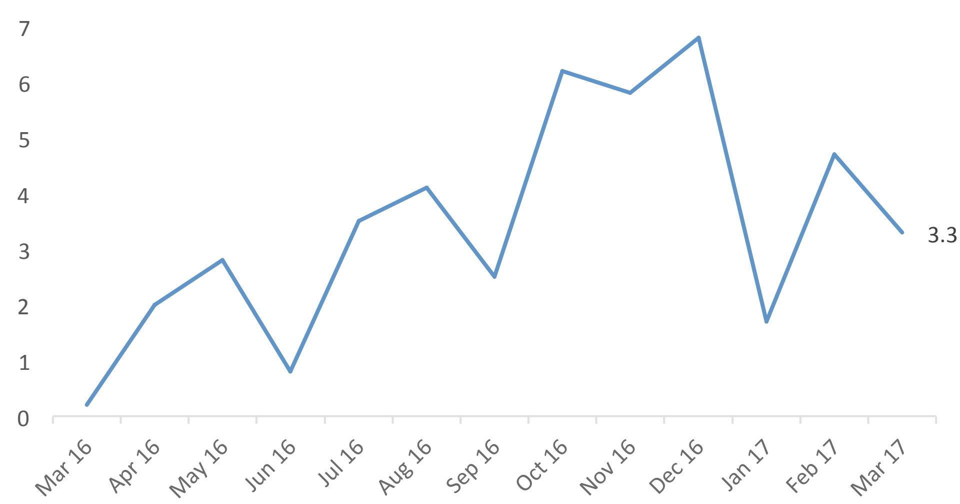
MONTHLY BRIEFING

UK Monthly Retail Sales: Solid Growth in March 2017 Despite a Later Easter

Here are our top takeaways from the UK retail sales figures for March:

1) Total retail sales grew by a solid 3.3% year over year, despite demanding Easter comparatives, due to Easter falling in March last year but in April this year.
2) Grocery sales growth was modestly positive, at 1.4% year over year.
3) Clothing specialists saw sales growth strengthen to 7.3%.
4) Online-only retailers again drove growth, with sales rising by 24% in the month.

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

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

Clothing specialists continued their recovery, growing sales by 7.3%, versus a 6.8% rise last month.

Internet pure plays and mail-order retailers enjoyed a 24.0% increase in sales.

Health and beauty stores continued their strong run, with sales up 13.4%.

Furniture store sales continued to fall, declining by 2.1%.

Structural declines continued for **books and news stores**, whose sales were down 5.7%, and **music and video stores**, whose sales were down 9.8%.

Small or fragmented sectors such as **food specialists** and **beverage and tobacco specialists** registered further declines.

Source: ONS/Fung Global Retail & Technology

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Retail In Detail

Easter boosted sales in March last year and will have boosted sales in April this year. Given the timing impact, March sales were healthy, up 3.3% year over year on an unadjusted basis. The ONS says that sales adjusted for seasonal factors such as Easter were up fully 4.7% in March.

The **grocery retail** sector grew sales by 1.4%, slightly below the rolling 12-month average. We expect this sector to have recovered sales in April, due to the later timing of Easter this year.

After a weak 2016, **clothing specialists** continued their improving trend, with growth strengthening to 7.3%. While this was underpinned by high growth among small retailers, large retailers' sales were still up more than 5%.

Internet pure plays continued to power ahead, with sales up 24.0%, comfortably ahead of the rolling 12-month average.

Department stores/mixed-goods retailers remained weak, though at least they returned to positive territory, at 0.6% growth.

Automotive fuel retailers' sales increased by 12%, with inflation running at 16.4% in March. We have previously noted that rising fuel prices are likely to impact discretionary consumer spending this year.

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

	January	February	March
Total (ex Automotive Fuel)	**1.7**	**4.7**	**3.3**
Grocery Retailers	0.0	2.5	1.4
Specialist Food Stores	(3.7)	(6.9)	(7.6)
Beverage and Tobacco Specialists*	(4.0)	(10.5)	(7.1)
Department Stores/Mixed-Goods Retailers	(4.1)	(0.8)	0.6
Clothing Specialists	3.5	6.8	7.3
*Large Clothing Specialists***	*1.4*	*3.9*	*5.2*
*Small Clothing Specialists***	*22.6*	*35.6*	*27.8*
Footwear Specialists	3.3	5.7	(1.8)
Furniture and Lighting Stores	(6.5)	(3.6)	(2.1)
Electrical Goods Specialists	4.1	6.8	5.2
DIY and Hardware Stores	(4.1)	(1.3)	0.1
Music and Video Specialists	(8.3)	(4.7)	(9.8)
Health and Beauty Specialists	9.3	9.6	13.4
Books and News Stores	(8.6)	(10.1)	(5.7)
Floor Coverings Specialists*	3.0	11.4	18.6
Computers and Telecoms Equipment*	(9.9)	(12.8)	(9.2)
Other Specialized Stores	7.1	17.5	0.8
Mail Order and Internet Pure Plays	19.2	25.5	24.0
Other Nonstore Retail*	8.6	(20.4)	9.3
Automotive Fuel Retailers	*8.8*	*17.8*	*12.0*

** 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

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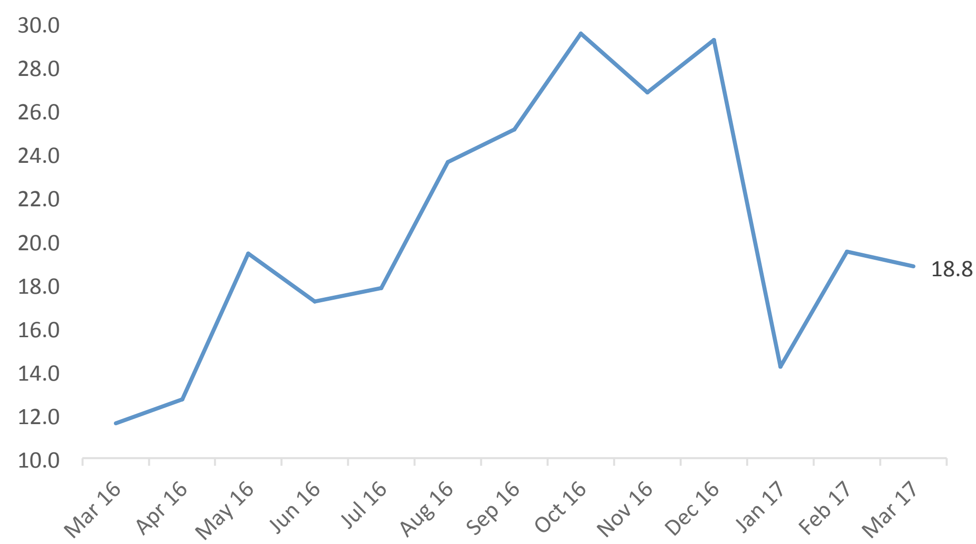
Online Retail Sales Growth Improves

Total Internet sales grew by 18.8% in March, versus growth of 19.5% in February. As noted above, online-only retailers grew sales by around one-quarter in both months, meaning that pure plays continue to gain share of online sales.

Figure 4. UK Internet Retail Sales: YoY % Change



Source: ONS

Clothing and footwear specialists enjoyed a bumper month online, with sales up 27.8%.

E-commerce accounted for 15.0% of all retail sales in March. The online channel's contribution was 15.6% at clothing and footwear specialists, 13.0% at department stores/mixed-goods retailers, 10.5% at household goods stores and 5.1% at food stores.

Figure 5. UK Internet Retail Sales, by Sector: YoY % Change

	January	February	March
All Internet Retail Sales	14.2	19.5	18.8
Food Stores	14.4	12.6	16.8
Department Stores/Mixed-Goods Retailers	19.8	17.4	13.6
Clothing and Footwear Specialists	14.8	18.1	27.8
Household Goods Stores*	16.2	22.7	17.1
All Other Stores	24.6	19.2	20.2
Nonstore Retailers	11.3	22.2	18.0

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

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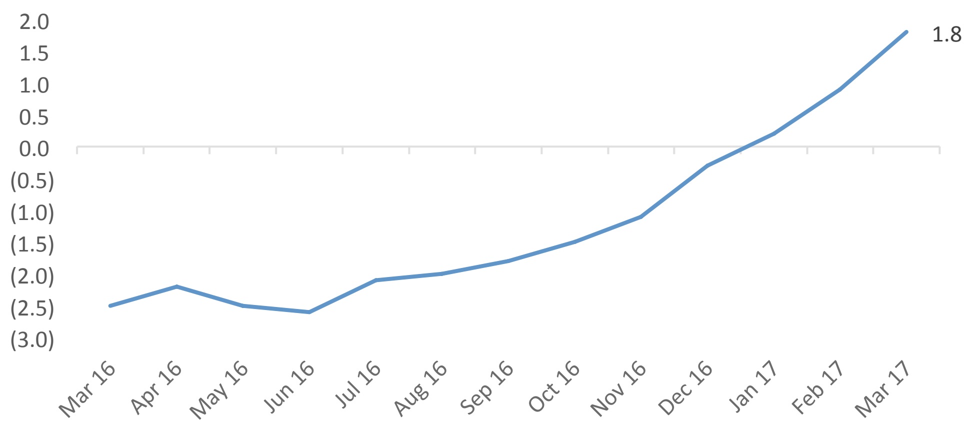
Grocery Prices in Focus

Rising grocery prices remain a hot issue, given the impact of the pound's depreciation on products sourced outside the UK.

According to the ONS, shop-price inflation in food stores was 1.8% in March, versus 0.9% in February, continuing a trend of sequential monthly increases.

Figure 6. UK YoY Price Inflation in Food Stores (%)

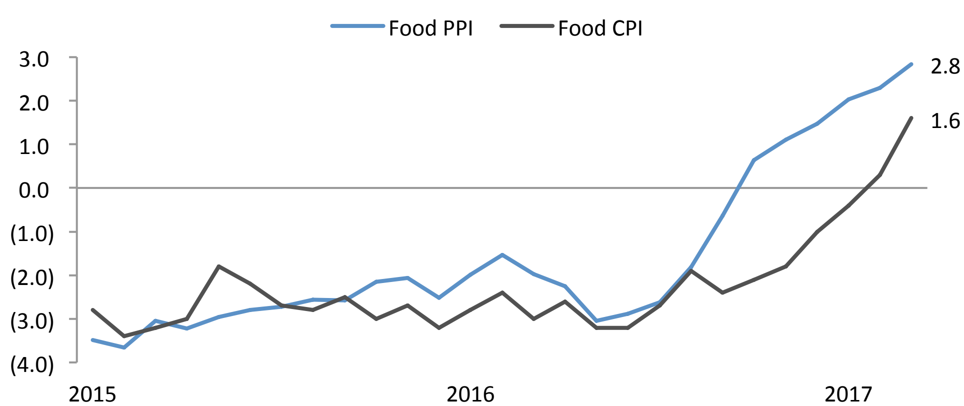


Source: ONS

Food retailers are not passing on to consumers the full costs associated with rising input prices, however. Below, we chart the Consumer Price Index (CPI) for food and the Producer Price Index (PPI) for food production output.

Since September 2016, CPI has substantially underpaced PPI, suggesting food retailers and brands are being forced to absorb a considerable portion of raised input prices. In March, the gap between the two measures was 124 basis points, albeit narrowing from 200 basis points in February.

Figure 7. UK PPI for Food Production versus CPI for Food (%)



Source: ONS/Fung Global Retail & Technology

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