CONSUMER SPENDING

From shopping car

The economic outlook may be improving and consumers are finding themselves with more disposable income, but is retail losing out to leisure? Matthew Chapman reports

A flurry of positive economic news in recent months has given retailers reasons to be cheerful.

Consumer confidence hit a nine-year high in the first quarter, unemployment was at its lowest rate since mid-2008 in April and disposable incomes are on the up as prices fall across food, petrol and utilities, meaning consumers are feeling real wage growth.

But look beneath the surface of this data, and the picture is not so rosy for retail. The boost in disposable income does not seem to be trickling down to the high street as shoppers choose to either save money or treat themselves to dining out and other leisure activities.

There was positive news on retail sales last week, but it was met with a degree of scepticism in some quarters. The CBI Distributive Trades Survey said that retail sales expectations hit a 27-year high for June forecasts, but independent analyst Nick Bubb was among those who have questioned the data. "It only measures perceived shifts in volume, which is a bit meaningless at a time of price deflation, as retailers focus on the value of sales not the volume," he says.

Research from broker Besi shows that increases in disposable income in May failed to follow through into spend. Besi found respondents were "very cautious on spending on discretionary products", despite increases in consumer confidence and the falling cost of staples.

Any increase in spend appears to be trickling into leisure activities rather than retail. In April Asda's Income Tracker showed 38% of consumers are spending spare cash on activities, while 34% are spending it on 'treats'.

It is a trend Sainsbury's chief executive Mike Coupe has noticed. "The reality is that customers have seen a significant increase in their net discretionary income," Coupe said last month. "That is finding its way into lots of sectors other than the grocery industry. People are buying more cars, they are going on better holidays and, for us in particular, we are seeing people eating out rather than eating in."

Coupe attributes that to an emerging consumer mindset; following the recession people are opting to treat themselves after a period of belt-tightening.

"As you come out of a recession people will spend more on eating out rather than eating in," said Coupe.

Lives of leisure

KPMG's head of retail David McCorquodale agrees the signs point to retail losing out to leisure spending when it comes to consumers dusting off their wallets post-recession.

McCorquodale cites the amount of private equity money chasing eateries such as Byron Burger, Ed's Diner and Côte Brasserie as proof of the increasing popularity of dining out.

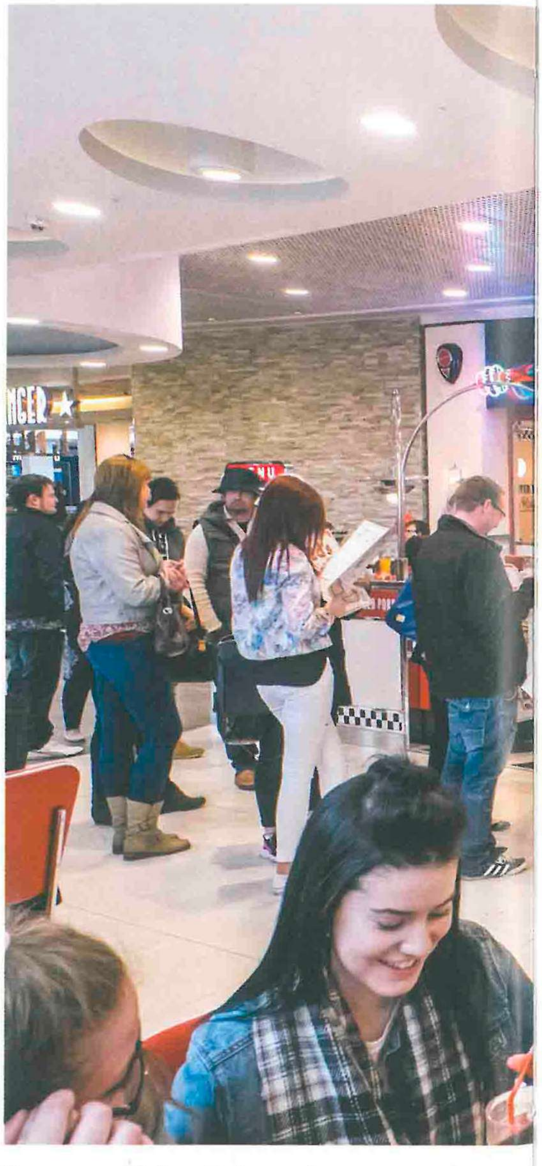
He believes there is a greater immediacy to spending habits now that consumers suddenly find themselves with more money in their pockets after a lean period. He notes consumers are making spur-of-the-moment decisions to dine out or go to the cinema. "After five years of austerity," he says, "why not spend money on yourself in a more instant way?"

And it's not just the grocers that are missing out. Spend on clothing and general merchandise has also suffered, according to McCorquodale.

While Besi's research showed clothing retailers have performed strongly in recent months, it attributes that to "weather patterns".

The same report revealed discretionary spend on consumer electronics took a huge dive, falling 22.6% year on year during the three months to May.

Retailers are also battling against ingrained



Consumers are believed to be spending their money on eating out over retail

"Customers have seen a significant increase in their net discretionary income... That is finding its way into lots of sectors other than the grocery industry"

Mike Coupe, Sainsbury's

t to à-la-carte

"Families are sticking to behaviours they built to protect themselves during the recession"
Barry Williams, Asda

consumer shopping habits that were formed in the recession, according to Asda senior vice-president of customer Barry Williams.

"Families are sticking to behaviours they built to protect themselves during the recession," he says. "Whether that's saving money by budgeting food, or re-prioritising where they do spend their hard-earned cash by choosing to spend it on treats or activities with their families."

That argument carries weight with McCorquodale, who believes consumers have become comfortable spending money with retailers including Aldi, B&M and Poundland.

"With the weekly shop people are still very price-conscious and that won't stop," says McCorquodale.

Asda's Income Tracker found that although the average UK discretionary income increased by £17 a week to £187 in April, 83% of respondents are saving money and on average customers are putting aside £209 a month.

The grocer believes that supports the theory that many people are not feeling as "cash-confident" as before the recession.

McCorquodale believes retailers are doing as much as they can to kick-start spending, but are having to engage in a strategic U-turn when it comes to pricing.

Extricating themselves from the discount environment will be no easy task for retailers, following the race to the bottom they have become embroiled in over recent years.

"Part of retailers' strategies has been to discount to hell," says McCorquodale. "We have got ourselves into a spiral of 'we don't sell unless we discount'."

Fewer promotions

Some retailers have found success in weaning shoppers off promotions.

Debenhams had suffered from a period of profit falls as a heavily promotional strategy wore down margins. Yet after retuning its promotional strategy, including selling more own-brand products at full price, the department store group's pre-tax profits rose 4.3% for the half year to February 28.

Retailers seeking to predict the direction of the market will be hard pressed to learn from previous recessions because this recovery is very different, according to EY Item Club senior economic advisor Martin Beck. He says compared with other recessions real wage growth has been much slower.

"What we need for the next spurt is wage inflation becoming sustainable," says McCorquodale. "We will have a stronger retail environment when wage inflation is there."

With the prospect of real wage growth remaining sluggish and consumers continuing to save and spend on leisure activities instead of shopping, retailers will have to fight hard for shoppers' remaining cash.