Macro & Market News

Week 38 2021 – Week ending 24/09/2021

Macro/Economic News

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From NPD Foodservice UK

Macro / Economic News (1)

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- **Soaring costs raise prospect of stagflation in UK economy, according to composite PMI.** Britain is drifting towards stagflation with growth slowing and inflation rising because of problems in supply chains, energy markets and recruitment, according to a key indicator of private sector activity in September. The pace of recovery slowed for a fourth month to its weakest level since the rebound from the pandemic started in March, the monthly survey found. Facing soaring input costs, companies raised their prices at the fastest rate in at least 25 years.
- **Bank of England holds rates and cuts growth forecast for third quarter.** A first interest rate rise since the pandemic moved a step closer after two Bank of England ratesetters voted to tighten policy this month to grapple with surging inflation and others agreed that the stimulus since the pandemic would need to be unwound soon. Two of the nine members of the Bank's monetary policy committee voted at the September meeting to scrap the final £35 billion of quantitative easing. They included Sir Dave Ramsden, the deputy governor. The rest acknowledged that inflation risks were rising but there was "a high option value in waiting for additional information before deciding" to move.
- **Britons are becoming increasingly worried about inflation,** according to a monthly survey that is likely to raise concerns at the Bank of England. Inflation expectations for the next 12 months have jumped to 4.1 per cent from 3.1 per cent in August, according to Citigroup, the investment bank, and YouGov, the polling provider. It was the biggest monthly increase since the survey began more than 15 years ago and was the highest level since 2008. Longer-term inflation expectations, for the next five to ten years, rose from 3.5 per cent to 3.8 per cent, the highest level since 2013.
- **Millions of households face higher gas and electricity prices** after the government said that it would not bail out energy companies on the brink of going into administration. Ministers are instead considering underwriting billions of pounds in loans to cover the cost of companies taking customers from those that go bust. Suppliers that take these customers are expected to charge them the maximum allowed under the energy price cap at £1,277 a year for a typical household. It means households that took out deals with failing small suppliers at lower rates would pay hundreds of pounds more a year.
- **Boris Johnson has described the energy crisis as a "short-term problem."** He says there will not be disruption to food supplies at Christmas. He told the BBC news that the government was doing all it could.
- **Household confidence dipped last month as fears about job security mounted and as the housing market lost momentum,** according to the Centre for Economics and Business Research and YouGov. The report found that consumer confidence in Britain had fallen by 0.3 points to 112.9 in August, although that was still above the 100 mark that indicates optimism. Concerns about the strength of the housing market weighed on confidence as homeowners felt that their properties had dropped in value. Fears about job security have also worsened. Fewer than two million people are still on furlough, but economists do not expect unemployment to rise when the scheme ends at the end of this month.

Macro / Economic News (2)

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- **Rise in inflation pushes borrowing near record high.** Public sector borrowing came in above forecasts last month as rising inflation pushed debt servicing costs up to their seventh highest level on record. Public sector net borrowing was £20.5 billion in August, down £5.5 billion on last year, the Office for National Statistics said, but above the £15.6 billion that economists had expected.
- **Royal Mail anticipates cost pressures while online shopping boom here to stay.** Royal Mail has warned of mounting cost pressures as it revealed growth in its parcels business has eased since Covid restrictions were removed. The group reported a nine per cent drop in parcel deliveries by volume across July and August, as parcel revenues fell 4.6 per cent to £773m. However, a trend towards online shopping above the high street would be a staple following the pandemic, the group said. It was “increasingly confident” that the trend for higher UK parcel deliveries was here to stay.
- **More than half of Gen Z shoppers now think that they will shop entirely online within the next decade** as the high street’s draw on younger shoppers continues to wane. According to new research conducted by The Center for Generational Kinetics and commissioned by WP Engine, 54 per cent of Gen Z and 39 per cent of Boomers believe all shopping will be done online by 2031. A further 75 per cent of Gen Z shoppers say they plan to shop entirely or mostly over the next year as the vast majority plan to continue their lockdown shopping habits post-pandemic. Over two thirds of boomers (70 per cent) and millennials (67 per cent) said they expect to maintain their new shopping habits after the pandemic, mirrored by 63 per cent of Gen X and Gen Z.
- **Foreign investment in the UK is too focused on London and the southeast** to provide the broad economic benefits that the government plans under “levelling up”, MPs have said. Attracting direct investment to the regions by overseas asset managers is a key plank of the government’s agenda, but the Commons’ international trade committee said that warm words were not being backed up by firm action. London and the southeast of England attract the “lion’s share” of investment, accounting for 47.5 per cent of projects announced by inward investors since 2003, the committee said in a report.
- **The UK economy will grow the fastest among the group of the world’s richest countries**, according to the Organisation for Economic Co-operation and Development (OECD). The OECD thinks the UK economy will expand 6.7 per cent in 2021, the highest rate of growth among the G7. The UK’s leading growth rate has been driven by ultra accommodative support from the Bank of England and the successful rollout of Covid-19 vaccines.
- **Post-pandemic surge in job vacancies benefitting low skilled male workers.** Vacancies in the lowest-paying third of occupations were 19 per cent higher than pre-pandemic levels in June 2021, with the exodus of some 500,000 EU workers creating chronic shortages in male dominated professions such as road transport drivers.





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- **Coffee chains are reporting that trade is returning to pre-pandemic levels as workers return to offices.** Pret A Manger shrugged off a disastrous 2020 this week when it recorded a £265.5 million loss by revealing plans to add more than 200 cafés to its 390-strong UK chain over the next two years. Its chief executive said trading had returned to near pre-pandemic levels. Sales at Black Sheep Coffee, based in London, and 200 Degrees Coffee, in Nottingham, are also recovering. To reduce costs they are agreeing reduced rents on existing sites where landlords are willing to negotiate attractive deals to take on new ones. Pret said on Tuesday that it had secured £100 million of new investment from its majority shareholder JAB to fuel its continued growth, despite sales having collapsed from £708 million to £299 million in 2020. It added that its expansion plans, including franchises, would bring it into regional and sub-urban locations.
- **CO2 crisis may leave supermarkets short within days.** There could be more gaps on supermarket shelves within a week because of carbon dioxide shortages, industry figures have warned as ministers consider a subsidy to restart production of the gas. Suppliers have warned that carbon dioxide shortages, staffing shortfalls and rising inflation in supply chains are combining to cause a crisis in the food industry. Kwasi Kwarteng, the business secretary, is understood to be considering a form of subsidy to allow CF Industries, the UK's largest supplier of the gas, to restart production at its sites.
- **All tips will go to hospitality workers** without any deductions under plans to overhaul the sector's practices to be set out by the government today. The Department for Business, Energy and Industrial Strategy's new rules will make it illegal for employers to withhold tips from workers. They are expected to help about 2 million people working in 190,000 businesses in the hospitality, leisure and services sectors, where tipping can make up a large part of their income.The department said that the new legislation will let customers know that tips are going to workers in full and not businesses, "ensuring workers receive a fair day's pay for a fair day's work".
- **Compass finds way to bounce back.** The world's biggest catering group ended the financial year on a strong note after delivering fourth-quarter revenues that were ahead of guidance. Compass Group said that, with ten days to go, its revenue in the three months to the end of September was expected to improve to 86 per cent of the 2019 level. That is slightly ahead of previous guidance of between 80 per cent and 85 per cent, and the group said it now expected full-year revenue to reach 76 per cent of the 2019 level. Compass operates in 45 countries, and before the lockdown was serving 5.5 billion meals. It employs 550,000 people and generated revenues last year of £20 billion, down almost a fifth on 2019.

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- **Tesco warns of panic buying as 'empty shelves will get ten times worse'.** A shortfall of 800 drivers has prompted Tesco to warn about panic buying in the run up to Christmas if the nationwide HGV crisis is not addressed. The UK's largest supermarket also called on the Government to temporarily make it easier to bring in workers from abroad to ease the issue. Tesco said it has only managed to attract as many drivers as it has lost to rival businesses over the summer despite offering £1,000 recruitment bonuses since July.
- **Harvester operator Mitchells and Butlers has seen a stronger recovery in suburban and food-led brands.** The pub group described sales as "volatile" since pubs were permitted to reopen for indoor trading in May, but said they had generally strengthened overall. Food-led and suburban brands had fared better than city boozers as customers looked for premium options, according to the Toby Carvery and All Bar One operator. The group had cash balances on hand of £197m, with undrawn unsecured facilities of £150m, it said in an update for the 51 weeks ended September 18.
- **Shell now offers 24-hour Uber Eats deliveries from hundreds of stores.** More than 340 Shell stores across the UK will join the Uber Eats app, offering a range of over 750 items for delivery in as little as 30 minutes. Customers will have access to a broad range of everyday essentials from fresh fruit and vegetables to ready-to-eat food and including products from Little Waitrose, Jamie Oliver Deli and Budgens ranges. The initial roll out will see 183 stores across London, Manchester and Glasgow join the app, with a further 158 joining across the country in the coming months and 250 of these offering 24-hour delivery.
- **More than three quarters of hospitality businesses to put up prices in face of rising costs:** 76% of hospitality business leaders have said they will have no choice but to pass rising costs on to consumers by increasing their prices. So says the latest Business Confidence Survey from CGA and Fourth, which forecasts more rising costs and supply chain problems for businesses. The poll found 99% of businesses are currently experiencing supply chain issues, with 88% facing reduced product lines, 82% seeing deliveries delayed and 84% seeing products fail to turn up at all. This has, in turn, driven inflation in many key cost areas, with 82% reporting higher costs in their supply chain and 73% saying their food costs have risen.
- **Nightspot owners in Scotland have started legal action against the Scottish government over covid passport measures** set to come into force on Friday, 1 October. Earlier this week Scottish first minister Nicola Sturgeon confirmed venues open between midnight and 5am, serving alcohol after midnight, playing live or recorded music for dancing and having a designated space for dancing in use would be defined as nightclubs – and therefore require covid passports. This was blasted by UKHospitality Scotland, which warned late-night pubs and bars would be caught up in the broad definition and suffer the restrictions.

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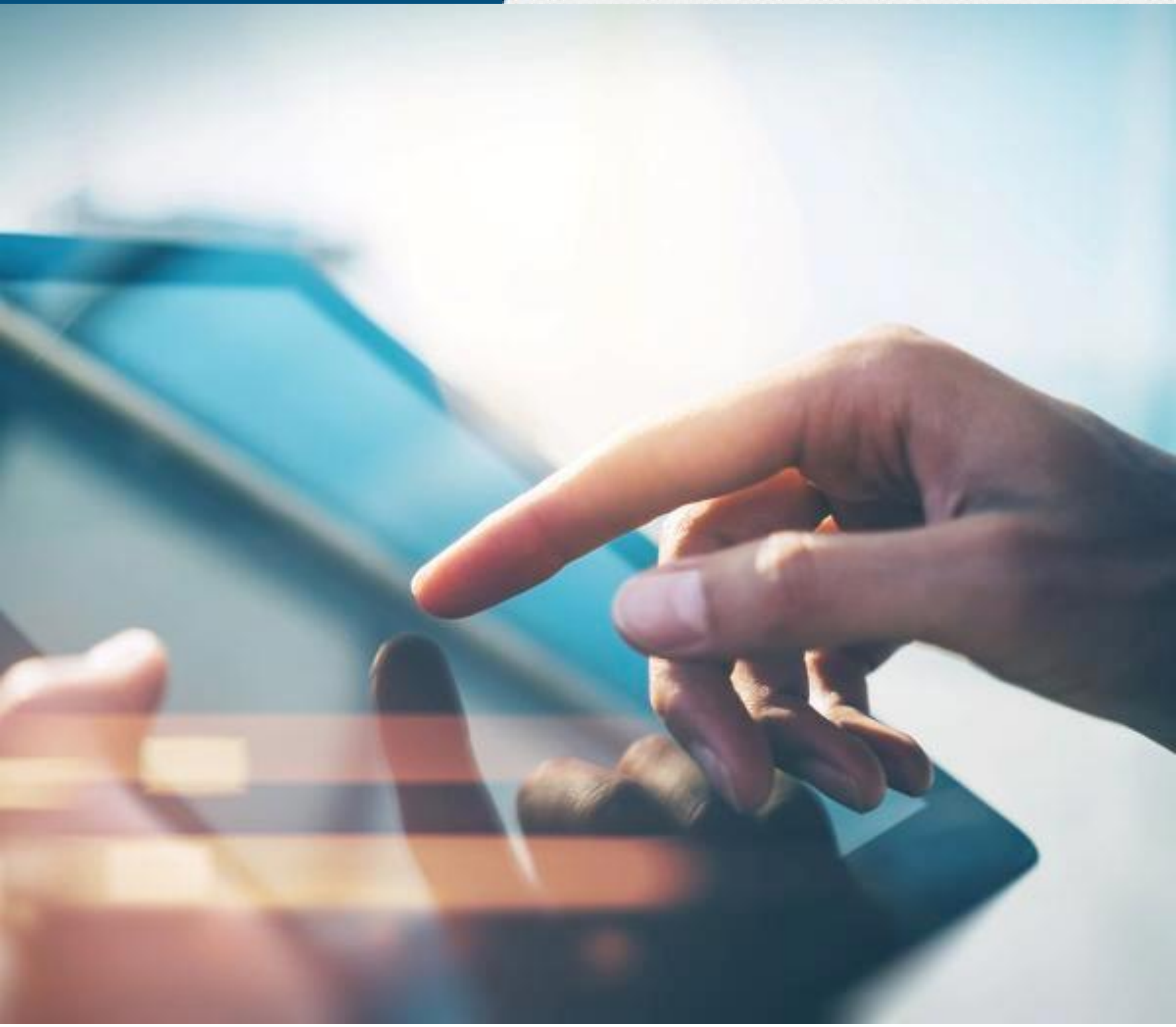

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