Macro and Market News

Week 40 2023 – Week ending 6/10/2023

6 OCTOBER 2023

Macro/Economic News

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Circana Foodservice UK

Macro/Economic News (1 of 2)

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- **Inflation expectations have continued to moderate in the past month,** strengthening the case for the Bank of England to leave interest rates unchanged again at its next meeting in November. A survey by the Bank found that chief financial officers of businesses think consumer price index inflation will shrink to 5 per cent in a year, down from 5.3 per cent in the three months to August. However, on a monthly basis, inflation expectations of a year ahead edged up to 4.9 per cent last month from 4.8 per cent in the previous month. Companies' wage growth forecasts for the next year were unchanged at 5.1 per cent in the three months to September and up on a monthly basis.
- **The British Retail Consortium reports that food prices in September** are down 0.1% from August in the first fall in prices for two years. The BRC says that fierce competition between supermarkets is behind the fall. It says that prices of staples such as dairy goods, margarine, fish and vegetables, all fell.
- **UK services sector contracts less than expected:** The services sector performed much better than had been thought last month, but subdued consumer spending meant that the biggest driver of the British economy still contracted at the quickest pace since the beginning of the year. The S&P Global and CIPS purchasing managers' index for services edged down to a final reading of 49.3 in September, from 49.5 in August, keeping it below the 50-point mark that separates growth from contraction. It is the latest sign suggesting that the economy is holding up better than expected. Last week, the Office for National Statistics said GDP was 1.8 per cent larger than it had been before the pandemic, with stronger growth than Germany and France. Previously, it had thought the economy was 0.2 per cent smaller.
- **Business rates rise 'will add £1.5bn to bills':** Businesses will pay an extra £1.56bn in property bills from next year unless the chancellor freezes business rates again, a real estate firm has warned. Last autumn, Jeremy Hunt announced a support package worth £13.6bn to help businesses still recovering from the pandemic. This included freezing business rates, which usually increase annually, as well as increasing the discount for retail, hospitality and leisure businesses from 50% to 75% for 12 months, capped at £110,000 per company. Business rates are due to increase again next April under the government's "multiplier", which is pegged to inflation in September as measured by the consumer price index (CPI).
- **Hybrid working makes for happier staff:** New research from Owl Labs, the videoconferencing system, found that 40 per cent of British workers would turn down a job offer if they were required to be in the office for five days a week. However, even without being told they must work in the office, almost a quarter said they felt compelled to go in for a few hours to show their face and keep up appearances. The main reason for this is that more than half of managers are more likely to canvass the opinion of colleagues they physically work with, even though they admit their teams are more productive in a hybrid workplace.

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Macro/Economic News (2 of 2)

Week 40 2023 – Week ending 6/10/2023

- **UK bond yields at 25-year high**: UK government bond yields climbed to their highest point in 25 years this morning as a global debt market sell-off gathered pace on bets that central banks will leave interest rates higher for longer. The yield on the 30-year gilt — a type of IOU issued by the British government — rose 5.115 per cent in early trading, the highest since September 1998, according to data from Refinitiv.
- **Employers must take account of overtime when calculating holiday allowances for staff**, the country's most senior judges have said in a ruling that could cost businesses millions. The ruling came in a Supreme Court decision that means that the Police Service of Northern Ireland must pay at least £30 million in back pay to officers and civilian employees.
- **Houses in England are generally less affordable and of a lower quality** than those in every other European country, making it the "most difficult place in the developed world to find a home", a report has claimed. The analysis by the Home Builders Federation also suggests that of all developed countries, the shortage of homes is most acute in England. Stewart Baseley, chief executive of the trade body, blamed the housing crisis on "decades of housing undersupply", with the UK still "a long way off" hitting its target of 300,000 new homes a year.
- **UK house prices fell for the sixth month in a row in September** but have held up better than feared. Average prices fell by 0.4 per cent last month, according to Halifax, half the decline that economists had anticipated. On Halifax's measure, house prices have fallen each month since April and are now 4.7 per cent lower than they were at this time last year. Not since August 2009, when the world was emerging from the financial crisis, has there been a bigger year-on-year fall.
- **Renting a home is more expensive than ever**, with rents throughout Britain having risen by another 10 per cent over the past year. The average advertised rent outside London has hit £1,278 a month on Rightmove, the online property portal. It means that rents have reached record highs in each of the 15 quarters since the start of 2020. Rents are also at a record high in London, where the average monthly cost is up to £2,637 per month, 12.1 per cent higher than they were at this time last year.
- **The Bank of England has criticised risk managers** for failing to prepare for periods of intense market stress. In a letter to financial institutions, the Bank said there was "insufficient focus by firms" on identifying their exposure to companies caught up in market volatility.
- **A recent KPMG survey of global executives found that 64% expect employees to be back working fully in-office** within 3 years, and nearly 90% plan to tie compensation to more regular in-office work, despite broader trends towards workplace flexibility

Market News

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Market News (1 of 2)

Week 40 2023 – Week ending 6/10/2023

- **Tesco, Britain's biggest supermarket chain has upgraded its annual profit outlook** as food inflation eased in the first half and customers entertained at home instead of dining out. Tesco, which has a 27 per cent share of the UK grocery market, expects to deliver adjusting profit of between £2.6 billion and £2.7 billion for the full financial year, having previously guided for profits to be flat on last year when it reported profits of £2.49 billion. The "big four" supermarket chain reported that operating profit rose 105 per cent to £1.48 billion, up from £721 million in the six months to the end of August. Sales across the group, excluding VAT sales tax and fuel, rose 8.9 per cent over the period to £30.7 billion as like-for-like sales rose by a better-than-expected 7.8 per cent. UK like-for-like sales were up 8.7 per cent in the first half, having been up 9 per cent in the first quarter. It noted that food sales growth was particularly strong at 8.9 per cent over the six-month period.

- **Hospitality saw a surge in like-for-like sales in September**, according to data from people, productivity and payroll system, S4labour. Overall, the sector experienced a 9.6% increase in year-on-year sales – ahead of the rate of inflation. London led the charge with an 11.5% boost, with growth underpinned by a 16.7% increase in food sales. Outside the capital there was also robust growth, with a 9.1% increase in like-for-like sales compared with the same period last year.

- **JD Wetherspoon reports LfL sales for the year are up 10.6% at £1.925bn**. LfL sales, as the company has fewer pubs now open, were up 12.7%. The company reports that its underlying operating profit is up from £25.7m to £107.1m and the group reports an underlying PBT of £42.6m against a loss of £30.4m in the prior year.

- **A third of hospitality workers are motivated to change jobs** by being offered employee well-being programmes and flexible working hours, according to new research. While better pay (47%) topped the list in labour management platform Deputy's State of Shift Work report, well-being programmes and flexible working hours were second and third with 34% and 33% respectively. This was followed by health insurance (32%) and employee assistance programmes (29%). Almost half (47%) said their company had had difficulty hiring in the last 12 months, with 41% reporting that staffing shortfalls had made it harder for them to take time off.

- **A sharp rise in costs at Greggs can be kept in check by doubling down on the drive to fight competitors on value for money** during the cost of living squeeze, its chief executive has said. Food, energy and production costs at the bakery chain are running at about 9 per cent higher than this time last year, but Roisin Currie said that despite recent price rises on popular products such as sausage rolls she expects inflation to be contained around that level in the short term. Greggs, whose shares have been under pressure this year, issued an upbeat trading statement yesterday with like-for-like sales 9.7 per cent ahead in the three months to October compared with the same quarter last year.

- **Uber Eats has announced its Black Business Fund** will return for a third year, with £250,000 of grant funding to be awarded to black-owned restaurants across the UK. To date, businesses have received a total of £300,000 of grants since the award scheme started in 2021, with this year's funding taking the total amount awarded past £500,000.

- **Stonegate Group, the UK's largest pub company**, is working on options to raise new debt against 1,000 pubs, according to people familiar with the situation, as plans to sell off the portfolio have so far been unsuccessful. Bloomberg News reports that Stonegate, which is owned by private equity firm TDR Capital, is proposing splitting off the group of about 1,000 outlets into a special-purpose vehicle and using it to raise debt from outside parties.

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Market News (2 of 2)

Week 40 2023 – Week ending 6/10/2023

- **Papa Johns opens first buffet in Europe**: Papa Johns has partnered with resort chain Butlins to open its first and only Papa Johns Buffet in Butlins Minehead. Guests on the recent 90s Reloaded Big Weekender in Minehead tucked into an unlimited choice of fresh pizza, pasta and salad following two days of fun and entertainment with friends at the popular Somerset coastal resort.

- **PizzaExpress unveils retail business rebrand:** PizzaExpress has transformed its retail range, offering new products, a new look, and new marketing strategies. The fast-casual pizza brand worked on the transformation for 18 months. The new retail range will have new and improved recipes with clearer tiering for customers. PizzaExpress will focus on its Icons retail range consisting of 9-inch pizzas which are the core of its supermarket range and a new Restaurant Favourites range, new premium 11-inch pizzas that have been created with quality & taste top of mind using restaurant quality ingredients.

- **UK families 'eating less healthily' due to cost-of-living crisis**: Families are eating less healthily and turning to ready meals and processed foods due to the cost-of-living crisis, a study has found. More than two-thirds of people (69%) said they considered themselves to be healthy eaters but 28% said they were eating less nutritious food because it is too expensive, according to the BBC Good Food Nation survey. The Guardian reported the study of 2,013 adults across the UK found that 19% are eating more ready meals and processed foods because they are cheaper, while 17% are cooking less from scratch.

- **Patisserie chain Caffe Concerto will open its second site outside of London**, and 21st overall in the UK, in Leeds this autumn. It will open at the Victoria Leeds shopping centre, featuring outdoor seating onto Harewood Street, joining 19 sites in the capital and one in Birmingham.

- **US hot customisable sandwich concept Which Wich is eyeing a short-term target of 30 UK sites** over the next three years as it prepares to launch franchise opportunities here. The brand, which has grown to more than 300 sites globally since being founded in Dallas in 2003, first entered the UK market in 2018 with a debut store in London's Covent Garden. It has since added a virtual kitchen in Shoreditch and is planning another location later this year.

- **US better burger brand Shake Shack is to open a site in Oxford for its 16th UK site**. Set over three floors, the outlet will open early next year in Cornmarket Street. The restaurant will offer dishes such as the signature ShackBurger, crinkle-cut fries and ShackMeister Ale.

- **Travelodge has entered into a sublet agreement with Popeyes Louisiana Chicken**, the US fried chicken quick-service restaurant brand, which has seen a drive-thru restaurant open in Northampton. Popeyes UK is the latest retail brand to join the Travelodge mixed-scheme development partnership portfolio. Over the last three decades, Travelodge has partnered with a number of brands in a variety of mixed use developments alongside other complementary uses – such as retail, coffee shops and drive-thrus. Travelodge said it is keen to expand its development brand partnerships as part of its UK expansion programme, which includes looking for a further 300 hotel sites across the country.

- **A merger of the UK's two largest scampi suppliers could ultimately push up prices for UK pubs and restaurants**, the competition watchdog has said. The Competition and Markets Authority (CMA) has found that Whitby Seafoods' purchase of Kilhorne Bay Seafoods could result in higher prices and lower quality products. Whitby Seafoods is currently the largest UK supplier of breaded scampi to foodservice customers by some distance, holding a market share close to 90%.

For more information

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About Circana

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