



MONTHLY BRIEFING

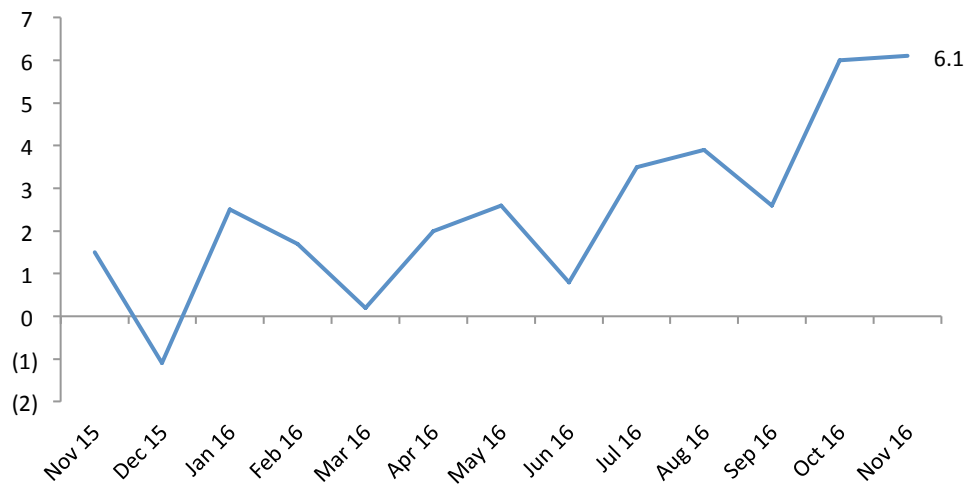
UK Monthly Retail Briefing: November 2016—Exceptionally Strong Pre-Christmas Run Continues

PURE PLAYS DRIVE GROWTH AGAIN

Here are our top takeaways from the November data:

- 1) Total UK retail sales jumped by an exceptional 6.1% year over year in November, nudging up from the already strong 6.0% in October.
- 2) Internet pure plays boosted the overall figures, and clothing stores saw a second consecutive month of positive growth.
- 3) The weak pound is almost certainly supporting growth, by flattering overseas sales by British retailers and by encouraging cross-border online shopping on UK retail websites.
- 4) The strong trend supports our previously published forecast for a robust Christmas period (November and December).
- 5) Black Friday prompted a recovery in growth at electrical goods retailers and a jump in online sales at clothing and footwear specialists.

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

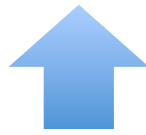


All data in this report are nonseasonally adjusted.
Source: Office for National Statistics (ONS)/Fung Global Retail & Technology



NOTABLE WINNERS AND LOSERS

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



Electrical goods specialists returned to positive growth, of 2.3%, likely fueled by Black Friday.

Clothing specialists registered a second consecutive month of growth, albeit only 0.4%.

Internet pure plays and mail-order retailers saw another very strong month, with sales climbing 28.4%.

DIY stores saw an unexpected bounce of 11.9%, perhaps helped by Black Friday promotions at leading chains B&Q and Homebase.



Two sectors that are in structural decline registered falling sales: **Music and video specialists'** sales fell by 2.3% and **book and news stores'** sales were down 3.5%.

Source: ONS/Fung Global Retail & Technology

RETAIL IN DETAIL

November echoed October in seeing unusually strong total sales growth, fuelled in large part by Internet-only retailers. The strong performance in November makes us confident in our forecast for a robust holiday period, which we consider to be the final two months of the year. Our report *UK Christmas 2016 Retail Outlook: A Bumper Brexit Holiday Expected* is available here: bit.ly/FungUKChristmas2016

Pure Plays: Black Friday was likely a contributor to the strong growth at Internet pure plays. However, we think Internet-only retailers have seen a particular boost from the depreciation of the pound. Retailers such as ASOS and boohoo.com generate a considerable proportion of sales outside the UK, and these are almost certainly included in their data submitted to the ONS—the weak pound will, therefore, be boosting their reported revenues. Moreover, in some cases, the weak pound may be prompting overseas shoppers to turn to British Internet retailers for cross-border shopping. Nevertheless, the performance is also indicative of an underlying outperformance by pure plays when measured against total Internet sales and the online sales of multi-channel retailers.

Grocery: November was a tepid month for grocery retailers, with growth of 1.2%. However, this was in the context of sustained 2% deflation in food prices, which means any positive growth reflects an increase in volumes.

Clothing: The recovery to positive growth continued, albeit at a very muted pace of 0.4%. We noted our expectations for apparel into 2017 in our recent report *The UK Apparel Handbook—2017 Outlook*, which can be found at bit.ly/FungApparel2017

Other Specialists: Black Friday appears to have driven a rise in sales at electrical goods specialists, the first positive sector growth since June. The sudden jump in sales for DIY and hardware stores is a little hard to account for, but Black Friday may have contributed.

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

	September	October	November
Total (ex Automotive Fuel)	2.6	6.0	6.1
Grocery Retailers	0.4	2.8	1.2
Specialist Food Stores	7.5	(2.8)	(2.9)
Beverage and Tobacco Specialists*	7.7	14.2	19.2
Mixed-Goods Retailers/Department Stores	5.8	5.5	5.0
Clothing Specialists	(5.2)	3.0	0.4
<i>Large Clothing Specialists**</i>	(3.2)	5.5	2.5
<i>Small Clothing Specialists**</i>	(19.4)	(17.3)	(18.5)
Footwear Specialists	(0.1)	4.3	6.7
Furniture and Lighting Stores	(0.7)	2.4	4.7
Electrical Goods Specialists	(1.3)	(3.3)	2.3
DIY and Hardware Stores	(5.7)	7.8	11.9
Music and Video Specialists	(12.3)	(9.6)	(2.3)
Health and Beauty Specialists	9.2	11.2	3.4
Books and News Stores	(9.7)	(6.6)	(3.5)
Floor Coverings Specialists*	(8.2)	(5.1)	9.4
Computers and Telecoms Equipment*	(3.0)	17.2	14.5
Other Specialized Stores	11.0	10.9	10.9
Mail Order and Internet Pure Plays	21.2	26.3	28.4
Other Nonstore Retail*	7.3	7.5	25.0

* Relatively small or fragmented 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 20 of its most recent 21 quarters. In its latest quarter, ended October 1, M&S posted segment comps of (2.9)%.

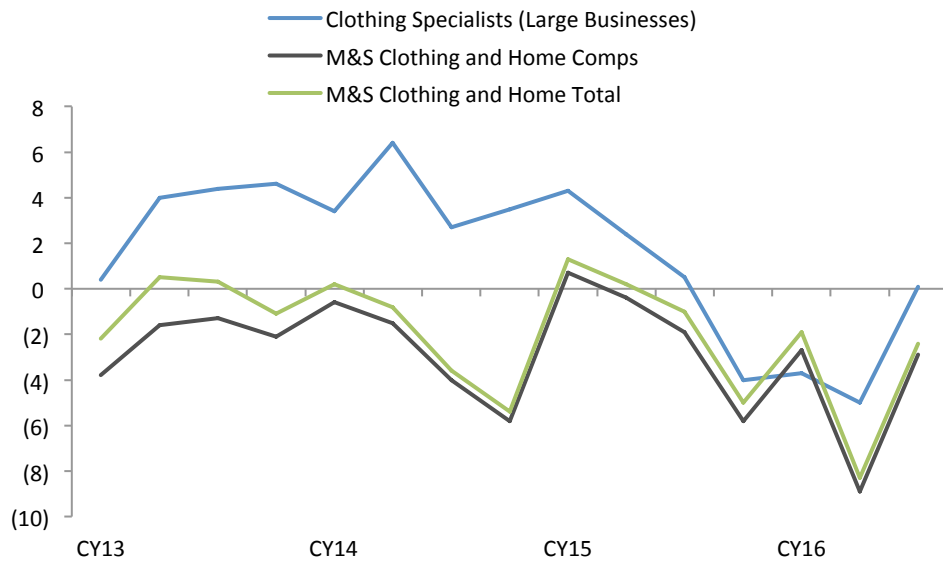
We observe a correlation between this segment's performance and quarterly ONS data for the clothing specialists (large businesses) sector. The growth rates are typically different but follow the same pattern. Sequential changes in the ONS monthly data may therefore be a leading indicator of sequential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

- In October, sector sales jumped 5.5% and in November sector sales grew by 2.5%. This positive growth suggests M&S will report an improved top-line performance in its next quarterly figures.
- M&S reports its 3Q17 trading update on January 12, 2017.



MONTHLY BRIEFING

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

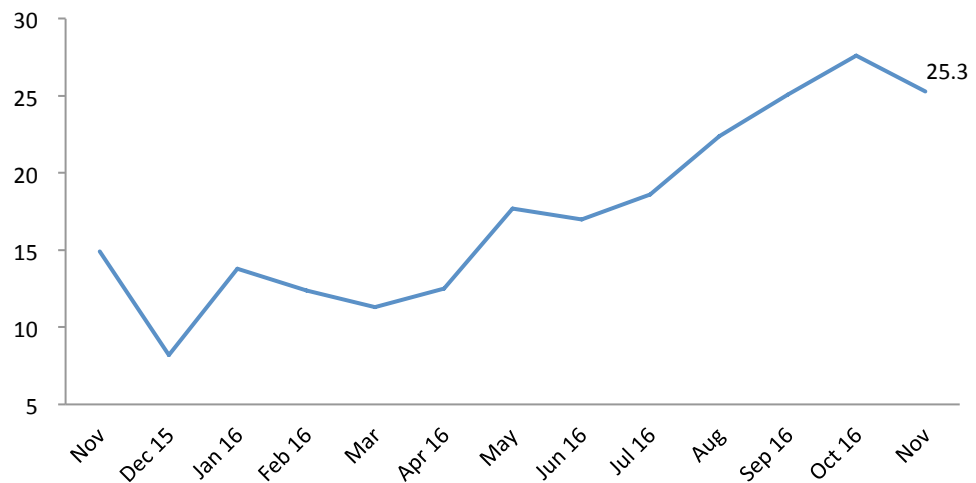


Closest comparable quarters were used; latest ONS quarterly data are for the third quarter. Source: ONS/company reports/Fung Global Retail & Technology

ONLINE RETAIL SALES GROWTH IS ACCELERATING

November was another bumper month for Internet retail sales, with the channel registering year-over-year growth of 25%. As with the data for pure plays, noted above, we expect the depreciation of the pound to be boosting international sales made by UK retailers and encouraging cross-border shopping.

Figure 5. UK Internet Retail Sales: YoY % Change



Source: ONS



MONTHLY BRIEFING

Online retail growth was fuelled by strong performances at food retailers, household goods stores (such as DIY and furniture specialists) and nonstore retailers (mainly Internet pure plays).

Clothing and footwear specialists saw online growth strengthen considerably, despite total sector sales growth softening. Black Friday, which is substantially an online event, was the likely driver of this online outperformance. Black Friday probably also contributed to the strength of food retailers online.

E-commerce accounted for 18.3% of all retail sales in November, the highest share ever recorded, and well above the 15.2% share in October. Black Friday was almost certainly the principal reason for this jump in online penetration. The online channel's contribution was 17.3% at clothing and footwear specialists, 5.4% at food stores and 12.1% at household goods stores.

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

	September	October	November
All Internet Retail Sales	25.1	27.6	25.3
Food Stores	14.3	24.5	23.7
Mixed-Goods Retailers/Department Stores	20.1	18.8	16.4
Clothing and Footwear Specialists	(2.7)	6.0	16.4
Household Goods Stores*	40.7	46.4	32.2
All Other Stores	30.7	33.1	22.9
Nonstore Retailers	34.7	33.4	29.6

**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