect total retail sales (including grocery) to be up by 2.9% across November and December, a modest slowdown from the 3.4% growth of last year. See our separate report, *UK Christmas 2015 Retail Forecast*, for the details on our expectations.


Here, we delve deeper into key macroeconomic and consumer measures that inform our expectations for a slowing of growth rates.






### MORE POSITIVES THAN NEGATIVES DOES NOT EQUATE TO A STRONG CHRISTMAS

A slew of macro indicators are more positive this year than last: prices are down in food and groceries, consumer credit is up and saving is down, unemployment has fallen, and wages are rising. Yet we stand by our forecast that Christmas 2015 will be one of slower growth for retailers than Christmas 2014 was.

In spite of a number of positive underlying metrics, the British consumer is proving cautious—as we show later, confidence (as measured by Eurostat) has been falling, and retail sales growth (even in nonfood) has been slowing. First, though, here is a rundown of our key metrics, and our judgement on their potential impact on discretionary holiday purchases. Relative to the figures for Christmas 2014, we judge six to be positive and five to be negative.

Figure 1. UK Macro Indicators for Christmas 2015

	2015 (Latest Indicator)	2014 (Dec.)*	Trend YoY	Impact on Discretionary Retail Spending	Date of Latest Indicator/Other Notes
<b>Consumer Confidence</b>	0.4	3.1	DOWN	 Negative	Sep. 2015, seasonally adjusted
<b>Nonfood Retail Sales Growth Average, Jan.–Sep. (YoY % Change)</b>	3.5	5.8	DOWN	 Negative	Sep. 2015
<b>Total Consumer Spending Growth (YoY % Change)</b>	3.2	4.1**	DOWN	 Negative	2Q 2015
<b>Payment Protection Insurance Monthly Payouts*** (£ Mil.)</b>	327.9	408.6	DOWN	 Negative	Jul. 2015
<b>House Price Index</b>	5.2	9.8	DOWN	 Negative	Aug. 2015
<b>Unemployment (%)</b>	5.3	5.5	DOWN	 Positive	Jul. 2015, seasonally adjusted

<b>Average Weekly Earnings Growth (YoY % Change)</b>	3.1	2.5	UP		Aug. 2015, seasonally adjusted
				Positive	
<b>Consumer Price Index (YoY % Change)</b>	-0.1	0.5	DOWN		Sep. 2015
				Positive	
<b>Automotive Fuel Prices (YoY % Change)</b>	-14.9	-10.5	DOWN		Sep. 2015
				Positive	
<b>Savings Rate (%)</b>	4.7	4.9**	DOWN		2Q 2015, seasonally adjusted
				Positive	
<b>Consumer Credit (YoY % Change)</b>	6.8	6.6	UP		Aug. 2015
				Positive	

\*Data are for December 2014, except where indicated otherwise.

\*\*2014 data are for the fourth quarter of 2014.

\*\*\*Refunds for missold payment protection insurance have been a significant source of extra cash for the consumer economy in the UK: in the first six months of 2015, for instance, some £2.4 billion was paid out by banks or other financial services firms to consumers, according to the Financial Conduct Authority (FCA).

Source: Office for National Statistics (ONS)/Eurostat/Bank of England/FCA/FBIC Global Retail & Technology

## A WINDFALL TO HOUSEHOLD BUDGETS

### FUEL PRICES DOWN—FUEL VOLUMES UP

Across 2015, UK consumers will have spent a total of £2.4 billion less on automotive fuel than they did in 2014, we estimate, a fall of 6.4% year over year. This impressive total saving equates to just £89 per household over the year, however—only £7.45 per month. This is in part because British consumers have taken the opportunity of lower automotive fuel prices to buy greater volumes of fuel, and not simply to bank the savings.

### SAVING ON GROCERIES

The savings on fuel have been incremental to consumers' savings on groceries. The price competition between the major grocery stores as they have attempted to mute the threats of Aldi and Lidl has resulted in food-price deflation for each of the first nine months of 2015 (latest available). Food prices have fallen by 2.6% year over year, on average, from January through September 2015, according to ONS data.

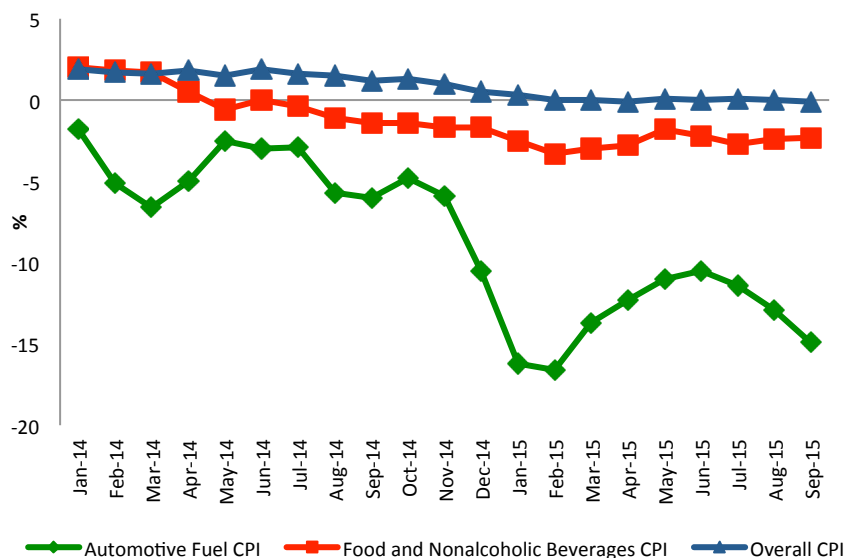
As with fuel, shoppers have taken the opportunity to buy more: grocery volume sales have been positive every month of 2015 so far, with the exception of April—and the fall in that month was due to the early timing of Easter this year.

*Food prices have fallen by 2.6% year over year, on average, from January through September 2015.*





Figure 2. UK Consumer Price Index (CPI): YoY % Change



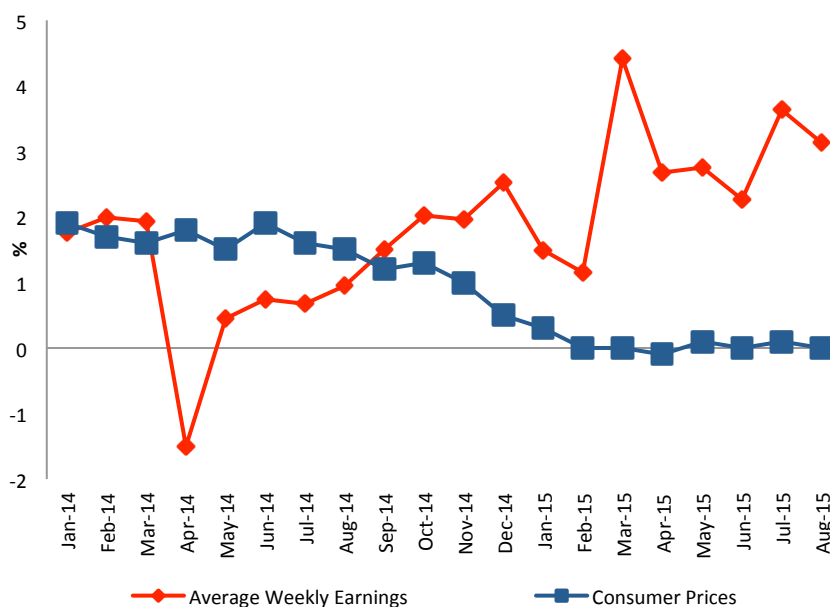
Source: ONS

Consumers are pocketing more cash, helped by robust growth in private sector wages.

### REAL EARNINGS GROWTH RETURNS

The deflationary impact from the fuel and grocery categories has contributed to real earnings growth among UK consumers. Consumers are pocketing more cash, helped by robust growth in private sector wages (which were up 3.5% versus the public sector's 1.2% rise in July 2015).

Figure 3. Average Weekly Earnings vs. Consumer Prices: YoY % Change



Source: ONS

## SO, WHY IS RETAIL SALES GROWTH SLOWING? AND WHY IS CONSUMER CONFIDENCE DECLINING?

### LEADING INDICATORS SUGGEST A SOFTENING CONSUMER OUTLOOK

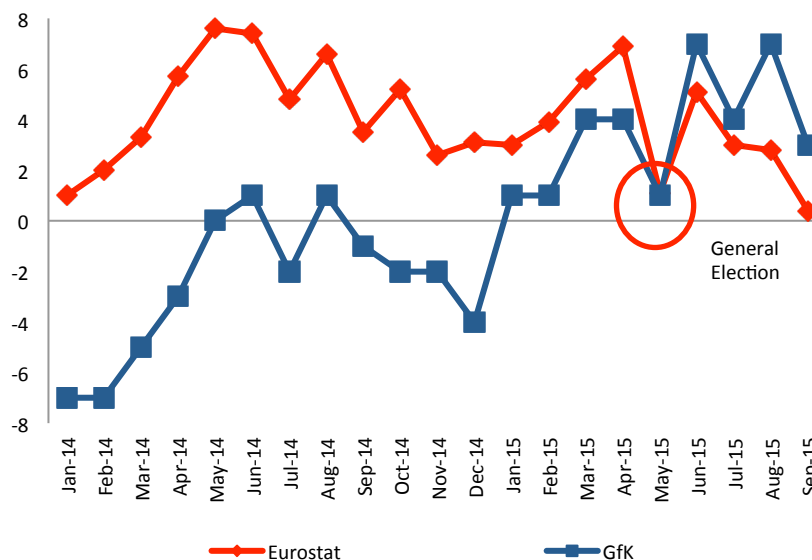
Retail sales growth and consumer confidence levels are two leading indicators of the consumer economy. Unlike measures such as unemployment, these two metrics are much more suggestive of future consumer demand and, in turn, economic growth. We flag these as the key metrics to watch, and we note that there have been disappointing trends in both.

Consumer confidence levels, as measured by Eurostat, are dwindling. As measured by GfK, confidence turned positive in early 2015, but has since proved patchy, with a recent downturn. Both sources use the same survey, but select different questions as the basis for their confidence indicators. And, although the net figures they report tend to be different, the medium-term trends are similar.

Eurostat's figures for the past few months have shown slightly more pessimism. But neither set of numbers bodes well for a surge in Christmas spending.

Figure 4. Consumer Confidence Levels

*Retail sales growth has been considerably weaker in 2015 than it was in 2014.*



Source: Eurostat/GfK

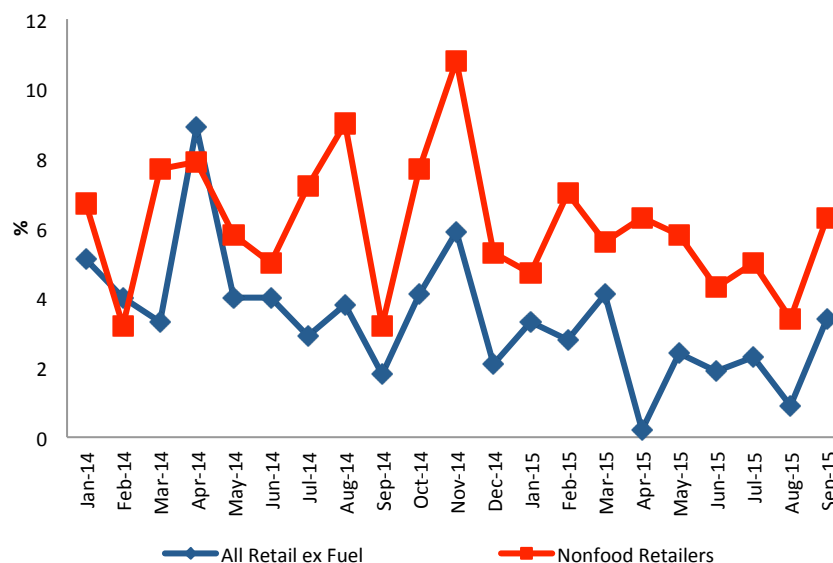
Retail sales growth has been considerably weaker in 2015 than it was in 2014. In part, this is due to deflation in grocery as price competition has intensified. But nonfood shop prices have fallen, too, helped by both the strength of the British pound versus the euro and lower oil prices. As of September 2015, food and nonfood prices were equally deflationary, with both down 2.1% year over year, according to the ONS.

The British Retail Consortium confirms the extent of the price cutting, noting 30 consecutive months of declining nonfood shop prices as of September 2015 (latest). Even beyond the grocery price wars, UK retail looks at risk of seeing deflation become entrenched.



We believe lower in-store prices reflect many consumers' reluctance to spend big, despite the boost to shoppers' wallets from lower food and fuel prices. The outcome has been weaker growth for nonfood retailers.

Figure 5. Retail Sales: YoY % Change



Source: ONS

*Consumers are wary of the austerity cuts that are coming, and of their effect on household budgets.*

#### WHY THE SHOPPER CAUTION?

We think the hints of consumer caution lie not so much in the current macro conditions—which, as we have already noted, are overall net positive—but in the Conservative government's austerity measures, which are a big cloud on the horizon.

In early May, the UK elected a majority Conservative government for the first time in 23 years. Consumer confidence plummeted that month (see Figure 4, above). As GfK noted, most of the fieldwork for the confidence survey was carried out after the election, and Nick Moon, GfK's Managing Director of Social Research, said, "In the short term, this suggests that despite rewarding them with a majority in the House of Commons, the public are not too confident about economic life under the Conservatives."

We take this as a sign that many consumers are wary of the austerity cuts that the Conservative party made clear are coming, and of their effect on household budgets in the near future.

#### IN BRIEF: AUSTERITY'S POTENTIAL IMPACT ON HOUSEHOLD BUDGETS

In the months since the election, the cuts to state benefits have been spelled out. The most dramatic of these is a reduction in the entitlement threshold for working tax credits—an in-work benefit for low-earning households. The threshold for full entitlement for working tax credits will fall from £6,420 to £3,850. A second change is a new taper rate above this threshold: 48p for every £1 earned, up from 41p.

The tax credit changes were planned to save taxpayers some £4.4 billion a year from 2016 on, but at the cost of "almost all" 3.3 million claimant households losing, on average, £1,300 per year, according to the House of



*A sizable proportion of consumers are in limbo this Christmas, uncertain of what their household budgets will look like next year.*

*Overall changes to taxes and benefits will negatively impact 49% of the UK's households, according to the Institute for Fiscal Studies.*

Commons Library. That number is equivalent to 12% of the total number of UK households.

At the time of writing, the government plans to soften the introduction of these changes, following demands for changes by the UK's upper house, the House of Lords. Chancellor of the Exchequer George Osborne said he would offer "transitional help" to those affected; this help will be announced in late November 2015.

Overall changes to taxes and benefits—including other savings such as a freeze in working-age benefits and a lower limit on the total amount households can claim in benefits—will negatively impact 13 million families, according to the Institute for Fiscal Studies. That is the equivalent of fully 49% of the UK's 26.7 million households.

The government disputes this, pointing to changes such as a higher minimum wage, which is due to rise by 38% by 2020, and higher tax thresholds that will go into effect in April 2016.

#### **AN UNCERTAIN CHRISTMAS**

Disagreements on what will be the net gains or losses of benefit, tax and wage changes, as well as the anticipated "transitional help" for changes to tax credits, are fueling uncertainty for many consumers. We think many lower-income households will only be sure of the impact of the changes once they have been implemented in April 2016, and the families can see what they are going to be bringing in each month.

In other words, a sizable proportion of consumers are in limbo this Christmas, uncertain of what their household budgets will look like next year. And we think this could have a softening effect on holiday spending, one which will be most noticeable for retailers who cater to lower-income and benefit-dependent shoppers.

The issue this holiday season is not whether consumers are better off—because, in aggregate, it is clear that they are. The issue is whether some consumers will be willing to spend more, given the uncertainty over their household budgets heading into 2016.



---

**Deborah Weinswig, CPA**

Executive Director—Head of Global Retail & Technology  
Fung Business Intelligence Centre  
New York: 917.655.6790  
Hong Kong: +852 6119 1779  
deborahweinswig@fung1937.com

Filippo Battaini  
filippobattaini@fung1937.com

Marie Driscoll, CFA  
mariedriscoll@fung1937.com

John Harmon, CFA  
johnharmon@fung1937.com

Aragorn Ho  
aragornho@fung1937.com

John Mercer  
johnmercer@fung1937.com

Shoshana Pollack  
Shoshanapollack@fung1937.com

Kiril Popov  
kirilpopov@fung1937.com

Jing Wang  
jingwang@fung1937.com

Steven Winnick  
stevenwinnick@fung1937.com

---

**HONG KONG:**

10th Floor, LiFung Tower  
888 Cheung Sha Wan Road, Kowloon  
Hong Kong  
Tel: 852 2300 2470

**LONDON:**

242-246 Marylebone Road  
London, NW1 6JQ  
United Kingdom  
Tel: 44 (0)20 7616 8988

**NEW YORK:**

1359 Broadway, 9<sup>th</sup> Floor  
New York, NY 10018  
Tel: 646 839 7017

**FBICGROUP.COM**