DJ Press Release: Fitch Ratings: European Retailers Post Mixed Christmas Trading Results

The following is a press release from Fitch Ratings:

Fitch Ratings-London-24 January 2024: European retailers posted mixed results for the Christmas period, with consumer confidence still subdued, but improving, supported by moderating inflation, Fitch Ratings says.

Several UK retailers reported strong Christmas trading, with some raising their profit guidance for the year. While the level of retail spending varied moderately, volumes in Europe were down in December 2023 after an improvement in November. We believe this is partly due to Christmas spending being brought forward to November, some trading up and, in some countries, people diverting more spending to eating out, more expensive entertainment or travelling compared to Christmas 2022.

Consumers treated themselves with supermarket premium own brand product ranges increasing strongly. In the UK, this came from trading up within supermarket ranges, while in France and Italy this included trading down from more expensive independent stores. While UK food inflation continued to subside, food volumes declined, and we believe this was because consumers spent more on higher-priced premium products, despite more value offers with promotional activities in December.

Mainstream food retailers, including Tesco, Sainsbury's and Ocado, reported volume increases over the peak Christmas quarter. Discounters reported even stronger sales growth, suggesting that the UK food market remains competitive and price sensitive and that some grocers that have yet to report, such as Coop, ASDA and Morrisons, may have been less favoured by consumers with market share down year-on-year. A focus on value will remain important in 2024, with a few grocers announcing further price initiatives to support consumers in January.

Non-food retail volumes, including apparel, declined in the UK and Germany in December 2023. The DIY, home improvement and fashion sectors were among the weakest performers, continuing the poor trend of 3Q23. Mid-range apparel retailer Next's stronger-than-expected performance was an exception, supported by its affordable, quality products and online sales that are among the highest among apparel companies. Sportswear demand started to slow down, with JD Sports issuing a profit warning, affected by a promotional environment during the peak trading period.

The value, beauty and gifting categories performed reasonably well. Douglas, Europe's leading omni-channel beauty retailer, reported its strategy being on track with like-for-like (LFL) sales rising by 7.5% in 4Q23. Variety discount retailer Pepco reported improving, but still negative LFL sales in December in its apparel and general merchandise segment, and low-single-digit sales growth in its Poundland business, focused on fast-moving consumer goods in the UK.

The share of online retail increased in 4Q23 in the UK, particularly in non-food retailing, after contracting post-pandemic. Some food retailers also reported online sales growth, including Tesco, which posted a 11.5% rise in the four weeks to Christmas. This may signal resuming online growth in 2024, benefitting retailers with well-established and profitable operations through this channel.

New supply chain issues in non-food retail include longer shipment times due to re-routing from the Red Sea and more-than-doubled container shipping costs from Asia to Europe. However, shipping costs remain below the high levels seen over the last two years and, unless they increase further, we do not expect a profit margin recovery to be derailed. Still, stock availability could be affected if shipment disruptions are protracted.

Fitch has a neutral sector outlook for EMEA retail in 2024, with demand remaining close to 2023 lows, although it will be supported by improving consumer confidence thanks to tight labour markets, wage growth and easing inflation, which will counter lower disposable income due to rising mortgage payments. Our base case assumes non-food retail volumes will remain unchanged or decline slightly, with 2H24 stronger than 1H24. We expect retailers' profitability to improve in 2024 as cost pressures, such as energy, ease and efficiency programmes bear results.

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01-24-24 1149ET