



RETAIL SALES STALL IN EUROPE OVER CHRISTMAS BUT ONLINE RETAILING KEEPS ON GROWING

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SUMMARY

The ongoing eurozone crisis led to much trepidation about what Christmas 2011 might bring for retailers. In fact, EU-27 retail sales were flat over the festive season, a similar outcome to the previous year, which was neither a resounding success nor as bad as some had feared. But there were major differences by country with retail sales falling in southern Europe whilst retailers in much of Central and Eastern Europe (CEE) enjoyed a mini boom. The Nordics and the UK had a solid Christmas season but sales were disappointing in Germany and France. As last year, an increasing number of consumers turned to the internet to do their Christmas shopping.

INTRODUCTION

The lead up to Christmas 2011 was dominated by the ongoing eurozone crisis, falling consumer confidence and talk of a double dip recession. And this was on the back of disappointing trading in October and November as the weather once again played its part – this time it was too warm. Following the trend of recent years, shoppers are leaving it later and later to buy their Christmas presents in the expectation that retailers will discount their prices. This has turned in to a self-fulfilling prophecy in some countries with retailers forced to lower prices in the week or two before Christmas. Strong sales were reported by many retailers during this period, but was it too little too late, and what impact would it have on their margins? At the same time, solid growth should have been expected in a number of markets, given the weak comparables from 2010. So was it a season of plenty, or did shoppers hold back in anticipation of another year of uncertainty?

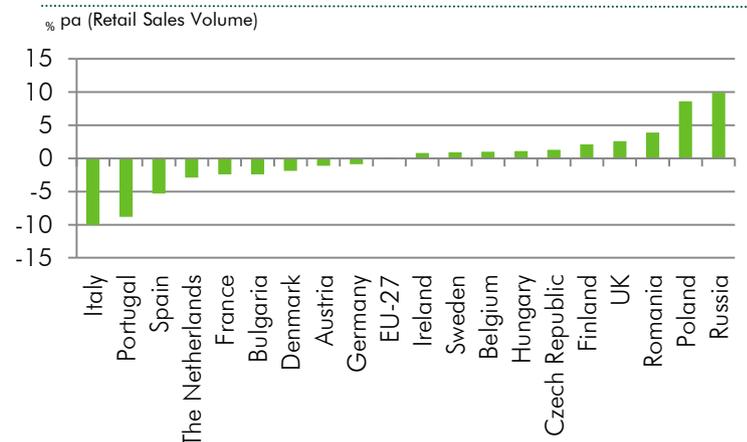
CEE LEADS THE WAY

In the European Union (EU-27), Christmas trading was once again flat, growing by just 0.1% y-o-y, but as ever this hides significant differences by country. Growth was weakest in the eurozone area, down by 1.6% in December, reflecting consumer nervousness in the member states. In contrast, retailers enjoyed a bumper Christmas in Russia and Poland, and the UK arguably did better than expected.

Russia was the biggest winner, with sales increasing by 9.5% in December y-o-y and by 16.1% in the last two weeks of the month. An emerging middle class and growing availability of credit, even though many large retailers still do not accept card payments, is supporting this growth in spending. Likewise retailers in Poland had a very good Christmas with overall sales up by 8.6% on the same period last year. The fashion retailers, in particular, are positive about trading conditions, with H&M recording a 12% uplift in 2011 and the Inditex group reporting a substantial increase in turnover as they expand their store network. Unlike most of Europe, there was no discounting prior to Christmas in Russia or Poland, reflecting the strength of their retail economies.

Romania and the Baltic states also witnessed strong Christmas trading, with Lithuania recording double digit growth. Growth was more modest in the Czech Republic, rising by 1.3% over the previous year, whilst Bulgaria was the only CEE market to see a fall in sales over the Christmas period.

Retail Sales Growth Dec 2011 (y-o-y)



Source: Eurostat, National Statistical Offices, Italy CBRE estimate, The Netherlands and Hungary are Nov figures

BETTER THAN EXPECTED?

In the UK the volume of retail sales increased by 2.6% in December. This was a solid but arguably predictable performance given the snow-affected trading in the run up to Christmas 2010, combined with the mild Autumn in 2011 which delayed clothing spending until December, and the early sales and heavy discounting. Nevertheless many other countries experienced similar conditions and did not have such a good Christmas. In addition, there has been little evidence that retailer margins have been significantly hit by the early discounting, suggesting that retailers have successfully negotiated the Christmas trading period.

The clothing sector was a big winner, with Aurora posting a particularly impressive 13% rise in sales over the Christmas period. The food sector had a solid season with Asda, Sainsbury and Waitrose performing well, although this was partly at the expense of UK's largest retailer Tesco, where like-for-like sales fell by 2.3%. Other retailers faced even bigger problems, with Blacks Leisure, La Senza, Peacocks and Past Times all going into administration in recent months. The British Retail Consortium suggests that retailers paid for the better than expected retail sales over Christmas with a 0.3% fall in like-for-like sales in January, although ONS were more positive, revealing a 2% rise in the volume of retail sales in January y-o-y.

NORDICS SEE SOLID GROWTH

The Nordic market, in general, saw positive but weak growth in December y-o-y, with sales rising by 2.0% in Norway, 2.1% in Finland, and 0.9% in Sweden. Although annual retail sales increased by only 0.8% in Sweden, the lowest level of growth since 1996, this follows a strong uplift in 2010, so sales growth was expected to slow down. Sweden's economic fundamentals remain sound. In Finland, the Christmas period was notable for the good performance of some of the country's major retailers. Kesko saw sales increase by 7%, S-Group 8% and the Stockmann Group 7.7%. Denmark was the only Nordic market to see a fall (-1.9%) in sales over the Christmas period.

FRANCE AND GERMANY DISAPPOINT

France registered a fall (-2.4%) in the volume of retail sales, although in value terms growth was positive and most retailers felt that Christmas trading was satisfactory. Out of town retail, which suffered from the poor weather conditions last year, not surprisingly saw better growth than high street retail this year.

Department stores again had a solid Christmas with turnover at Galeries Lafayette growing by 3% in December. As with most markets, small and independent stores are suffering the most and there have been a number of bankruptcies, but only one high profile retailer failure over the last 12 months - household goods operator Bois et Chiffons.

Germany experienced a blip in December with sales falling by 0.9%. However, for the year as a whole Germany saw another period of growth (+0.9%), and with rising disposable incomes and employment levels, retail sales should continue to grow in 2012.

SANTA STAYS AT HOME IN SOUTHERN EUROPE

In Italy, Christmas retail sales fell sharply, with the ongoing eurozone crisis clearly affecting consumer confidence during the festive season. Official statistics are not yet available but it is estimated by CBRE that trading was down by around 10%. Consumer body Codacons has calculated that each person spent on average of €48 less this holiday season than the average for the previous five years. As the January sales started, Italian shoppers were outnumbered by tourists in the high streets and shopping centres of Milan and Rome, and there is little expectation that sales will pick up in the new year. The one bright spot is outlet centres, where visitor numbers and turnover increased by 10% over the previous year.

Retail sales in Spain fell markedly (-5.3%) in December y-o-y. This follows a decline of 7% in both October and November and reflects the impact of harsh austerity measures and very low consumer confidence levels. 2012 is likely to remain a difficult year for consumers but purchasing power in the big cities is expected to recover later in the year. Deregulation of trading hours in Madrid in 2012 should help to boost retail sales in the region.

Portugal witnessed one of the sharpest falls in Europe as the imposition of higher rate taxes took their toll on Christmas spending. The volume of retail sales fell by 8.8% in December compared with the previous year, even though sales were actually 2.2% up on the previous month.

MARKET TRENDS

Longer opening hours

In a bid to increase consumer spending, retailers in a number of locations have been allowed to extend their opening hours. In Helsinki retailers were given special permission to keep stores open during Epiphany, principally to attract foreign (mostly Russian) tourists during the holiday period, which was deemed a great success. At the same time, some shopping centres in Italy opened later than normal in December, and a new law liberalising retail trading hours became law on 2nd January 2012. This is one of the measures introduced by Mario Monti, as part of the "Save Italy" campaign. And in Madrid, subject to legal approval, retailers will have complete freedom regarding trading hours, including Sundays. This is expected to boost overall retail sales but it is the large retail centres that are expected to benefit at the expense of smaller high street locations. Where trading hours have been extended, interest from international retailers has already increased dramatically.

Whilst the scheme in Finland was successful, it seems doubtful that extending trading hours in the trouble-hit economies of Italy and Spain will have any material impact on overall spending levels.

Retailer Failures

As Europe's economies went into recession towards the end of 2008, a number of retailers went into administration. It was notable, at the time that the bulk of high profile failures were in the UK, with the demise of Woolworths being the largest casualty. As we move into 2012, history is repeating itself. Very tough trading conditions have led to rash of retailer administrations in the UK, but there has been very little evidence of this elsewhere in Europe. There have been only three notable failures elsewhere: Bois et Chiffons (France); Schlecker (Germany) which is due to close 600 stores before the end of February following a long term lack of investment; and electrical retailer ONOFF (Sweden) which shut up shop in 2011, having failed to compete with new market conditions following the development of the Elgiganten and MediaMarkt formats.

A number of small and independent retailers have also failed in Sweden but the vast majority were new, inexperienced retailers that took advantage of cheap credit in 2010 to open shops but ultimately did not succeed in Sweden's competitive and mature retail market.

So what is different about the UK market? There appears to be a number of contributing factors. The trend towards private equity ownership in the UK retail sector has been a key reason behind many of the administrations since 2007, as in a period of limited or negative growth earnings are wiped out by the debt interest. But it is also partly down to a competitive retail market and high occupational costs. Successful retailers can achieve very high turnover levels in the UK which over the years has attracted a wide range of international retailers, leading to intense competition (CBRE's 'How Global is the Business of Retail?' report reveals that the UK tops the global rankings in terms of the presence of international retailers).

Whilst the reason for each business failure is different, the intense competition in the UK retail sector, the trend towards private equity ownership of UK retailers and high occupational costs have all played a part in forcing some retailers into administration. It should be added, however, that some of the failed retailers have since been bought and continue to trade, although typically with fewer stores.

Mid-market Squeeze

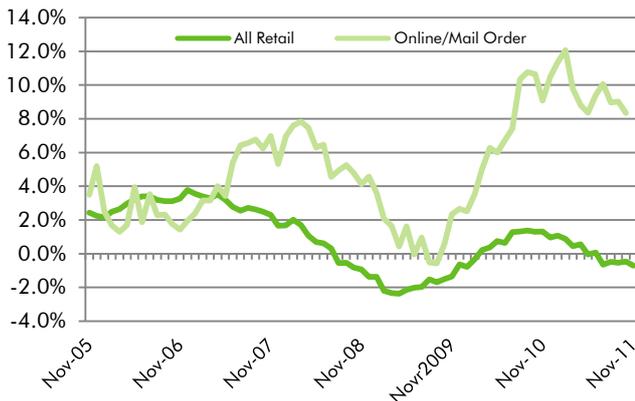
Much has been said about the polarisation of the retail market – and it is true that both the luxury and value sectors have performed well over the Christmas period. Burberry and Mulberry reported strong global results with Richemont posting a 16% rise in Europe in Q4 compared with the same period in 2010, whilst growth in Asia was even stronger, rising by 36%. Tiffany & Co. also posted solid growth (12% in the 2 months to the end of December) in Asia Pacific, although like-for-like sales were down by 4% in Europe.

At the value end of the market Primark reported a 16% uplift for 16 weeks to 7th Jan, although that did include a significant amount of new space. In contrast, UK based retailer Peacocks went into administration, but a huge interest from potential buyers suggest that many still see growth potential in the value sector. Nevertheless, the death of the mid-market is certainly exaggerated. Retailers such as John Lewis in the UK and Galeries Lafayette and Printemps in France did well over Christmas. More than ever, consumers are demanding good value, whether that is low prices from value retailers, perceived kudos from owning luxury brands or the combination of quality products at reasonable prices offered by successful mid-market retailers.

ECOMMERCE IS THE MAIN DRIVER OF GROWTH

This time last year we reported that a shift in shopping patterns was occurring, highlighting the sharp increase in the growth of online sales in 2010, compared with solid but slow growth across Europe for total retail sales. Since then overall retail sales have slowed and subsequently fallen into negative territory but online sales continue to grow at around 8% across Europe.

Retail sales and online sales/mail order sales EU27 2005-2011



Source: Eurostat (3 month rolling average)

Online/mail order sales grew fastest in the UK, Sweden, Russia and the Czech Republic. Interestingly, CBRE's recent 'Europe's Online Consumer' report identified Sweden and the UK as the most mature online markets, in terms of the proportion of consumers that use the internet to shop online, whereas CEE and Russia in particular were the least mature markets. Thus the strongest growth in the online sector is polarised between the most mature and least mature online markets. In contrast, online sales are currently falling in southern Europe, most notably in Spain and Portugal. In fact, echoing the trend in total retail sales, online sales growth is considerably weaker in the eurozone area, growing by just 2.9% in October 2011 (on a 3 month rolling average) compared with 8.3% in EU-27. Obtaining up-to-date information on online sales remains a challenge. However, examples of recently published data (see table below), confirms the out-performance of the online sector during the Christmas period.

Clearly the amount that consumers spend online depends not only on their willingness to shop online, but also on their ability to access retailers' websites. New research by CBRE examining the transactional capabilities of over 300 global retailers revealed that big differences still exist by country but it also shows that the number of retailers operating transactional websites increased substantially last year. For example, the proportion of the retailers in the survey that can deliver goods to Polish consumers jumped from 24% in 2011 to 34% in 2012.

Total sales vs non-store sales (including online)

Retailer	Total Sales	Store Sales	Non-Store inc online
M&S (Q3 to end Dec)	+0.5%		+22.4%
John Lewis (5 weeks to Dec 31 st)	+6.2%		+28%
Next (5 months to end Dec)	+3.1%	-2.7%	+16.9%
Country			
UK (Dec 2011)	+2.6%		+10.1%
France (Dec 2011)	-2.4%		+20%
Germany (Dec 2011)	-0.9%		+22%
Russia (2 wks to Dec 31 st)	+16.1%		+30-40%

Source: Retailers' trading statements, ONLINE: Fevad (France) online sales only including services Nov-Dec y-o-y, ONS (UK), Romir (Russia), BVH (Germany) Wk 3 Oct to Dec y-o-y

Percent of retailers that can deliver goods bought online to the specified market

	2011	2012
UK	44%	44%
Poland	24%	34%
Sweden	25%	35%
Russia	9%	16%

Source: CBRE, Survey based on a sample over 320 global retailers

Nevertheless, there is scope for significant further growth in Poland – Zara, for example, still does not operate a delivery service there. Russia has also seen a rise in the number of retailers that can deliver goods bought online to their market, up from 9% last year to 16% this year. At the same time, online retail sales are estimated by Romir, an independent research company, to have increased by 30-40% in the last two weeks of December compared with the same period in 2010.

Not all markets saw a rise in retailers' online transactional capability. The UK topped the rankings last year but there was no change this year, suggesting that the survey retailers focused on different markets during 2011, possibly due the expectation of low consumer expenditure growth in the UK last year.

Cross Border Expansion is the Key to Growth

In fact, enhancing their international online capability appears to have been a key priority for many retailers in 2011. In the Czech Republic, Tesco has recently launched an online grocery service, as well as a smaller range of non-food goods. Fashion retailer Karen Millen is launching a foreign language website in France, Spain, The Netherlands and Sweden following a successful trial in Germany. And pure-play retailer Asos saw a 93% increase in its international sales in the three months to December, compared with just 10% growth in the UK market. This suggests that its home market is maturing and that the best opportunities for growth are in new markets, replicating the trend amongst physical store and multi-channel retailers.

Multi-channel retailers are best placed to succeed

The continued rise in online sales is clearly affecting the demand for retail space. In the UK, Thorntons, Dixons, Argos and the Game Group have all announced plans for store closures in coming years, but this will be a slow process as they wait for leases to expire. At the same time Tesco announced that it will not build any more hypermarkets in the UK, as it sees online as the future for non-food goods.

In contrast, value retailer Primark and discounters Poundland and Poundstretcher are actively expanding their physical store networks. Primark does not have a transactional website and Poundstretcher recently closed their site, whilst focusing on store expansion. And among the non-food retailers in the UK that traded well over the Christmas period are John Lewis and Next. It is no coincidence that both have sophisticated and long standing online platforms, as well as extensive physical store networks. These businesses, along with many others, have identified multi-channel retailing as the key to future success. Whilst the definition of multi-channel will expand in 2012 to include call centres, social networks, gaming consoles and televisions, for most retailers, the physical store presence will remain as important as ever to engage their customers and drive sales.

CBRE GLOBAL RESEARCH AND CONSULTING

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