

The UK's mixed retail outlook

Article

The news: UK retailers are feeling optimistic about sales growth for the first time since September, per the Confederation of British Industry (CBI)'s latest survey.

- Retailers' expected sales balance rose to +9 for April, up considerably from -18 in March—only the second time it has tilted positive since May 2022.

Signs of growth: Despite the cost-of-living crisis, consumer spending remains robust.

- **February sales volumes rose 1.2% month-over-month (MoM)**, driven by higher sales in non-food stores (which increased 2.4% MoM), **per** the Office of National Statistics. That's significantly higher than the 0.2% economists polled by Bloomberg expected—yet another sign of consumer resilience.
- **Consumer expectations of inflation are easing.** Household inflation expectations reached their lowest point since November 2021, per the Bank of England, which could reduce pressure on businesses to raise wages in line with inflation.
- **So are manufacturers' inflation expectations.** UK manufacturers' expectations for selling price inflation fell to their lowest level since May 2021, **according to** the CBI's Industrial Trends Survey, which should lead to some cost relief for consumers.
- **And retailers are seeing signs of recovery.** Ocado Retail expects business to improve in the second half of the year as its customer base continues to grow. The online grocer said average weekly orders rose 3.6% in Q1, while its active customer base grew 13.8% year-over-year (YoY).

Persistent cost crunches: While there are reasons for optimism, retail growth in 2023 will be tempered by a number of factors.

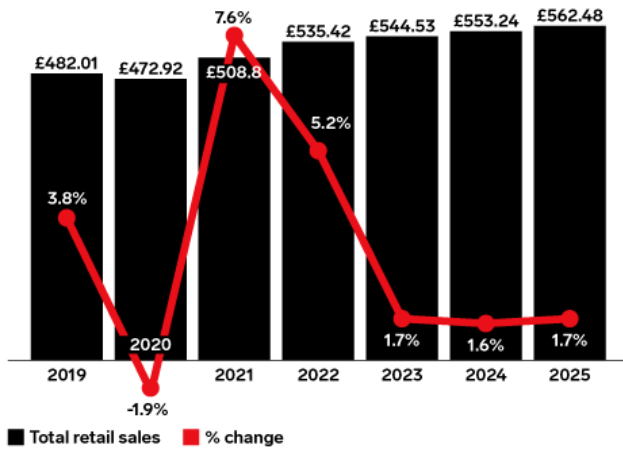
- **Grocery inflation remains at a record high.** Grocery prices were 17.5% higher YoY in March, **per** Kantar data reported by Reuters, adding £837 (\$1031) to households' annual bills. And poor harvests and high energy costs could compound produce shortages and keep food inflation elevated.
- **Wage growth is well below inflation.** Pay growth slowed in January to 5.7%, per the ONS, significantly below the UK's current 10.4% **inflation rate**.
- **Shoppers are looking for savings wherever possible.** Non-food sales growth in February was driven by more consumers shopping for deals at discount and secondhand stores, an indication that price sensitivity will continue to play a significant role in purchase decisions.

Looking ahead: Retailers will undoubtedly face difficulties ahead as they attempt to convince cash-strapped consumers to spend their money on items beyond groceries. To avoid losing shoppers entirely, companies will need to emphasize value and reward loyalty.

- Despite the difficulties, **we expect UK retail sales to grow 1.7% this year**, although much of that growth will be driven by higher prices rather than growing sales volumes.

UK Total Retail Sales, 2019-2025

billions of £ and % change



Note: excludes travel and event tickets, payments such as bill pay, taxes, or money transfers, restaurant sales, food services and drinking place sales, gambling and other vice goods sales
Source: eMarketer, Nov 2022

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