

Retail Think Tank: What is the true state of retail spending?

There has been a general understanding that the retail sector has been proportionally losing sales, and its share of consumers' disposable income, to the leisure sector. We examine the impact and assess how far this has held back the UK retail sector



Members of the Retail Think Tank acknowledge that there are a range of different data sources available to ascertain evidence about the shift in spend away from the retail sector. However, most data does suggest that households have indeed been moving towards spending more of their incomes on services, including property rentals and accommodation/travel services. That is not to say spending on "things" has actually fallen, it is more that the relative growth rates of spending on goods versus services has been widening significantly.

A number of different structural and societal factors have contributed to this diversion of consumer spend. Firstly, the RTT notes the increased popularity of online shopping, which as a service is improving in line with technology at an almost constant rate. Without doubt, this has impacted the size of retailers' share of the available spend.

Changes within society, and the values consumers hold, also contribute to the apparent shift in spend. Members of the RTT agree that more of 'the pie' is finding its way to the leisure sector, which can provide these consumers with the more experiential, and less tangible, gratification they are looking for.

Much like the rising popularity of travel has opened up retail opportunities at travel hubs, the ever-growing use of the internet has meant retailers are seeing the store as having uses beyond just selling. Retailers are actively looking at ways to enhance their in-store offering to provide consumers with the experiential shopping experience that they believe this generation desires. However, RTT members do question the actual benefits that retailers are reaping by this switch, and if investment in this area is actually holding the retail sector back.

It is clear though that a shift in spend away from retailers has negatively impacted the sector. However, the RTT members hold that this alone is not to blame for the fragile position that many operators find themselves in today. External economic factors, political uncertainty, rising costs, a changing consumer mindset, an increased use of technology and the rise of the discounters, alongside this shift in spend towards the leisure sector are all working together to challenge the status quo of what it takes for a retailer to succeed in 2019.

[Download the RTT's latest whitepaper on their website here](#)

ING's Chief International Economist, James Knightley, is a member of the RTT. Here are his thoughts:

There is a hypothesis that since the global financial crisis, households have moved away from buying “things” to buying “experiences” and this structural shift in behaviour explains some of the pain being felt by retailers.

As an economist, my first port of call when looking at the shifts in relative spending is the consumer price inflation report. Here we can see a time series of the weights of different goods and services that a “typical” person in the UK spends their money on.

Since the late 1980s there has been a notable shift in spending behaviour from goods towards services. Back in 1988, goods accounted for 71% of the basket. Today, that's down to just 52%. This largely reflects the rising proportion of spending on housing rentals (owner occupied housing is not included) and an increase in the proportion of spending on “miscellaneous services” such as personal, legal, financial and social (including retirement) services.

Still, this shift has slowed markedly since the financial crisis. In 2007, goods accounted for 54.7% versus the 51.9% today. In terms of the big components, food, alcohol and tobacco dropped from 14.6% to 14%, primarily because of tobacco. Housing and utilities have risen from 11.5% to 13% reflecting rising rents as a proportion of household spending. Transport has held steady at just over 15% (rising use, but falling prices for airfares and taxis).

In terms of the specifics of “things” versus “experiences” there are some interesting shifts. Clothing and footwear is actually up from 6.2% to 6.7%, led more by the latter than the former. However audio visual has gone from 2.9% to 2%, furniture and household equipment has edged very marginally lower to 6.5% from 6.8%. Games, toys, garden and pets have held at 3.7%.

Spending on “major durables for recreation and culture” has increased from 0.9% to 1.7%, led by spending on camper vans and boats! This looks to be part of the shift to “experiences”. Package holidays have been one of the biggest movers, going from 2.9% to 4.3% of spending while accommodation services have increased from 1.9% to 2.6%. However there has been weakness in other “experiences”. For example, “catering services” dropped from 11.9% to 9.5%

with restaurants, canteens and take-aways all seeing declines in relative spending.

In general, there does appear to have been a marginal shift towards “experiences” from “things”, but it is quite tentative and there are clearly winners and losers within both groups. Given the relatively small changes in spending behaviour and the fact that the “pie” of consumer spending has got significantly bigger (consumer spending is up 14% in real terms and 46% in nominal terms since 2007) this cannot be attributed as the major factor holding back UK retail. The problem seems to lie more generally with other structural issues such as internet/rents/taxation/car parking and management.

Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.