



UK December Retail Sales and Christmas Wrapup: A Bumper Holiday Period

In this report, we wrap up the latest UK retail sales data and company trading updates. Here are our top takeaways:

- 1) Official data and company updates confirm that it was a bumper holiday season. Total retail sales grew by 7.1% in December, the strongest December growth recorded in decades.
- 2) Grocery retailers enjoyed a bumper month, with sales up 4.3%.
- 3) Internet pure plays and mail-order retailers saw sales growth accelerate even further, to 30.9%.
- 4) Leading midmarket retailers such as Marks & Spencer (M&S), Debenhams, Tesco, Sainsbury's and Morrisons turned in better-than-expected top-line figures.
- 5) Apparel saw an end-of-year improvement, with M&S reporting positive comps, Tesco, Sainsbury's and Morrisons citing strong growth and ASOS and boohoo.com beating expectations.

Deborah Weinswig

Managing Director,
Fung Global Retail & Technology
deborahweinswig@fung1937.com
US: 917.655.6790
HK: 852.6119.1779
CN: 86.186.1420.3016

A Bumper Holiday Period

It was the bumper holiday season that we expected.

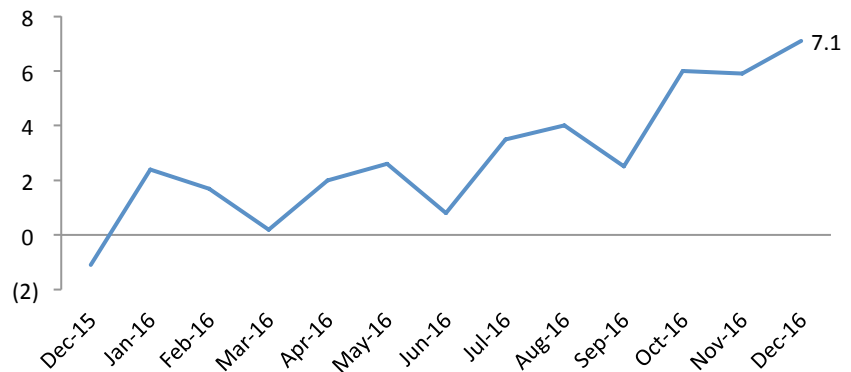
It was the bumper festive season that we expected. We were the only retail research firm to publicly forecast a strong Christmas period, and data from the Office for National Statistics (ONS) have joined a slew of trading updates to confirm the strength of holiday trading.

Total retail sales (ex automotive fuel) rose by 7.1% in December. This came on top of 5.9% growth in November. Weighted average growth of 6.6% across November and December exceeded even our bullish forecasts.

This report wraps up holiday retailing in two sections: Reviewing Retail Sales and Reviewing Retailer Performances.

Reviewing Retail Sales

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



*Note: All data in this report are nonseasonally adjusted.
Source: ONS/Fung Global Retail & Technology*

Notable Winners and Losers

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



Grocery retailers enjoyed a bumper month, with sales up 4.3%, compared to an average 1.3% for the previous 11 months. This was reflected in strong trading updates from a number of retailers.

Internet pure plays and mail-order retailers saw sales growth accelerate even further, to 30.9%.

Health and beauty stores enjoyed 10% growth.

Department stores/mixed-goods retailers grew sales by 6.8%. Retailers such as B&M and John Lewis reported a good holiday season.



Music and video specialists' sales fell by 10.6%.

Electrical goods stores saw sales fall 5.2%.

Source: ONS/Fung Global Retail & Technology



Growth of 7.1% made it the strongest December for retail since the current run of ONS data began.

Retail in Detail

Growth of 7.1% made it the strongest December for retail since the current run of ONS data began, in 1989 (that year comes closest, incidentally, with 7.0% growth in December). This was against undemanding comparatives from last year, which was the weakest December for retail in a quarter of a century.

Growth was supported by a very robust performance at **grocery stores**. This was reflected in Tesco, Sainsbury’s and Morrisons beating expectations and Aldi and Lidl maintaining double-digit growth (see our wrapup of company results later in this report).

Internet pure plays were the star of the show, growing sales by 30.9%, an acceleration from the already-very-strong growth of previous months. This was reflected in updates from Internet-only retailers such as ASOS and boohoo.com.

Department stores and mixed-goods retailers enjoyed solid 6.8% growth. B&M Bargains was a standout retailer in this sector, reporting 20.7% UK sales growth in its holiday quarter.

Clothing stores saw tepid growth of 0.8%, but at least it was positive: nine of the preceding 11 months saw negative growth in the sector.

Electrical goods specialists saw a 5.2% fall in sales, likely driven by smaller players. The leading specialist Dixons Carphone is set to report on January 24.

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

	Oct.	Nov.	Dec.
Total (ex Automotive Fuel)	6.0	5.9	7.1
Grocery Retailers	3.2	1.4	4.3
Specialist Food Stores	5.8	5.2	(8.0)
Beverage and Tobacco Specialists*	12.8	15.6	18.4
Mixed-Goods Retailers/Department Stores	4.3	3.5	6.8
Clothing Specialists	2.8	(0.3)	0.8
<i>Large Clothing Specialists**</i>	5.6	2.6	2.8
<i>Small Clothing Specialists**</i>	(20.2)	(26.0)	(18.5)
Footwear Specialists	4.9	5.5	4.6
Furniture and Lighting Stores	2.3	4.7	3.0
Electrical Goods Specialists	(3.4)	(0.2)	(5.2)
DIY and Hardware Stores	7.7	11.5	8.3
Music and Video Specialists	(10.0)	(2.8)	(10.6)
Health and Beauty Specialists	11.4	5.3	10.0
Books and News Stores	(5.6)	(2.5)	8.7
Floor Coverings Specialists*	(5.1)	8.4	(0.6)
Computers and Telecoms Equipment*	16.6	14.3	9.9
Other Specialized Stores	9.4	10.5	13.1
Mail Order and Internet Pure Plays	25.3	28.3	30.9
Other Nonstore Retail*	9.3	20.4	28.5

** 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



Our holiday forecast was for growth in November and December in aggregate. We forecast total growth of 3.5%–4.0%, and actual growth across these months came in ahead even of our high expectations, at 6.6%. The major acceleration in growth at Internet-only retailers was a particular boost to actual sector growth versus our advance estimates.

- Our report, *UK Christmas 2016 Outlook: A Bumper Brexit Holiday Expected*, can be found at bit.ly/FungUKChristmas

Why were sales so strong? First, it is clear that British consumers are shrugging off some economists' warnings about the possible negative impacts from the Brexit vote. Wages are up, interest rates are lower than ever and consumers are borrowing to spend.

Additionally, retailers have enjoyed a boost from the depreciation of the pound. Retailers such as ASOS and boohoo.com generate a considerable proportion of sales outside the UK, and 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.

Finally, strong tourist spending boosted sales. Payments firm Worldpay reported spending on foreign cards in the UK jumped 22% year over year in December, while the Heart of London Business Alliance said that tourist spending in London's West End climbed by 25% year over year in the same month.

Leading midmarket retailers such as M&S, Debenhams, Tesco, Sainsbury's and Morrisons turned in better-than-expected top-line figures.

Reviewing Retailer Performances

Below, we provide a rundown of top-line results from major UK retailers. These tend to support the view of a bumper Christmas period. Leading midmarket retailers such as M&S, Debenhams, Tesco, Sainsbury's and Morrisons turned in better-than-expected top-line figures.

Apparel saw an end-of-year improvement: M&S posted comparable sales growth in Clothing and Home after six negative quarters; John Lewis reported Fashion segment sales up 7%. Tesco, Sainsbury's and Morrisons each cited strong clothing sales as a factor in their performance, with sales up 4% at Tesco and 10% at Sainsbury's (no figure for Morrisons). JD Sports reported "excellent progress" although it did not release specific figures. The major Internet pure plays were very strong, with growth at boohoo.com and ASOS far exceeding online growth at their multichannel competitors and with both companies beating consensus.

Next was the major exception in apparel, missing expectations by a wide margin and turning in mediocre growth, even online.

Each of the public nondiscount grocers beat expectations, while Lidl and Aldi maintained double-digit sales growth. Walmart-owned Asda reports its 4Q16 on February 21 and, given the outperformance of its rivals, there looks to be limited scope for a significant improvement from its previous weak performance: comps were down 5.8% in 3Q16.

For manageability, we split our rundown by sector, beginning with nonfood retailers.

Figure 4. Major UK Nonfood Retailers: Holiday-Period Results

Retailer	Period	Total Sales Growth (%)	Comps (%)	Online Sales Growth (%)	Notes
Apparel and Department Stores					
M&S Group	13 weeks end Dec. 31 (3Q17)	5.9	N/A	9.4	Total group sales growth 4.3% at constant currency (CCY). Total UK comps 1.3% and total UK sales growth 4.5%. International total sales growth 18.9% as reported, or 2.9% at CCY. M&S UK Food is listed under Grocery.
<i>M&S UK Clothing and Home</i>	<i>13 weeks end Dec. 31 (3Q17)</i>	<i>3.1</i>	<i>2.3</i>	<i>9.4</i>	
Next	Nov 1–Dec 24	(0.4)	N/A	5.1	Next Brand full-price sales.
Primark	16 weeks end Jan. 7	22	N/A	N/A	Global sales growth. Total sales growth 11% at CCY and 12% at CCY on a “comparable-week” basis. Sales growth 23% as reported on a “comparable-week” basis.
John Lewis Partnership	Six weeks end Dec. 31	4.9	N/A	N/A	John Lewis Department Store and Waitrose supermarkets. Waitrose is listed under Grocery.
<i>John Lewis Department Store</i>	<i>Six weeks end Dec. 31</i>	<i>4.9</i>	<i>2.7</i>	<i>11.8</i>	<i>Gross sales growth.</i>
Debenhams	18 weeks end Jan. 7	3.7	3.5	13.9	Total sales growth is for gross transaction value. UK comps 1.0%; group comps 0.5% at CCY.
<i>Debenhams</i>	<i>Seven weeks end Jan. 7</i>	<i>5</i>	<i>5</i>	<i>17</i>	<i>Total sales growth is for gross transaction value. Group comps 1.7% at CCY. No UK-only figures given.</i>
House of Fraser	Six weeks end Dec. 31	N/A	2.7	N/A	No total sales growth figure given.
ASOS	Four months end Dec. 31	36	N/A	N/A	Total sales growth 30% at CCY. UK retail sales growth 18%. US retail sales growth 66% (42% at CCY); EU retail sales growth 49% (38% at CCY); RoW retail sales growth 46% (44% at CCY). Total international retail sales growth 52% (41% at CCY).
H&M	December	6	N/A	N/A	Global sales growth at CCY.
Matalan	Five weeks end Dec. 31	(2.9)	N/A	N/A	Full-price sales growth 29.1%.
N Brown	18 weeks end Dec 31 (3Q17)	4.1	N/A	12	Revenue at JD Williams, Simply Be and Jacamo up 10%.
SuperGroup	10 weeks end Jan. 7	20.6	14.9	N/A	Retail revenues.
Boohoo.com	Four months end Dec. 31	55	N/A	N/A	Total sales growth 52% at CCY. UK sales growth 31%; Rest of Europe revenue growth 63% (54% at CCY); US revenue growth 230% (188% at CCY); RoW revenue growth 66% (57% at CCY).

Retailer	Period	Total Sales Growth (%)	Comps (%)	Online Sales Growth (%)	Notes
Burberry	Three months end Dec. 31 (3Q17)	21.9	3	N/A	Retail revenues. Revenue growth 4% at CCY. Only around 10% of revenues are UK.
General Merchandise					
Argos	15 weeks end Jan. 7 (3Q17)	4.1	4.0	N/A	
B&M European Value Retail	Sep 25–Dec 24 (3Q17)	21.8	N/A	N/A	Total sales increased 20.5% at CCY. For Germany, 3Q17 covers October 1–December 31.
<i>B&M UK</i>	<i>Sep 25–Dec 24 (3Q17)</i>	<i>20.7</i>	<i>7.2</i>	<i>N/A</i>	
Shop Direct Group	Seven weeks end Dec. 23	9	N/A	N/A	Sales up 19% at Very.co.uk.
AO World	Three months end Dec. 31 (3Q17)	12.3	N/A	N/A	UK revenue up 8.9%; Europe revenue up 28.4% at CCY.

Source: Company reports

Figure 5. Major UK Food Retailers: Holiday-Period Results

Retailer	Period	Total Sales Growth (%)	Comps (%)	Online Sales Growth (%)	Notes
Tesco Group	13 weeks end Nov. 26 (3Q17)	6.5	1.5	N/A	Ex fuel. Total group sales growth 1.5% at CCY.
<i>Tesco UK</i>	<i>13 weeks end Nov. 26 (3Q17)</i>	<i>1.4</i>	<i>1.8</i>	<i>N/A</i>	<i>Ex fuel.</i>
Tesco Group	Six weeks end Jan. 7	4.3	0.3	N/A	Ex fuel. Total group sales growth 0.2% at CCY.
<i>Tesco UK</i>	<i>Six weeks end Jan. 7</i>	<i>0.1</i>	<i>0.7</i>	<i>N/A</i>	<i>Ex fuel.</i>
J. Sainsbury	15 weeks end Jan. 7 (3Q17)	0.8	0.1	9	Ex fuel. Total sales growth excludes the impact of pharmacy disposals. Including the impact of pharmacy disposals, and excluding fuel, total sales fell by 0.3%.
Wm Morrison	Nine weeks end Jan. 1	2	2.9	N/A	Ex fuel.
Aldi UK	December	15	N/A	N/A	Comps of 5% in December, according to <i>The Sunday Times</i> ; Aldi would not confirm.
Co-op	Sep. 21–Dec. 31 (4Q16)	N/A	3.4	N/A	Comps of 3.5% in three weeks ended December 31.
Waitrose	Six weeks end Dec. 31	4.8	2.8	0.8	Gross sales growth ex fuel.
Lidl UK	December	10	N/A	N/A	
M&S UK Food	13 weeks end Dec. 31 (3Q17)	5.6	0.6	9.4	

Source: Company reports



At the time of writing, a few notable retailers had yet to report. In addition to Asda, noted earlier, these include Dixons Carphone (reporting January 24) and Ocado (reporting FY16 results on January 31). Sports Direct does not typically issue a Christmas-period statement, and its next scheduled update is its preliminary FY17 results on July 20. We next hear from JD Sports when it publishes its full-year results on April 11.

Holiday Shopping Themes

In early November, we published our *Holiday Shopping Themes* report, identifying five themes that we predicted would be seen in UK Christmas trading. Here is how they measured up:

We had forecast that shoppers would trade up from discount channels to nondiscount retailers, and from standard to premium lines, and a number of datapoints point to this happening.

- 1. Services and experiences are the new gifts:** Confirming that shoppers spent freely on experiences, Barclaycard data reported that spending on dining out, cinema tickets and concert tickets surged 7.6% in December, with spending up 10% at pubs and 11% at restaurants.
- 2. Brits' spending power to enjoy a low-inflation boost:** ONS data confirm that groceries were deflationary across November and December, freeing up cash for spending elsewhere and fueling the trading-up trend that is our third theme.
- 3. The "Tesco effect" means trading up looks likely:** We had forecast that shoppers would trade up from discount channels to nondiscount retailers, and from standard to premium lines, and a number of datapoints indicate that this happened. A host of nondiscount retailers such as Tesco, Sainsbury's, Morrisons and M&S reported better-than-expected results. Tesco, which was the flagbearer for this theme, saw its first market-share gains in five years, while Morrisons posted its best comps for seven years. Moreover, retailers from Aldi to Sainsbury's to Morrisons reported strong year-over-year growth in premium lines, suggesting shoppers traded up versus last year.
- 4. Turning to the Internet means turning to pure plays:** ONS data confirm a boom in sales at Internet-only retailers, while trading results from ASOS and boohoo.com were not only very strong, but beat analysts' expectations.
- 5. Black Friday set to plateau?** As we had forecast, some retailers such as M&S opted out of Black Friday this year. And data from analytics firms confirmed that growth slowed considerably: IMRG noted that online sales on Black Friday underpaced expectations, growing 12% compared to the 16% it forecast. Meanwhile, data compiled by analytics firm Springboard showed online purchases rising just 6.7% versus its 25% forecast, and instore footfall increasing just 2%.
 - Our *Holiday Shopping Themes* report can be found at bit.ly/FungHolidayThemes.



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