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Research Briefing

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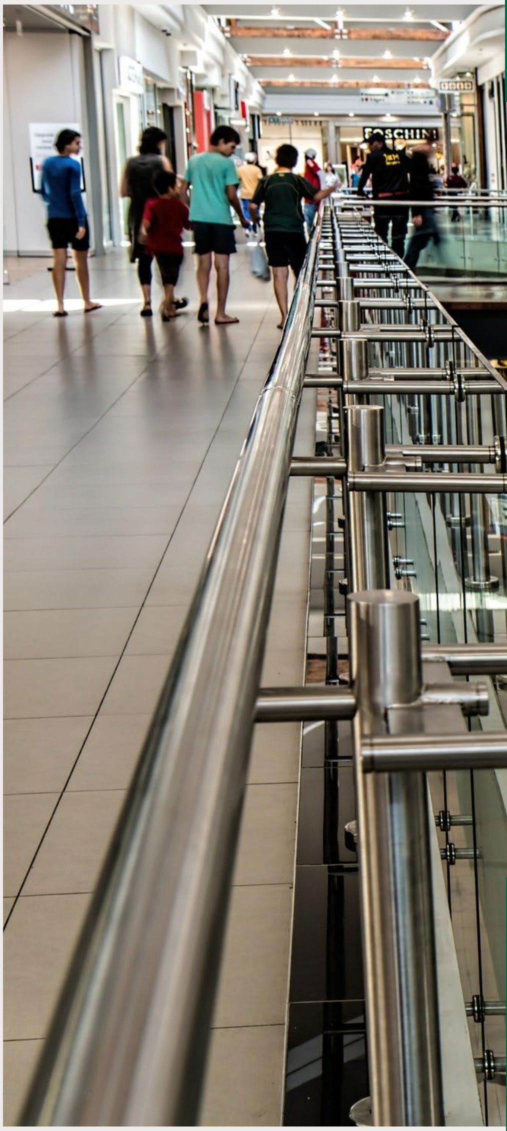
By Matthew Ward

Retail sector in the UK



Summary
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Summary

The retail sector is going through a prolonged period of upheaval – the Centre for Retail Research have described the industry as undergoing a "permacrisis" since the 2008 financial crash.

Factors such as changing consumer behaviour, increased internet shopping and challenging economic conditions are changing the way retailers operate and engage with their customers. The coronavirus pandemic and increased cost of living have added to these challenges and accelerated trends such as increased online shopping and closures of retail premises.

This briefing paper describes the current state of the retail sector in the UK using data and recent reports on the industry. Sometimes due to data availability, data refers to Great Britain only. This briefing covers the retail sector only (not the wholesale sector) and does not provide information on government policy in the retail sector.

Key figures

- Retail sector economic output was £112.8 billion in 2023, 4.9% of the UK's total economic output and a 2.4% increase on 2022.
- There were 2.7 million jobs in the retail sector in 2022.
- There were 314,040 retail businesses as of 1 January 2023.

In 2023, retail sales in Great Britain were worth £510 billion, an increase of 3% on 2022.

For every pound spent in 2023:

- 40 pence was spent in food shops – a 9% rise on 2022.
- 11 pence was spent in clothing shops (including textiles and footwear) – an increase of 7% on 2022.
- 9 pence was spent on automotive fuel – a fall of 12% on 2022.
- 7 pence was spent in household goods shops (including electronics and furniture stores) – a fall of 1% on 2022.

Impact of the pandemic on retail sales

At the onset of the Covid-19 pandemic in March 2020, retail sales fell dramatically as lockdown restrictions closed non-essential retail stores. Trends in retail sales were erratic for the remainder of 2020 and 2021, though overall, broadly returned to pre-pandemic levels from March 2021. Since August 2022, retail sales have generally fallen back below pre-pandemic levels, with the exception of sales in household goods stores, which have remained above pre-pandemic levels.

Internet sales

Internet sales have been rising since 2008 (when ONS data began) reaching around 20% of all retail sales in Great Britain in 2019. Online sales rose sharply at the onset of the pandemic as physical stores were closed, reaching a record high of 37% in February 2021. Internet sales as a proportion of all retail sales have generally fallen since February 2021, though remain above pre-pandemic levels. Internet retailing is more popular in the UK than other European countries and the USA.

Store closures

Figures from the Centre for Retail Research indicate the number of stores closures in 2023 was 971, the lowest number of store closures since 2015, though this was a result of 62 retail businesses failing, the highest number since the Centre for Retail Research began collating this data in 2007.

Data from the Local Data Company indicates that the rate of vacant retail units increased steadily in 2020 and 2021, from 12.2% in Q1 2020 to a high of 14.5% in Q2 and Q3 2021. While vacancy rates fell in five successive quarters following Q3 2021, they remain above pre-pandemic levels.

1 The retail sector in the UK: definition and statistics

1.1 Definition of the retail sector

The retail sector includes any business or individual involved with selling products directly to consumers. The retail sector includes shops, department stores, supermarkets, market stalls, door-to-door salespeople and internet retailers.

Related sectors include the wholesale sector (which supplies retailers), the logistics sector (which connects wholesalers and producers with retailers), and the manufacturing sector (which produces the products sold by retailers). This briefing paper focuses on the retail sector only.[1]

Retail stores are an important part of high streets and town centres. However, it is important to note that the retail industry is broader than just sales on the high street. The statistics in this briefing represent the whole retail sector including in shopping centres, retail parks and online sales.

For further discussion about high streets, see the Library briefing: Town centre regeneration.

1.2 Economic contribution of the retail sector

Summary

- The retail sector's economic output was £112.8 billion in 2023, 4.9% of the UK's total economic output and a 2.4% increase on 2022.[2]
- There were 2.7 million jobs in the retail sector in 2022.[3]
- There were 315,000 retail businesses as of 1 January 2023.[4]

[1] The retail sector is defined as Standard Industrial Classification (SIC) code 47: businesses engaged in the sale without transformation of new and used goods mainly to the general public for personal or household consumption or utilisation.
[2] In terms of Gross Value Added (GVA). ONS, GDP low level aggregates data, 15 February 2024 (Gross value added, current prices, series KK7F, KKP5)
[3] ONS and NISRA, Business register and employment survey, 2022
[4] Department for Business and Trade, Business population estimates 2023 (data as of 1 January 2023).

Economic output

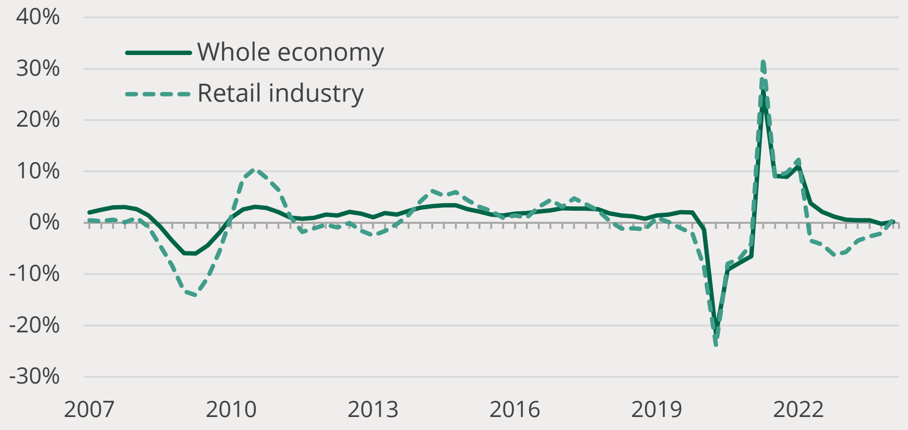
The economic output of the retail sector in 2023 was £112.8 billion, which was 4.9% of the UK's total economic output.[5]

The retail sector's economic output fell by 1.8% in 2020 compared to 2019, following the impact of the coronavirus pandemic.

The economic output of the sector returned to pre-pandemic levels by the end of 2020. Output fell again in the first quarter (Q1) of 2021 to 0.3% below Q1 2019. The pandemic has had very different impacts across different types of retail stores – this is discussed further in section 2.

Retail sector economic output

% change in GVA on previous year, quarterly data, UK



Source: ONS, GDP Output approach – low level aggregates, 10 May 2024, series KLA8 and KL74

Over the past ten years, the retail sector's economic output has largely followed a similar path to the whole economy.

The retail sector saw a fall in economic output and then weak growth following the financial crisis and subsequent recession of 2008, until late 2012. In 2013, the sector began to recover and grew strongly from 2014 until late 2016. The retail industry, like the economy as a whole, suffered a severe downturn as a result of the pandemic, and output in the retail sector has generally remained below pre-pandemic levels since March 2020.

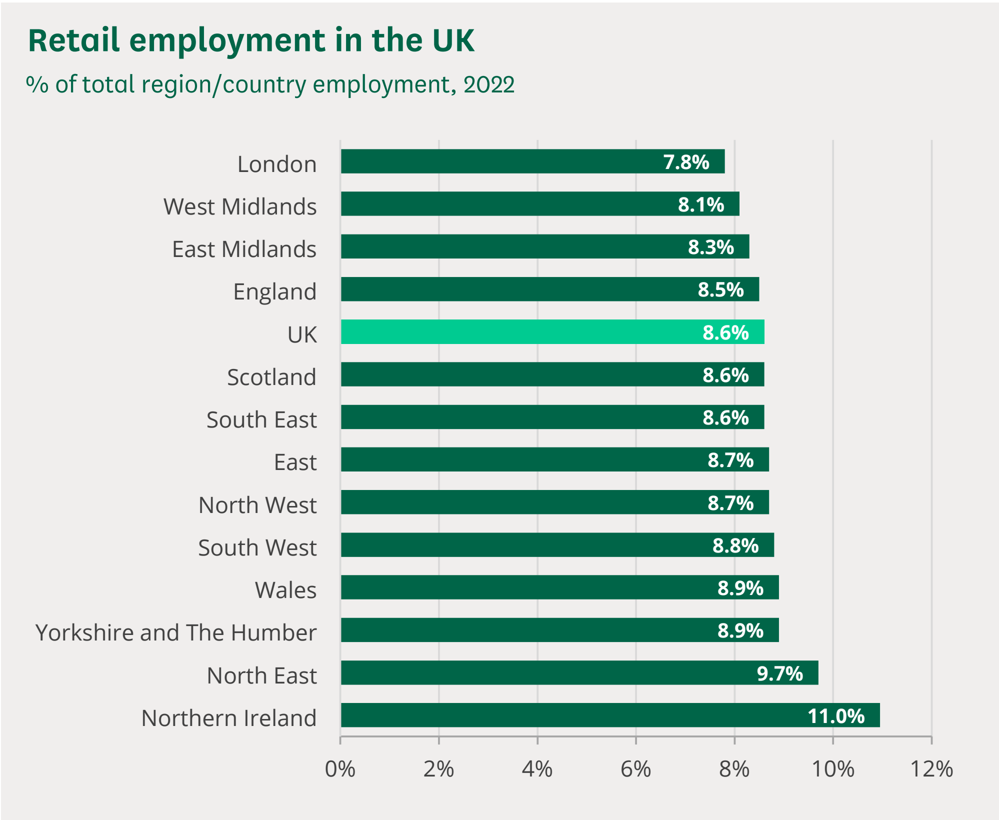
[5] In terms of Gross Value Added (GVA). GVA is a measure of economic activity similar to GDP. Briefly, GVA is the contribution of part of the economy, minus costs incurred in production. Source: ONS, GDP low level aggregates data, 10 May 2024 (Gross value added, current prices, KK7F).

1.3 Employment

Employment in the retail sector in the UK was around 2.7 million in 2022, 8.6% of the UK total. This was a fall of 5% compared to 2021 (over the same period, total employment in the UK grew by 2%).[6]

Employment in the retail sector is fairly evenly distributed across most regions and countries of the UK, shown in the chart below.

London had the lowest proportion of retail employment in 2022 (7.8% of jobs in London were in retail) and Northern Ireland had the highest (11.0%), followed by the North East on 9.7%.



Source: ONS and NISRA, Business register and employment survey: 2022, via NOMIS.

Note: Employment estimates includes employees and self-employed workers registered for PAYE or VAT. Northern Ireland includes only employee jobs.

[6] Data from ONS and NISRA, Business register and employment survey, 2021 and 2022, via NOMIS.

1.4 Businesses

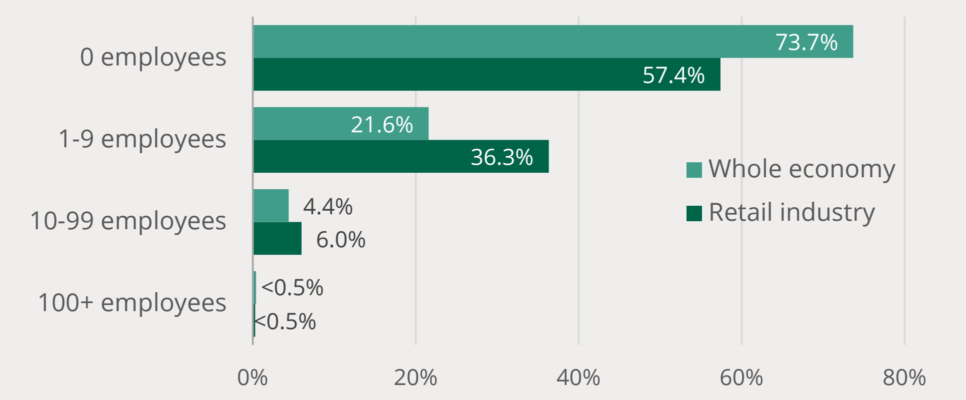
There were 314,040 retail businesses in UK retail sector as of 1 January 2023, 5.7% of all businesses.

In common with most other sectors in the economy, small and medium sized enterprises (SMEs) made up over 99% of retail businesses. However, the retail sector and the whole economy had differing proportions of businesses in other business size categories.

- 57% of businesses in the retail sector had 0 employees (single person-led business), compared with 74% in the economy as a whole.
- 36% of businesses in the retail sector had between 1 and 10 employees, compared with 21% in the whole economy.
- 6% of retail businesses had between 10 and 100 employees, compared with 4% of all businesses.

Businesses by size

% businesses in retail sector and whole economy by size, UK, 2023



Source: Department for Business and Trade, Business Population Estimates, 2023

2 Retail sales in Great Britain

In 2023, retail sales in Great Britain were worth £510 billion, an increase of 3% on 2022. For every pound spent in 2023:

- 40 pence was spent in food shops – a 9% rise on 2022
- 11 pence was spent in clothing shops (including textiles and footwear) – an increase of 7% on 2022
- 9 pence was spent on automotive fuel – a fall of 12% on 2022
- 7 pence was spent in household goods shops (including electronics and furniture stores) – a fall of 1% on 2022

The remainder was spent in other types of shops, non-specialist shops, or in non-store retailing, such as market stores, catalogues and online only retailers.[7]

Prior to the coronavirus pandemic, the volume of retail sales had been increasing year-on-year since 2013. This followed a period of stalled growth in sales following the financial crisis, between 2008 and 2013. The chart below shows how the volume of retail sales (i.e., sales adjusted for inflation) has changed over the last two decades.[8]

Retail sales, volume of sales, Jan 1997 - May 2024

Index 2019=100

Seasonally adjusted, Great Britain

Source: ONS series J5EK

[7] ONS, Retail sales pounds data, value, seasonally adjusted

[8] ONS, all retail sales including fuel, volume, seasonally adjusted, series J5EK

Only rarely have retail sales fallen in volume terms compared to the previous year since 1997. Average growth in rolling three-month periods compared to the previous year was 2.0% between 1997 and 2023.[9]

Coronavirus pandemic: impact on sales

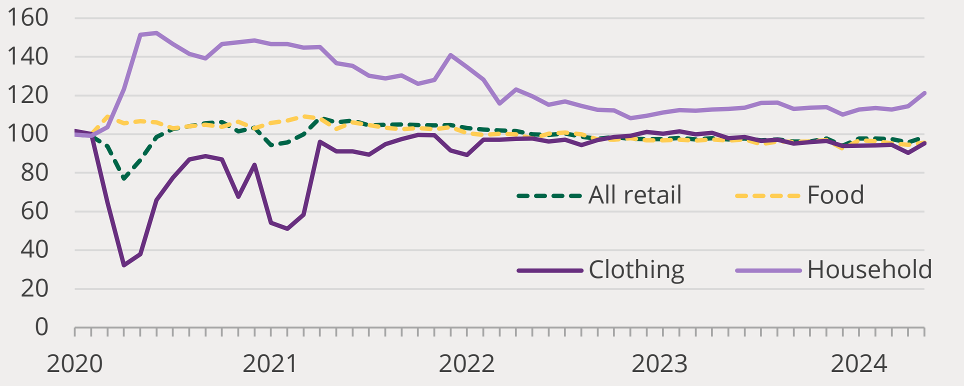
At the onset of the Covid-19 pandemic in March 2020, retail sales fell dramatically as lockdown restrictions closed non-essential retail stores.

Retail sales as a whole recovered to pre-pandemic levels by June 2020 – this was relative quick compared to other sectors such as hospitality and entertainment.[10] Sales fell again in January and February 2021 when non-essential retail outlets shut again, however the fall was much less significant than early 2020, suggesting that retailers and consumers had adapted to restrictions. Retail sales overall broadly returned to pre-pandemic levels from March 2021, though there was a big difference between the impact on different store types, with clothing stores the worst affected.

Clothing stores were hit hardest by the pandemic

Volume of sales, seasonally adjusted, Great Britain

Index, February 2020 = 100



Source: ONS, Retail Sales Index, series J5EK, EAPT, EAPX, EAPY, J5DZ.

Notes: all retail includes sale of fuel.

Since August 2022, retail sales have generally fallen back below pre-pandemic levels, with the exception of sales in household goods stores.

Retailers have indicated that the increased cost of living and rising food prices have been detrimental to retail sales. In May 2024, food store sales volumes were 4.3% below their February 2020, pre-pandemic levels, while clothing store sales volumes were 4.8% lower, and all retail sales volumes were 0.5% lower.[11]

[9] ONS, all retail sales including fuel, volume, seasonally adjusted, J5EH

[10] See Commons Library briefing, Coronavirus: economic impact, section 3.5 (CBP 8866, 9 April 2021).

[11] ONS, Retail Sales, 21 June 2024

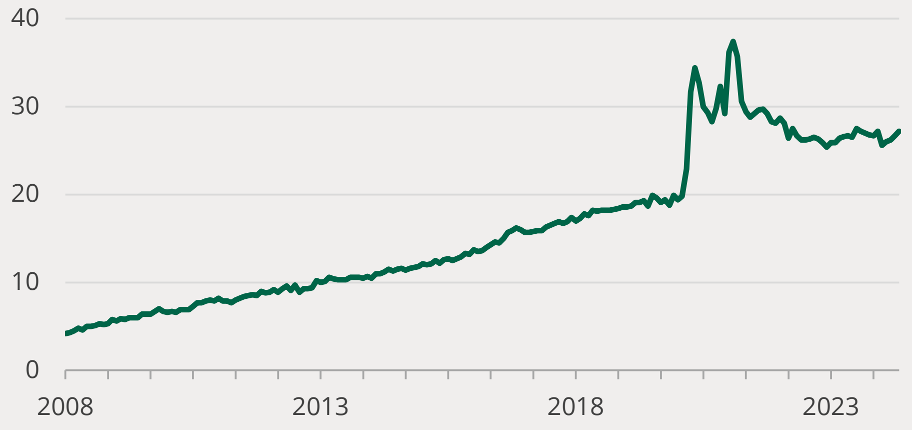
Non-store and online sales

Non-store sales increased rapidly at the onset of the pandemic and remained high throughout 2020 and 2021, but generally fell in 2022 and 2023, though they remained well above pre-pandemic levels. Non-store sales were 54% above pre-pandemic levels (February 2020) in June 2020; in December 2023, they were 11% higher, though were at their lowest level for a year. Non-store sales refer to retail without a physical store presence; 82% of this category is online-only retail and the remainder market stalls, catalogue-order retail, pop-up stores etc.

Similarly, the proportion of all retail sales happening online increased significantly in March 2020, shown in the chart below. These figures include all online retail sales, including for retailers with physical stores, such as online supermarket orders. Internet sales were slightly below 20% of all retail sales pre-pandemic, before rising sharply from March 2020, reaching a record high of 37% in February 2021. Internet sales as a proportion of all retail sales have generally fallen since February 2021, though remain above pre-pandemic levels. Online retail is discussed further in section 3.2 of this briefing.

Internet sales as a proportion of all retail sales

%, seasonally adjusted, Great Britain



Source: ONS, series MS6Y

3 Pressures on the retail sector

The retail sector has changed radically in recent years. Factors driving these changes include internet retailing, store closures and other changes on the high street, and an increasing consumer preference for large multi-purpose malls.

This section includes a discussion of challenges facing the retail sector. For a discussion of wider challenges facing high streets and town centres, including on business rates, see the Commons Library briefing Town centre regeneration.

3.1 Coronavirus pandemic

The coronavirus pandemic caused challenges for the retail industry. Section 2 covers the impact of the pandemic on sales, showing the different experiences of different retail sectors during the pandemic and section 3.3 below covers store closures.

For a summary of government support schemes for businesses affected by the pandemic and statistics on levels of funding, see the Library briefings Coronavirus: Support for businesses and Coronavirus business support schemes: Statistics.

The pandemic also accelerated some pre-existing trends and challenges facing the retail sector discussed further in this section, such as increased online shopping. New challenges and opportunities have also emerged due to new behaviours during the lockdown, such as from increased home working and restrictions on travel. For example, the Local Data Company, PwC and others suggested a trend towards local shopping emerged during the pandemic, with local stores and smaller villages/towns seeing better footfall performance compared to city centres (see section 1.4 of our briefing, Town centre regeneration for further discussion).

3.2 Internet retailing

Shopping on the internet has become increasingly popular and this is transforming the retail sector.

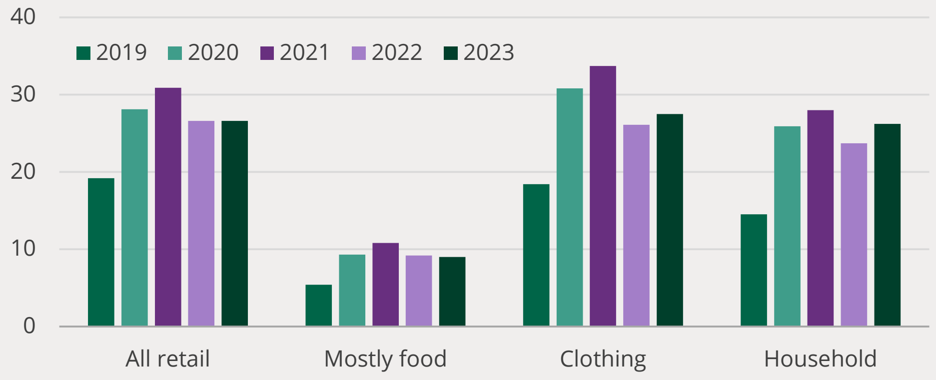
As shown in section 2, online retail sales have increased from around 5% of all retail sales in 2008 (when the ONS data series began) to around 20% in 2019, increasing to 28% in 2020, 31% in 2021, before falling to 27% in 2022.

The popularity of buying goods via the internet varies by type of shop, shown in the chart below. Department stores and clothing stores have a higher proportion of online sales compared to food stores.

All store types saw big increases in online orders in 2020 and 2021, before falling in 2022. Total online retail sales as percentage of all retail sales remained the same in 2023, despite slight increases in the proportion of clothing and household goods sales made online.

Online sales increased in all sectors in 2020 and 2021

Online sales as a % of all sales by sector, Great Britain



Source: ONS, Retail sales index: Internet sales

A 2023 report published by the Centre for Cities argues that the growth of online retailing is not necessarily correlated with the declining fortunes of the high street and physical shops, stating “the strength of the high street” is more closely correlated to other, local factors, such as “levels of disposable income and the strength of the local labour market.” The article points to large numbers of empty shops in cities like Newport and Stoke, despite lower prevalence of online shopping in these cities, though points out specific types of high street shops, such as clothing retailers, are especially vulnerable to the rise of online shopping.[12]

Data on online retailing published by the Centre for Retail Research indicates that prominent UK fashion retailers such as Next now derive “a minority of their sales from their retail premises.”[13] The trend is expanding to value clothing retailers, noted in developments like Primark expanding click-and-

[12] Valentine Quinio, Three years on from lockdown: has the pandemic changed the way we shop? Centre for Cities, 23 March 2023

[13] Centre for Retail Research, Online Trends & Statistics for UK, Europe & N. America 2022-2023

collect services, despite the chain previously avoiding online expansion in the belief that online sales would be "uneconomic at its lower price points." [14]

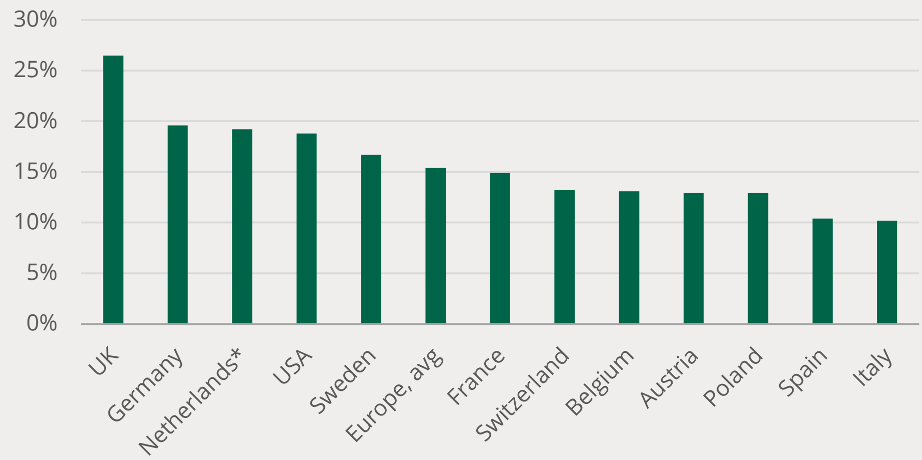
International comparisons

Internet retailing is more popular in the UK than other European countries and the USA, shown in the chart below.

In 2022, 27% of UK retail sales were online, while online purchases accounted for 20% of total retail sales in Germany and 19% in the USA; the European average was 15%.

The growth of online sales in the UK in particular has partly been a result of its relatively small size, resulting in lower transportation costs. The USA had a relatively low proportion of its retail sales being conducted online, despite many ecommerce groups being headquartered in the United States, with the growth of online retail nationally in the United States inhibited by the country's large size and associated expense of shipping goods across large distances.[15]

Online share of total retail trade, 2022



Source: Centre for Retail Research, Online Trends & Statistics for UK, Europe & N. America 2022-2023

* A large proportion of Dutch online retailing and e-shopping involves cross-border sales so the figures may be less accurate than for the other countries.

Online sales as a proportion of total retail sales have increased throughout the world since 2020, as lockdowns restricted shoppers' ability to make in person purchases. Lockdowns also resulted in shops improving online shopping facilities, as well as increasing the number of online purchases

[14] Laura Onita, How online shoppers fell back in love with the high street, Financial Times, 10 January 2024

[15] Centre for Retail Research, Online Trends & Statistics for UK, Europe & N. America 2022-2023

made by shoppers, and forcing shoppers who had no prior engagement with online shopping, such as older people, to begin purchasing goods online.[16]

3.3 Shop closures

In 2020, 54 retail companies with multiple stores ceased trading, affecting 5,214 stores and 109,407 jobs according to the Centre for Retail Research.[17]

This was a roughly similar number of store closures seen in 2008 and 2009, following the financial crisis. An equivalent number of retail companies with multiple stores ceased trading in 2012, owing to a significant decline in chain retailer numbers in town centres, though the number of stores affected was much lower than in 2020, 2009 and 2008.

The Centre for Retail Research described 2020 as "probably the worst year for retailers for 25 years."[18] The number of store closures slowed significantly in 2021, before increasing again in 2022, with the number of store closures increasing by 31% between 2021 and 2022, partly a result of the sharp increase in consumer prices.[19]

The number of store closures in 2023 was 971, the lowest number of store closures since 2015, though this was a result of 62 businesses failing, the highest number since the Centre for Retail Research began collating this data in 2007. The number of employees affected by these closures has been relatively low compared to recent trends – 20,642 employees were affected by retail store closures in 2023, compared to 109,407 in 2020 and 46,506 in 2019.

The sharp rise in businesses failing was attributed to some high-profile chains, such as Wilko, going into administration, which the Centre describes as "the largest retail failure since Woolworths in 2008" in terms of the "numbers of staff and stores" affected, though the downturn in 2023 also affected retail sectors "which looked to have high demand and plenty of well-heeled customers" such as prestige fashion and sports cycling.[20]

19 retail companies with multiple stores ceased trading so far in 2024 (up to the end of June), affecting 318 stores and 11,601 employees - this is just over half the total number of employees affected by retail businesses ceasing trading in the whole of 2023.

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[16] Centre for Retail Research, Online Trends & Statistics for UK, Europe & N. America 2022-2023
[17] Centre for Retail Research, Who's Gone Bust in UK Retailing in 2007-2024?
[18] Centre for Retail Research, The Crisis in Retailing: Closures and Job Losses
[19] Centre for Retail Research, Who's Gone Bust in UK Retailing in 2007-2024?
[20] Centre for Retail Research, Who's Gone Bust in UK Retailing in 2007-2024?

* Data for 2024 is up to end of June 2024

Source: Centre for Retail Research, Who's Gone Bust in UK Retailing in 2007-2024?

Prior to the pandemic and cost of living crisis, the retail sector was already experiencing challenges from store closures - the Centre for Retail Research has described the retail industry as facing a "permacrisis" since the 2008 financial crisis. From 2008 to the end of 2019, the retail sector with the most stores affected by company failures was the clothing sector, accounting for 27% of all stores affected, while off licences accounted for 15% and footwear stores and DVD music and video game rental stores each accounted for 12% of stores affected.[21]

The Centre summarised the challenges in the retail sector leading to store closures as follows:

- "Rapid debt-fuelled expansion" of shops in the 2000s, which pushed city centre rents to "astronomical levels."
- Low profitability caused by high costs, slow growth in sales and squeezed profit margins.
- The growth of online retailing, with much of online growth achieved at the expense of bricks-and-mortar retailers.
- Lack of preparation: low investment in stores and weak forward planning to meet the challenges of the new retailing.

These longer-term trends have been exacerbated by the pandemic and cost of living crisis. The Centre for Retail Research have stated that post pandemic, consumers have "got out of the habit of high-street shopping or even visiting a store", such that in early 2023, "customer footfall was 10% lower than in 2019, and in major cities even less." The cost-of-living crisis has

[21] Centre for Retail Research, List of Major Retail Failures 2008 to end-2019

also led consumers to led consumers to “seek out cheaper retailers”, increasing competition in an already competitive industry.

Retailers have also been losing their share of consumer spending to spending on leisure and tourism, such as meals out, city breaks, gym membership, subscriptions to TV Channels, foreign holidays and spa, health and wellbeing treatments.[22]

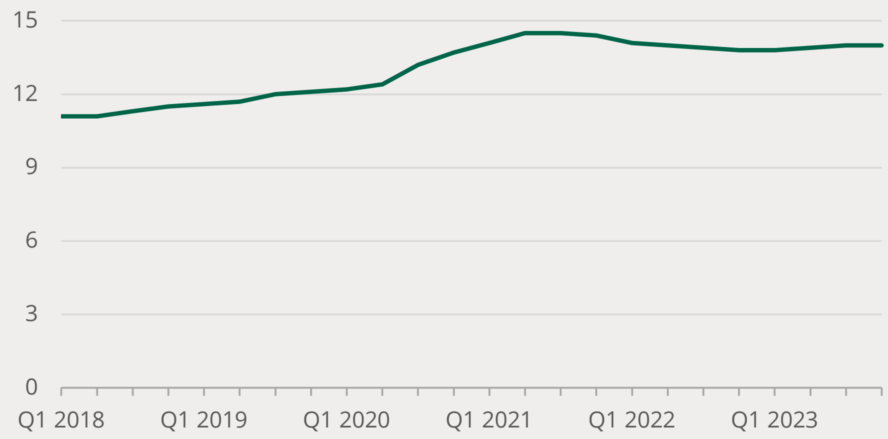
3.4 Empty shops

The Local Data Company (LDC, a retail and leisure data company) collects information on retail and leisure businesses in town centres in Great Britain.

Data from the LDC indicates that the rate of vacant retail units increased steadily in 2020 and 2021, as the effects of the pandemic became manifest, from 12.2% in Q1 2020 to a high of 14.5% in Q2 and Q3 2021. While vacancy rates fell in five successive quarters following Q3 2021, they remain above pre-pandemic levels.

Retail vacancy rates increased in 2020 and 2021

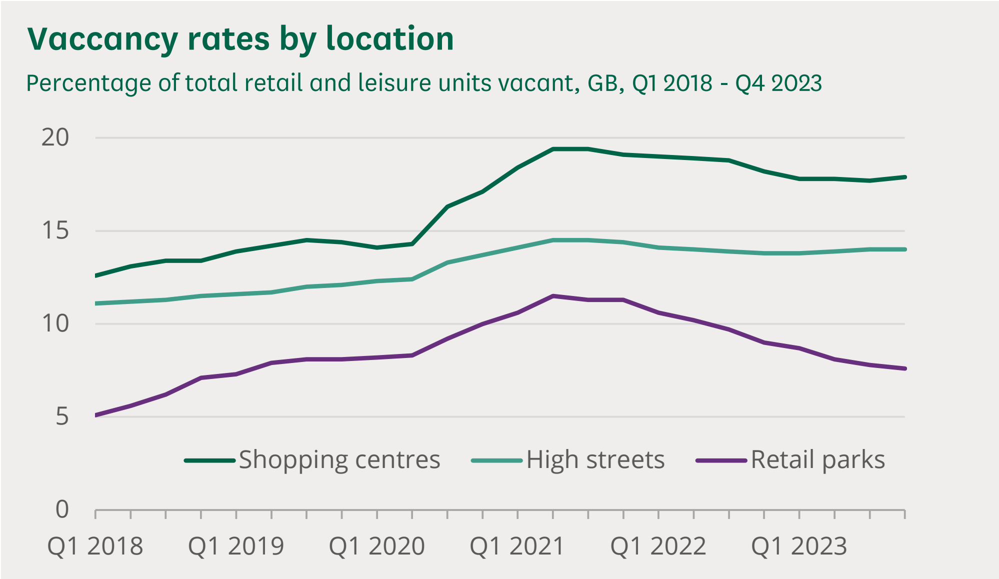
Percentage of total retail and leisure units vacant, GB, Q1 2018 - Q4 2023



Source: Local Data Company

Vacancy rates vary considerably depending on the type of retail location - vacancy rates on high streets are generally close to the national average, while vacancies in shopping centres are generally much higher and vacancies in retail parks are much lower.

[22] Centre for Retail Research, The Crisis in Retailing: Closures and Job Losses



Source: Local Data Company

Shopping centres were most impacted by the pandemic in terms of store closures, due in part to indoor environments and low proportions of essential retail compared to retail parks and high streets. Ongoing high vacancy rates in shopping centres have been attributed to factors such as high rents and services charges, and a general decline in footfall.[23]

Retail parks were most resilient to store closures during the pandemic, with vacancy rates now below pre-pandemic levels. The ongoing resilience of retail parks has been attributed to accessibility by car, hosting a high proportion of retailers classed as essential during the pandemic, and playing a “fundamental role in many retailers’ click and collect supply chains.”[24]

The continued move to provision of services online by banks, betting shops and estate agents has had a particular impact on high street vacancy rates. Online provision has meant these businesses have reduced their number of physical locations, which has a knock-on effect for other types of business, as consumers have fewer reasons to visit high streets.[25]

3.5 Changing consumer behaviour

Physical shops, high streets and shopping centres have adapted to the rise of internet retailing by changing the experiences and services that they offer to customers. This can be seen in several broad trends.

Click and collect and omnichannel retailing has grown. Online retailing has not resulted in a simple substitution of physical shopping for online shopping, although this has happened to some extent. Instead, successful physical

[23] Deloitte, What next for the high street? Part one: The way things are now, January 2021, pg. 13
[24] Deloitte, What next for the high street? Part one: The way things are now, January 2021, pg. 4
[25] PwC, Plenty of positives but a need for caution: Store openings and closures H1 2023

stores have developed online services that are complimentary to their physical presence. Modifications include offering customers the option to browse goods in the store and then order them online or pick up goods they have bought online in physical stores.[26]

A report by Barclays estimated that click and collect accounted for 8.4% of total UK retail spending in 2022, stating that integrating digital and in-store shopping "is fast becoming a standard industry expectation." The report found that having "both an online and physical presence can be advantageous for a retailer's appeal", reporting that just under a quarter of consumers can be "hesitant when buying from online-only brands", though this figure drops to 13% when businesses "also have physical stores."[27]

The British Retail Consortium have argued that post-pandemic, retailers have to "react to a fundamental shift in attitudes towards consumerism."[28]

Retailers are increasingly moving towards shops that provide experiences and services that cannot be sourced online (such as stylists, repairs, cafes) rather than simply browsing space.[29] The increasing popularity of beauty or personal service shops further highlights this trend, signalling the type of service that customers value that is not found online. The Local Data Company reports that in the first half of 2023, the UK saw net gains in the number of barber shops, nail salons and beauty salons, compared to an overall net loss of 4,000 retail units.[30]

There has also been a notable increase in the number of convenience stores, which have benefited from the "localisation" of shopping habits, a trend borne of necessity during lockdown, that has continued, allied to wider trends seeing shoppers move from a large weekly shop to multiple shopping trips (see section 3.7 for more).[31]

There has been growth in mixed use malls which include shops, cinemas and food and drink outlets. It has been argued that consumers should no longer be analysed in terms of discreet purchases, but rather by the trip they make to the shopping area.[32]

The Centre for Cities have predicted successful high streets of the future, in addition to shopping, will also offer "what we cannot find at home or online, by moving away from over reliance on retail towards the 'experience' leisure

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[26] Wrigley N., and Lambiri D. (University of Southampton), British High Street: from crisis to recovery: a comprehensive review of the evidence, 2015, p65

[27] Barclays, Click-and-collect economy worth over £42bn as 'hybrid' shopping grows, 6 October 2023

[28] Faye McConnell, The High street is not dead, it just needs a new purpose, British Retail Consortium, 20 October 2022

[29] Centre for Retail Research, Store of the Future

[30] Andrew Ellson, Barber shops boom as vanity drives rise in male grooming, The Times, 24 October 2023

[31] Local Data Company, Key trends in FMCG and convenience: a Local Data Company review, 23 October 2023

[32] Elizabeth Howard, New shopping centres: is leisure the answer? International Journal of Retail & Distribution Management, 2013

economy."[33] Adrian Palmer, an academic at the University of Reading has argued that experience in terms of retail may derive from traditional retail experiences such as "being able to go into a neighbourhood convenience store and come out quickly having found everything that is needed at that moment", but also through other experiences, such as "being entertained by interaction with others, and with other leisure activities which coincide with shopping trips."[34]

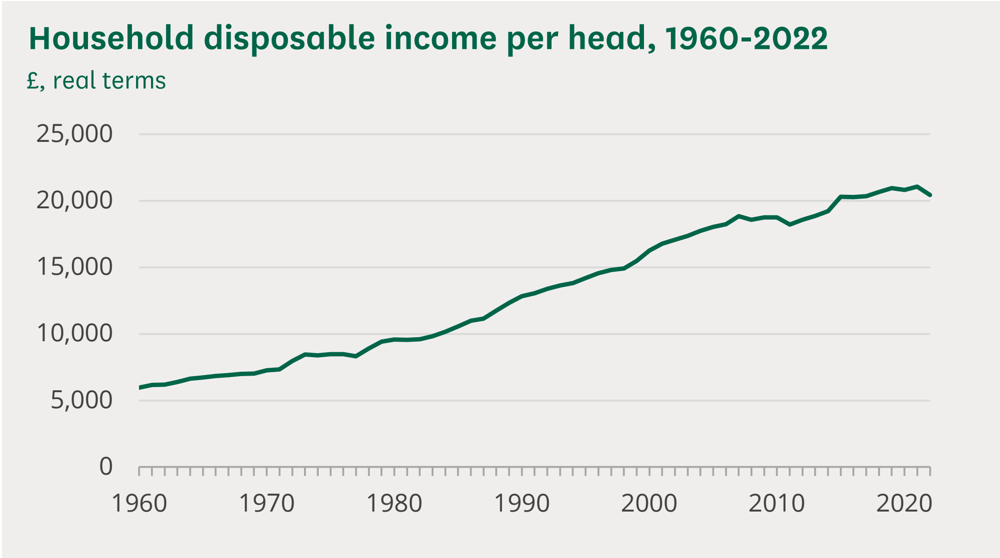
3.6 Economic factors

In the decade following the financial crisis of 2008/09, average earnings have been subdued and disposable income has barely grown. These factors have affected confidence in the retail sector and contributed to some of the recent trends in retailing mentioned above.

For much of the past decade since the financial crisis, earnings growth has been below inflation, leading to a long period of stagnating wages in real terms.[35] In conjunction, household disposable income has also grown far more slowly than in previous decades, shown in the chart below. Household disposable income means income after tax; it includes wages as well as other sources of household income such as pensions and investment.

Between 1955 and 2007, the average annual growth in real disposable household income per head was 2.6% a year. Between 2008 and 2011 disposable income fell by 0.8%. Between 2012 and 2022 growth in income recovered, but at a slower rate (1.1% average annual growth), though disposable incomes fell by 3.0% between 2021 and 2022.[36]

[33] Centre for Cities, High streets recovery tracker, 1 May 2022
[34] Professor Adrian Palmer, Have we reached peak online retail sales? Henley Business School, University of Reading, 25 July 2022
[35] See House of Commons Library, Average Earnings
[36] ONS, Households: Real disposable Income, per head, series CRWX



Source: ONS, series CRXW. Reference year 2019

These factors have fed into weak consumer confidence, particularly in the five years following the financial crisis.[37]

Consumer confidence fell at the onset of the pandemic in March 2020, though began to recover in early 2021, with the vaccine programme accelerating and lockdown restrictions easing, reaching pre-pandemic levels in May 2021.

Despite this growth, consumer confidence levels nose-dived in 2022.

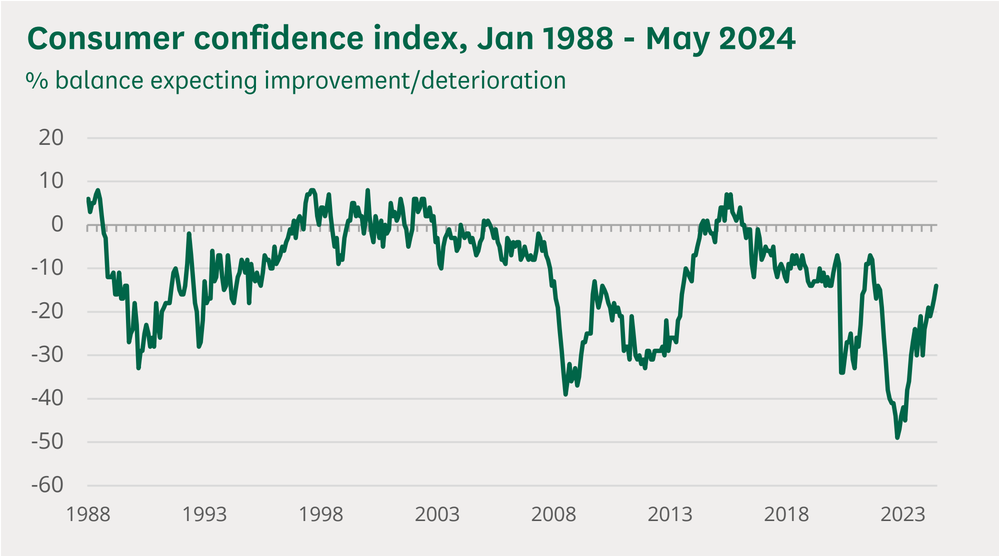
In September 2022, consumer confidence levels fell to their lowest level since equivalent records began in 1974, as consumers felt "the pressure of the UK's growing cost-of-living crisis" driven by "rapidly rising food prices, domestic fuel bills and mortgage payments."[38] Consumer confidence levels remained markedly low for the remainder of 2022, as consumers adjusted to "the new abnormal" of high prices, and rising interest rates.[39]

Consumer confidence has generally grown since late 2022, though remains well below pre-pandemic levels.

[37] GfK NOP, Consumer Confidence Index. This index measures a range of consumer attitudes, including forward expectations of the general economic situation and households' financial positions, and views on making major household purchases.

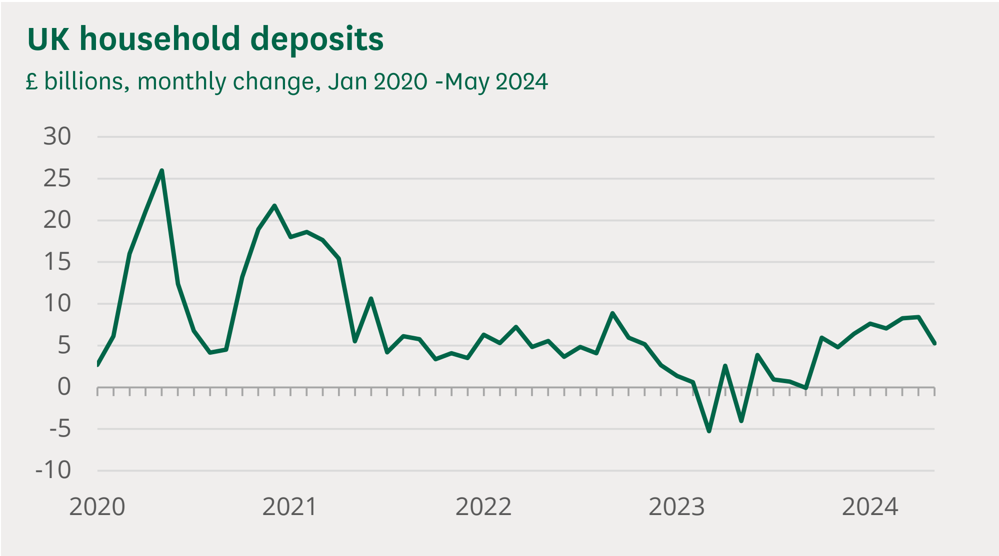
[38] GfK NOP, UK consumer confidence tumbles to new low of -49 in September, 23 September 2022

[39] GfK NOP, UK consumer confidence claws back meagre two points at -47 in October, 21 October 2023



Source: GfK NOP consumer confidence survey, monthly data.

The pandemic also led to high levels of accumulated household savings (concentrated in higher income households) as consumption fell while household incomes remained stable.



Source: Bank of England, LPMVVHS

Rebounding consumer confidence in 2021 had led to speculation that consumer spending would recover strongly in 2021 and 2022, with some predicting a "consumption blowout" resulting from "a degree of euphoria" as pandemic related restrictions ceased, and the fact that additional household savings made during the pandemic were "held primarily in liquid form, allowing them to be run down more easily."[40]

This anticipated increase in consumer confidence and spending was instead curbed by the "rapid acceleration" in inflation in 2022, generating "new

[40] Katie Martin and Chris Giles, Britons prepare to spend their savings as lockdown eases, Financial Times, 12 April 2021 and OBR, Economic and fiscal outlook - March 2021, pg. 57

challenges to UK households faced with a sharp increase in the cost of living and falling real incomes."[41]

3.7 Changing supermarket environment

Supermarkets are a fundamental component of the retail landscape in the UK. They are where many people buy their food and other essential items, they are innovative businesses that have transformed the retail environment and, in some cases, they are also significant global brands. But their role and position in the retail landscape has changed in recent years.

The decade to 2012 was a period of rapid expansion for the 'big four' supermarkets - Tesco, Sainsbury, Asda and Morrison – traditionally the four supermarket chains with the largest market share.

These stores' market share in groceries grew from around two thirds in 2000 to over three quarters in 2013. This growth was accompanied by a number of other features, including broadening product ranges, more and larger stores which were often located out of town, and increased multi-channel retailing (including home delivery and click-and-collect).[42]

The major supermarkets have also altered the profile of their estates, with a concerted move away from out-of-town stores towards town centre convenience stores and 'small supermarkets'. In 2014, Sainsbury's announced that it had more convenience stores than supermarkets; Tesco, the UK's largest retailer, announced that its convenience stores outnumber its supermarkets in 2013.[43]

Morrisons and Asda have also begun to expand into convenience stores. The first Morrisons Daily was opened in 2017, with the chain has expanding this portion of its operations following the acquisition of McColls in 2022.[44] Asda opened its first convenience store in late 2022, with plans to expand after acquiring a number of sites from the Co-Op.[45]

Challenges to the 'big four'

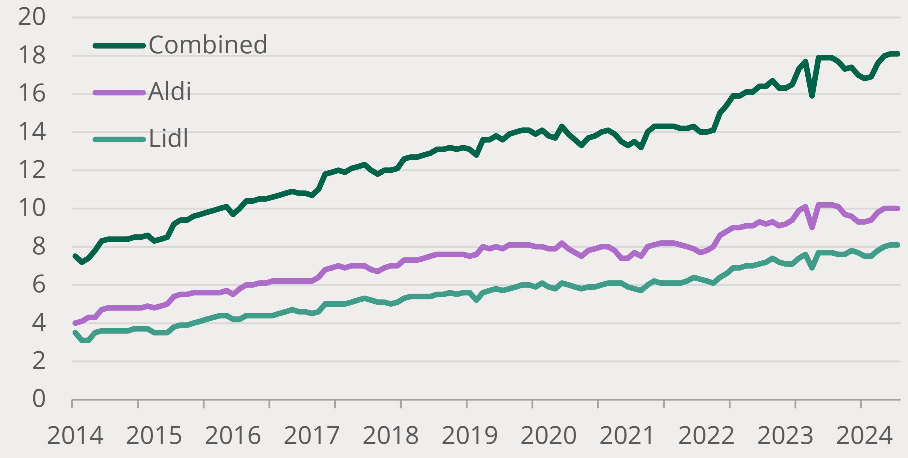
Since 2013, the market share of the 'big four' has generally fallen, from 77% in 2011 to 65% in 2023.[46] This decline in the market share of the big four was accompanied by the rapid rise of the lower costs, "no frill" competitors - Lidl

[41] ONS, Economic modelling of forced saving during the coronavirus (COVID-19) pandemic, 6 June 2022
[42] Bank of England, David vs Goliath: the supermarket's battle for the consumer (via the Bank Underground blog), 8 September 2017
[43] BBC, The rise, fall and rise of the mini-supermarket, January 2014
[44] Ronan Hegarty, Morrisons plans to convert most McColl's stores to Daily format as takeover completes, The Grocer, 1 November 2022
[45] Eloise Hill, Asda to open over 80 Express stores in December, Retail Gazette, 19 December 2023
[46] Kantar World Panel, Great Britain grocery market share, accessed 14 November 2023

and Aldi. In 2011, the combined market share of Lidl and Aldi in the Great Britain groceries market was 5%; in 2023 it reached 18%.

The rise of Aldi and Lidl

% share of GB grocery market 2014-24, monthly data

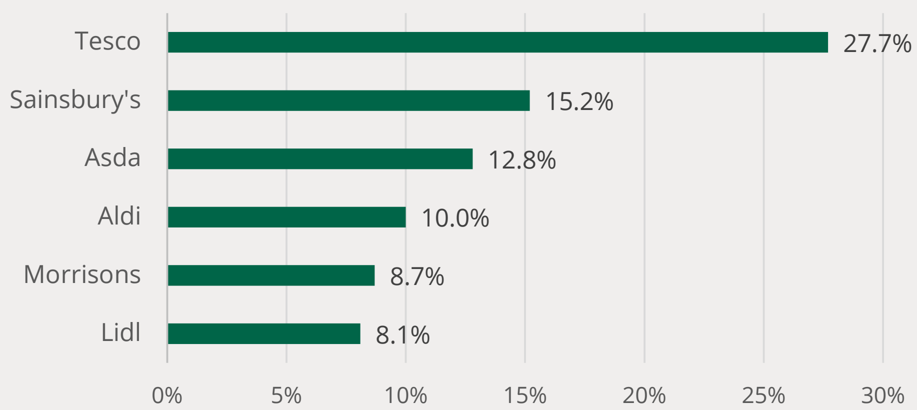


Source: Kantar World Panel, Grocery Market Share, Great Britain

Aldi has a larger market share of the two, with an almost 10% share of the GB grocery share market in 2023, compared to around 8% for Lidl. Data from Kantar indicates Aldi overtook Morrisons in its share of the GB grocery market in September 2022, and has generally maintained a larger market share than Morrisons ever since.

Aldi enters the big four

% share of GB grocery market, 12 weeks ending 9 June 2024



Source: Kantar World Panel, Grocery Market Share, Great Britain

These stores are characterised by a smaller range of goods (Aldi and Lidl are said to have around 2,000 product ranges, compared with Tesco's "tens of thousands”[47]), fewer staff, and generally lower prices, compared to the big four supermarkets. They also generally spend less on advertising and do offer services such as click and collect and home delivery.[48]

Changing consumer behaviour has also affected the big four supermarkets. In recent years, consumers have begun to make more frequent, smaller value shopping trips. Consumer preference has shifted in favour of single item purchases, rather than “big weekly shops” while the trend towards increased online purchasing means that a large stock selection in store is no longer as important.[49]

The rise of Aldi and Lidl at the expense of the traditional ‘big four’ supermarkets, particularly since 2022, has also been seen as a result of the cost of living crisis and particularly high levels of food price inflation.

Inflation, as measured by the Consumer Prices Index (CPI) rose steadily in 2021 and 2022, reaching 11.1% in October 2022, its highest level since 1981 according to Office for National Statistics (ONS) estimates.[50] Food price inflation has also been especially high, rising sharply in 2022 and 2023, reaching a high of 19.2% in March 2023, its highest annual rate for over 45 years.[51]

More recently, inflation has fallen, reaching 2.0% in May 2024, its lowest level in three years, while food price inflation fell to 1.7% in May 2024 its lowest level since late 2021.

ONS data on household expenditure indicates 54% of adults in Great Britain reported an increase in their cost of living in May 2024 compared to a month earlier, with 91% of those who reported an increase citing an increased price of food shopping as the reason for this. 49% of those who reported an increase in their cost of living said they were shopping around more as a result, while 37% were spending less on food shopping and essentials.[52]

Increased cost of living has also had a detrimental effect on retail spending at Christmas, traditionally the busiest time of year for the retail industry. Consumers reported plans to spend less on Christmas in both 2022 and 2023 compared to the previous year, through both buying less and buying less expensive things.[53]

[47] Laura Onita, Day of the discounter: when will the UK reach peak Aldi and Lidl?, Financial Times, 10 September 2023

[48] Isabella Fish, Cheap, fresh and local: how Aldi shook up the grocery market, The Times, 20 May 2024

[49] PwC, Frictionless retail – the future of shopping, November 2022, pg. 5 and Bank of England, David vs Goliath: the supermarket’s battle for the consumer (via the Bank Underground blog), 8 September 2017

[50] ONS, Consumer price inflation, UK: September 2023, 18 October 2023

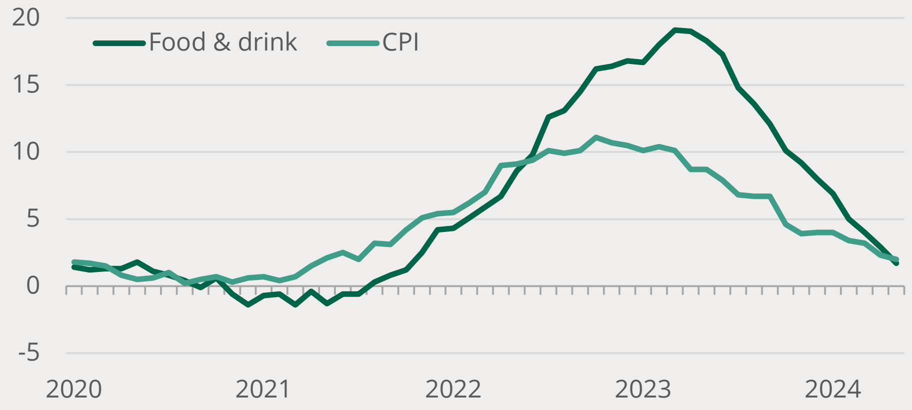
[51] ONS, Consumer price inflation, UK: September 2023, 18 October 2023

[52] ONS, Public opinions and social trends, Great Britain: household finances, 7 June 2024

[53] See ONS, Retail sales, Great Britain: December 2022, 20 January 2023 and Retail sales, Great Britain: December 2023, 19 January 2024

Food price inflation increased sharply in 2022

% annual change in CPI and food and drink component of CPI, monthly data



Source: ONS, Consumer price inflation, UK: May 2024, series D7G7 and D7G8

A Financial Times article argues that discount supermarkets "usually win market share" under such conditions, as consumers look to reduce expenditure, though also that the rise of Lidl and Aldi is not solely a result of the cost-of-living crisis but also a result of "strategic miscalculations by the top four" in choosing to "prioritise profitability over preserving sales volumes at a time when household incomes were under acute pressure."[54]

An article by the Centre for Retail Research speculates that the rise of these discount supermarkets is not a temporary phenomenon caused by the cost-of-living crisis, arguing that Aldi and Lidl will retain their level of market share "even if there is a sustained boost in household incomes over the next two-three years" as consumer behaviour has been fundamentally altered by the pandemic and cost-of-living crisis.[55]

By contrast, a Financial Times article argues that the new customers discount supermarkets have acquired will return to previous shopping habits when the cost-of-living crisis eases, stating "more affluent shoppers" are "generally expected to trade up again as soon as consumer confidence improves, a trend observed during previous downturns."[56]

[54] Jonathan Eley and Patrick Mathurin, How Aldi burst into supermarket big league, 23 September 2023
[55] Centre for Retail Research, The Crisis in Retailing: Closures and Job Losses
[56] Laure Onita, Day of the discounter: when will the UK reach peak Aldi and Lidl? Financial Times, 10 September 2023

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