

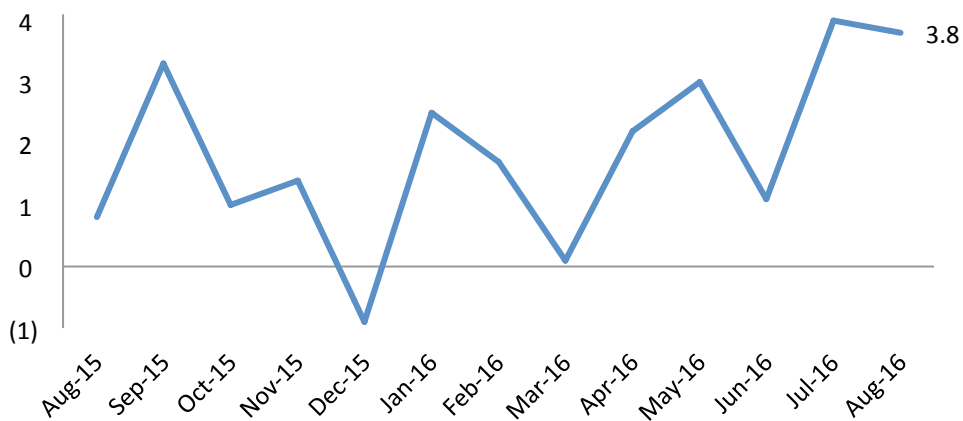
UK MONTHLY RETAIL BRIEFING: AUGUST 2016—GROCERY STRONG, APPAREL WEAK

CLOTHING STORES RETURN TO NEGATIVE GROWTH

Here are our top takeaways from the August data:

- 1) Total UK retail sales rose by 3.8% year over year in August, moderating from 4.0% growth in July but representing the second-strongest monthly performance so far this year.
- 2) Grocery stores and Internet pure plays boosted the overall figures, while clothing stores saw sales dwindle once again.
- 3) Later in this briefing, we look at how the performance of the clothing specialists sector may be a leading indicator of sales growth at sector stalwart Marks & Spencer (M&S).
- 4) Online retail sales growth is accelerating, with pure plays heaping pressure on brick-and-mortar retailers.

Figure 1. UK Total Retail Sales (ex Automotive Fuel): YoY % Change



All data in this report are nonseasonally adjusted.
Source: Office for National Statistics (ONS)/Fung Global Retail & Technology

NOTABLE WINNERS AND LOSERS

Figure 2. UK Retail Sales: Notable Rising and Falling Sectors in August



- Grocery retailers** enjoyed a 3.2% bounce.
- Mixed-goods retailers/department stores** posted strong growth of 7.0%.
- Internet pure plays and mail-order retailers** saw a bumper month, with sales climbing 15.8%.



- Clothing specialists** returned to declines, with sales down 4.3%.
- Footwear specialists** also turned negative, with sales falling 3.1%.
- Sales of big-ticket items were weak, with **electrical goods stores'** sales down 5.9% and **DIY stores'** sales falling by 6.0%.

Source: ONS/Fung Global Retail & Technology

**RETAIL IN DETAIL**

Total retail sales were buoyed by strong performances in the grocery and Internet pure play/mail-order sectors in August. Neither of these sectors is significant for tourist shopping, which suggests that UK retail sales are not simply being boosted by international shoppers attracted by the depreciation of the British pound. The figures from both July and August suggest that Brits are continuing to spend, despite a surfeit of warnings (many of which have been discredited) about the potential economic consequences of voting to leave the EU. The weakness of the British pound may be contributing a little, if retailers are not stripping out international sales from the revenues they report to the ONS.

Grocery stores' sales jumped 3.2%, a performance that is a little hard to account for given sustained food-price deflation and the patchy summer weather in August. If we exclude impacts from the timing of Easter, this was the sector's strongest performance since February 2014. Relatively undemanding comparatives of (1.4)% in August last year may have helped, but it adds weight to the perception that the grocery sector is seeing improvements. Positive comps reported by Morrisons on the same day as the ONS data are a further cause for some optimism.

Internet pure plays and mail-order retailers enjoyed a stellar month, with sales climbing 15.8% against robust comparatives of 11.8% one year earlier. Apparel pure plays such as ASOS and boohoo.com have been turning in robust figures and these new sector data imply that sales continued to be strong in August. Assuming the sector data includes sales by pure plays to customers outside the UK, currency effects could also be contributing to this strong performance.

Clothing retailers saw sales fall again in August, following a short-lived uplift in July. The abovementioned gains by pure plays are likely impacting these retailers, but, as we have noted several times before, we think the apparel sector is bearing the brunt of consumers opting to spend on services: shoppers are choosing to spend on days out, sports and leisure events, and dining out instead of spending on clothing.

Health and beauty stores continued their strong run. We see this sector gaining from an aging society as well as from consumers' growing tendency to shop for groceries at limited-line discounters, which fuels demand for top-up shopping for branded goods. However, we think the recent strong numbers for the sector are likely due in part to methodological issues such as changes in the sample of retailers.

Figure 3. UK Retail Sales, by Sector: YoY % Change

	June	July	August
Total (ex Automotive Fuel)	1.1	4.0	3.8
Grocery Retailers	0.1	1.7	3.2
Specialist Food Stores	1.8	3.7	7.6
Beverage and Tobacco Specialists*	17.1	14.1	16.0
Mixed-Goods Retailers/Department Stores	2.4	5.6	7.0
Clothing Specialists	(7.6)	1.2	(4.3)
<i>Large Clothing Specialists**</i>	<i>(5.8)</i>	3.7	0.2
<i>Small Clothing Specialists**</i>	<i>(21.3)</i>	<i>(15.0)</i>	<i>(28.5)</i>
Footwear Specialists	(2.4)	17.0	(3.1)
Furniture and Lighting Stores	(3.0)	(5.6)	2.7
Electrical Goods Specialists	2.0	(3.8)	(5.9)
DIY and Hardware Stores	1.9	11.0	(6.0)
Music and Video Specialists	(1.9)	(8.6)	(10.2)



MONTHLY BRIEFING

Health and Beauty Specialists	5.9	11.0	16.9
Books and News Stores	(11.4)	(11.8)	(10.0)
Floor Coverings Specialists*	(17.5)	(0.6)	(6.7)
Computers and Telecoms Equipment*	21.0	4.2	3.1
Other Specialized Stores	7.5	13.0	10.6
Mail Order and Internet Pure Plays	9.8	10.0	15.8
Other Nonstore Retail*	6.9	2.0	7.9

*Relatively small sector, where figures may be distorted by methodological issues such as changes in the survey sample.

**A small retailer is defined as one with fewer than 100 employees or with revenues of £60 million or less per year; all others are large retailers.

Source: ONS

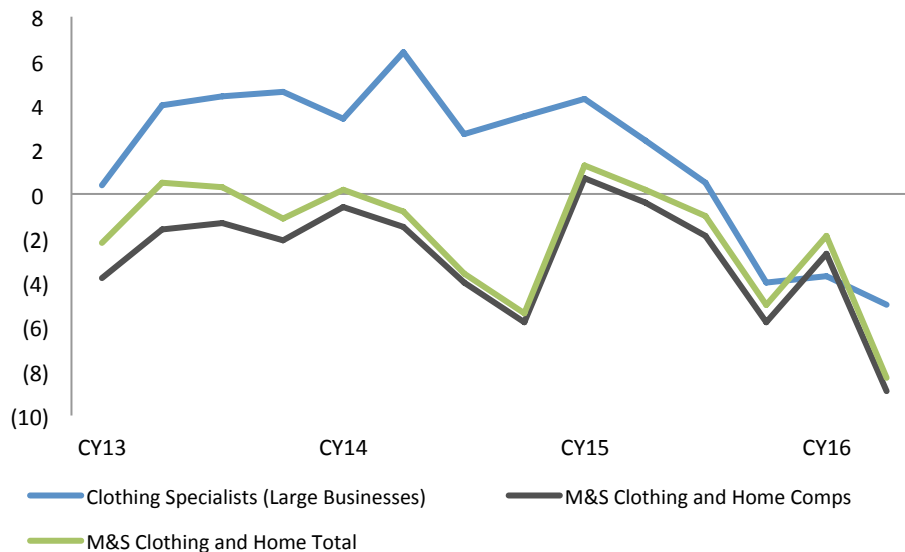
ONS NUMBERS SUGGEST TOP-LINE IMPROVEMENTS AT M&S

The performance of M&S's Clothing and Home division remains one of the most talked-about themes in retail. This stalwart of British retailing has turned in comparable sales declines in its Clothing and Home segment in 19 of its most recent 20 quarters. In its latest quarter, ended July 2, M&S posted segment comps of (8.9)%.

We observe a correlation between this segment's performance and quarterly ONS data for the clothing specialists (large businesses) sector. The growth rates are typically different but follow the same pattern. Sequential changes in the ONS monthly data may therefore be a leading indicator of sequential changes in M&S Clothing and Home comps.

- In July, the large clothing specialists sector swung to positive growth of 3.7%, boding well for M&S.
- In August, sector growth slipped back to 0.2%, but this was still ahead of the negative growth seen in previous months.

Figure 4. Clothing Specialists' (Large Businesses) Sector Sales vs. M&S Clothing and Home Segment Comparable Sales: YoY % Change, by Quarter



Closest comparable quarters were used; latest ONS quarterly data are for the second quarter. Source: ONS/company reports/Fung Global Retail & Technology

ONLINE RETAIL SALES GROWTH IS ACCELERATING

August Internet sales increased by 17.8% year over year, up from 17.4% in July. The maturation of the e-commerce channel would suggest that growth should be slowing;

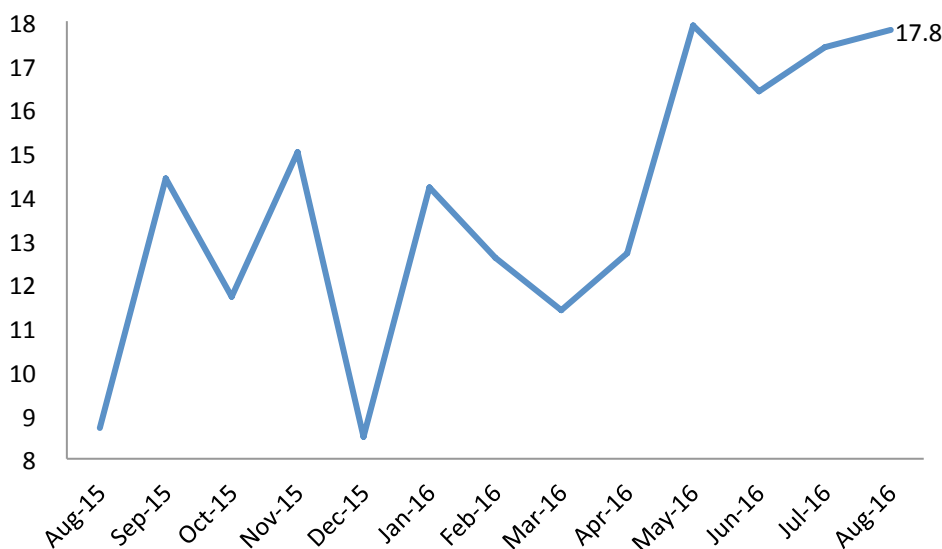


MONTHLY BRIEFING

instead, it is accelerating. If retailers are not stripping out their sales to non-UK customers, the weaker pound could be contributing to this strong recorded performance.

The acceleration is not simply about store-based retailers growing quickly online as they attempt to catch up with Internet-only retailers: in August, nonstore retailers (mainly pure plays) grew online sales by a substantial 24.1%. Nonstore retailers (i.e., pure plays) account for fully half of all UK online retail sales, according to ONS data, so the jump in growth for that segment was a major boost to the channel last month.

Figure 5. UK Internet Retail Sales: YoY % Change



Source: ONS

Household goods stores continued to lead growth in percentage terms in August, but the sector is minor in terms of its share of total online sales.

E-commerce accounted for 13.1% of all retail sales in August. The online channel's contribution was 11.1% at clothing and footwear specialists, 4.4% at food stores and 9.6% at household goods stores.

Figure 6. UK Internet Retail Sales, by Sector: YoY % Change

	June	July	August
All Internet Retail Sales	16.4	17.4	17.8
Food Stores	13.1	13.8	11.2
Mixed-Goods Retailers/Department Stores	17.5	22.7	18.8
Clothing and Footwear Specialists	(1.8)	8.7	(11.4)
Household Goods Stores*	45.6	38.9	46.6
All Other Stores	28.7	21.0	29.4
Nonstore Retailers	17.8	17.2	24.1

*Includes furniture and lighting specialists, electrical goods retailers, DIY and hardware stores, and music and video retailers.

Source: ONS



MONTHLY BRIEFING

Deborah Weinswig, CPA

Managing Director
Fung Global Retail & Technology
New York: 917.655.6790
Hong Kong: 852.6119.1779
China: 86.186.1420.3016
deborahweinswig@fung1937.com

John Mercer
Senior Analyst

HONG KONG:

8th Floor, LiFung Tower
888 Cheung Sha Wan Road, Kowloon
Hong Kong
Tel: 852 2300 4406

LONDON:

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

NEW YORK:

1359 Broadway, 9th Floor
New York, NY 10018
Tel: 646 839 7017

FungGlobalRetailTech.com