

Festive Funds: Weak Conditions Limit Christmas Spending

John Griffin, December 2019

IBISWorld analyst John Griffin looks at how consumers are expected to spend their money over the Christmas period.

The festive season is a typically key period for UK industries, and this year is expected to be no exception as businesses throughout the economy seek to capitalise on a welcome-boost to consumer spending. According to figures reported by the Bank of England, a typical household spends more than 30% extra during December compared to the rest of the year, with increased spending on going out, food and drink, as well as gifts for friends and family, spurring a notable shift in private consumption trends. While the extent to which shoppers will be able to brush Brexit fears aside and open their wallets during the current year remains to be seen, early signs have been somewhat promising, with the British Retail Consortium stating that sales were stronger in November 2019 than the same month in the previous year. Spending categories that traditionally thrive on the seasonal boost include clothing and footwear; food and drink; beauty, cosmetics and fragrances; pubs and bars; restaurants; and book retailers.

Spending trends

While a rise in consumer spending is almost inevitable during the festive period, the challenging retail landscape has the potential to limit improvements for UK industries, which will hope for a more successful year than 2018, in which consumer spending fell on a seasonally adjusted basis between November and December. However, the added distraction of a general election is expected to heighten economic and political uncertainty during the first two weeks of December, discouraging spending. IBISWorld estimates that

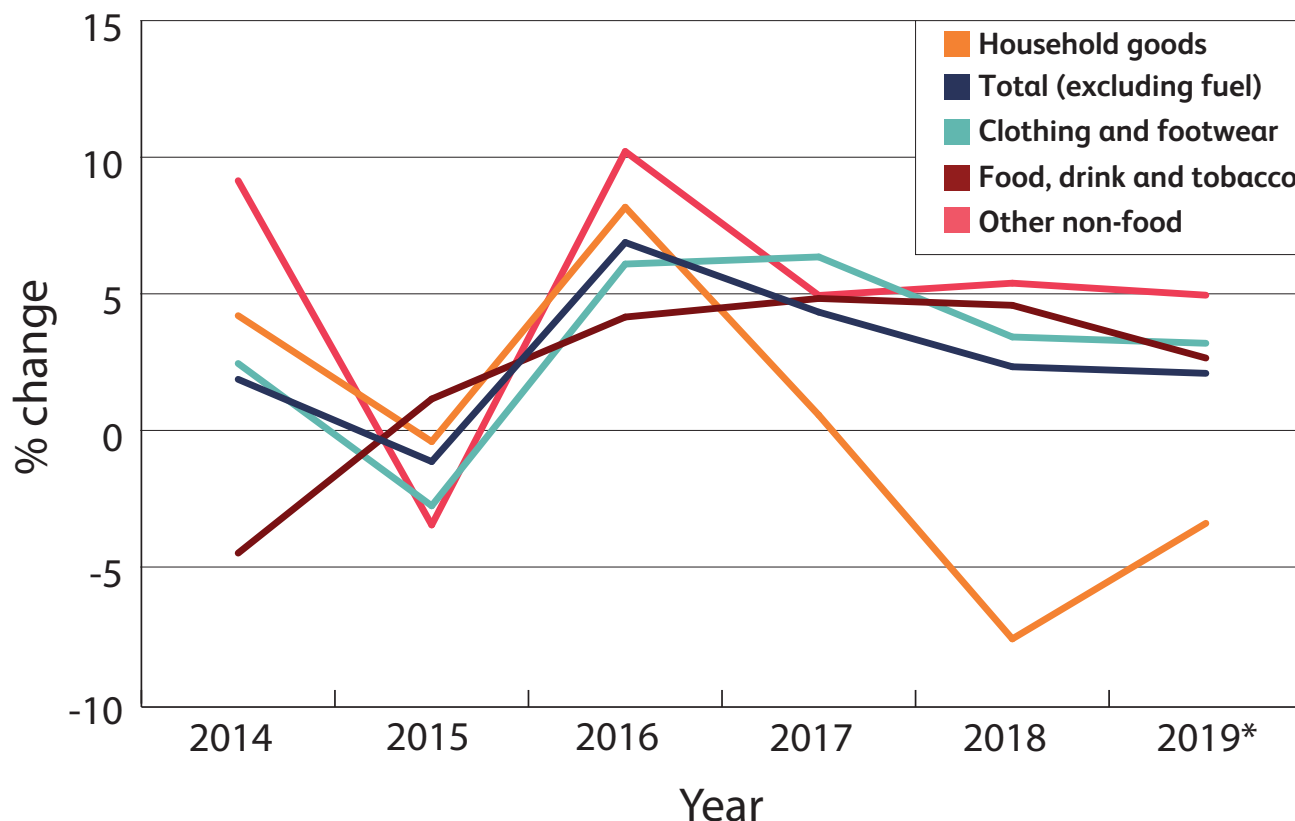
growth in average spending in December will slow to 2.1% during December 2019, compared with growth of 2.3% during December 2018, with household goods such as consumer electronics providing the largest downward contribution.

A late surge

In recent years, the retail sector has become increasingly reliant on sales made during the last month of the year as a means of boosting profit. Accordingly, retailers focus significant resources on promotional campaigns and TV adverts, and according to the Advertising Association, £6.8 billion will be spent on festive advertising in 2019. Gifts represent a significant share of retail sales over the period, making up 53% of total spending at Christmas time according to UK comparison site Finder. Popular gifts include toys, consumer electronics and clothing, footwear and accessories, though according to PwC, consumers are planning to spend less on these categories during the current year. Other categories that traditionally perform well over the festive period are also expected to struggle, with 29% of consumers surveyed revealing that they plan to spend less on health and beauty products, amid squeezed household budgets and a growing preference for more natural looks. Other categories that pin significant hope on the festive period include books, which display 85% sales growth in December compared to typical months according to the Bank of England; and card shops, with more than one billion Christmas cards sold in the United Kingdom in 2017 according to the Greeting Card Association.

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Average weekly retail sales in December



NOTE: *Estimate

SOURCE: OFFICE FOR NATIONAL STATISTICS AND IBISWORLD

The expected decline in key spending categories may present a worry for retailers, but PwC's consumer survey will provide some optimism for a late surge in sales, with 8% of shoppers planning to do their shopping in the week running up to Christmas, compared with 6% in 2018. This has been a growing trend among shoppers in recent years, facilitated by the convenience of online shopping. Indeed, the proportion of total retail sales made online typically rises in the run up to Christmas, standing at 19.8% in December 2018, compared to an average of 17.7% throughout the rest of the year. This share is expected to be greater this year based on more recent trends, though some consumers are anticipated to take a more ethical and sustainable Christmas, which could boost high-street sales. According to a study by Visa, one-third of consumers plan to source ingredients for their Christmas dinner from local shops to reduce their carbon footprint, while 27% intend to buy their gifts on the high street.

Food and drink

One area of spending that is anticipated to remain largely sheltered from household spending cuts is food and drink, which is the only section of the PwC consumer survey that does not display expected cuts on last year's spending. The Bank of England reports that sales of food and alcohol increase by 20% and 30% respectively in December compared with a typical month. This is expected to support major supermarket retailers such as Tesco, Morrisons and Lidl, which were among the top performing retailers in December 2018. Meanwhile, consumers are expected to increase spending on going out over the period, to the benefit of restaurants and pubs. Collectively, Britain's pubs and restaurants recorded total sales growth of 7.1% during the six-week period surrounding Christmas in 2018, with further growth expected during the same period in the current year, albeit at a slightly more subdued rate.

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