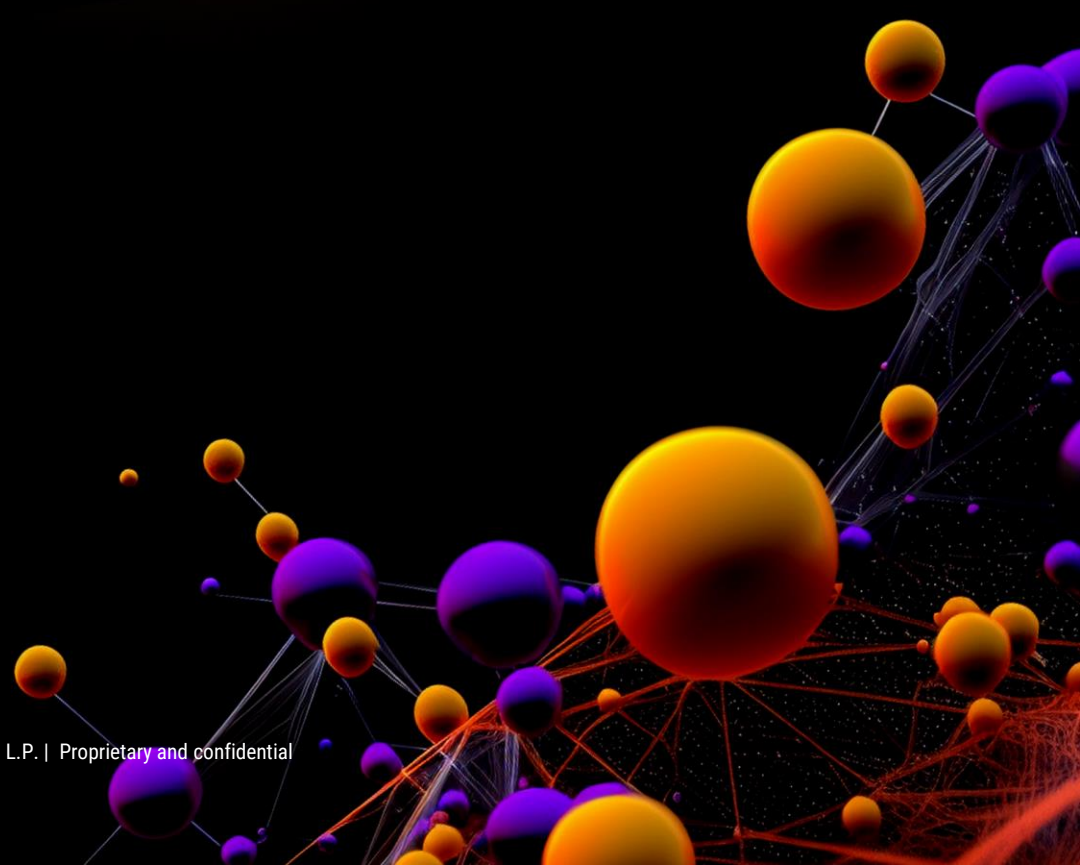




Macro and Market News

Week 31 2023 – Week ending 04/08/2023

4 AUGUST 2023





Macro/Economic News

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- **The Bank of England has increased its interest rate to 5.25%, from 5%.** The last time rates were at 5.25% was April 2008. The Bank also says it expects inflation to fall below 5% in the final quarter of 2023. The Bank's base rate influences the cost of borrowing - meaning an increase can lead to more expensive mortgages. But it can be good news for savers, as banks may offer greater returns on savings accounts.
- **Bank of England borrowing stats show that rising interest rates have yet to fully feed through the UK economy,** with credit card spending up £1.7bn in June, above the £1.1bn increase in May.
- **A slowdown in food price rises and a wave of discounting by clothes retailers helped to drive down shop prices inflation last month,** providing scope for the Bank of England to tame the pace of interest rate rises. The Times reports overall annual shop prices inflation fell to 7.6% in July, from 8.4% in June, in another keenly awaited indication that inflation may have peaked. Annual food prices inflation eased to 13.4% in July from 14.6% in June.
- **Business confidence fell last month amid growing concern over the impact of rising interest rates on the outlook for Britain's economy.** The Times reports that sentiment declined in the services, manufacturing and construction sectors in July, according to a closely watched survey, although it rose among retailers. The Lloyds Bank Business Barometer fell six points to 31% overall, above the long-term average of 28% but a drop from the 13-month high of 37% scaled in June. It was knocked by the sharpest monthly fall in optimism since June 2022 as fears over the impact of the Bank of England's campaign to bring down inflation loomed large. Net optimism declined by 11 points to 21%, the lowest level since January. The net balance of businesses planning to raise prices fell three points to 53% last month.
- **UK house prices dropped at their fastest annual rate for 14 years in July,** according to Nationwide. The building society said prices had dropped by 3.8% - the biggest yearly decline since July 2009. Nationwide said mortgage interest rates remained high, making affordability a challenge for house-buyers. Mortgage costs hit the highest level for 15 years in July as lenders faced uncertainty over the interest rate set by the Bank of England.
- **UK homewares retailer Wilko has warned that it is on the brink of collapse, putting some 12,000 jobs at risk.** The privately-owned company said it had filed a "notice of intention" to appoint administrators after failing to find enough emergency investment. Wilko which has 400 UK stores across the UK is well-known for its affordable everyday items. Rising interest rates, higher energy costs and squeezed consumer spending have all been weighing on retailers in recent months. Shops including furniture chain Made.com and clothing group Joules collapsed into administration but were both offered rescue deals by High Street giant Next.



Market News

Week 31 2023 – Week ending 04/08/2023

Market News (1 of 5)

Week 31 2023 – Week ending 04/08/2023

- Food-on-the-go retailer Greggs has reported a 16% increase in like-for-like sales across its company-managed shop estate for the 26 weeks to 1 July 2023.** Total sales for the period were £844m (H1 2022: £694.5m), while underlying pre-tax profit (excluding a £16.3m exceptional gain – on the settlement of its covid business interruption insurance claim) was £63.7m in the first half of 2023 (H1 2022: £55.8m). The company said that the year-on-year progression was supported by a strong start to the year in January and February where the sales comparatives in 2022 reflected the impact of Omicron. It said that sales and profit progression normalised through the remainder of the first half in line with its plan. 94 new shops opened in the first half, against 44 closures, leaving the business with 2,378 shops trading as at 1 July 2023. The brand said it has a “strong pipeline of good opportunities” and continues to anticipate circa 150 net new shop openings in 2023. The brand the business pushed through a 5p-10p price increase on some items in June. Last year, Greggs lifted prices on three occasions. The group does not currently plan any more price rises for its customers but chief executive Roisin Currie said she expected costs to rise by about 7% in the six months ahead, down from an 11% rise in the first half.
- Domino’s Pizza Group** has reported that trading in the 26 weeks to 25 June 2023 was strong, with like-for-like system sales, excluding splits and the impact of VAT, up 9.7%. Total orders in the period stood at 35.4 million (2022: 34.4 million), with system sales at £766.4m (2021: £710.5m), an increase of 7.9%. It said that like-for-like sales in Q2 were up 8.6%. Underlying Ebitda for the half year was £68.7m, up 8.2% compared to H1 22, which it said was driven by an increase in system sales volume, acceleration of store openings and the pass-through of food costs. Domino’s Pizza Group also plans to launch a loyalty scheme next year after talking to customers about developing a programme that suits their needs.
- Tesco Family Dining has signed its first nationwide franchise agreement, with the dessert parlour operator Creams Cafe,** to introduce a new offering alongside its in-store Tesco Café sites across the UK. Following the success of the opening of a standalone Creams Cafe in Tesco Extra Streatham in November last year, the new partnership will see Creams launching within Tesco Cafés as shop-in-shop spaces – a first for both brands. Currently, there are more than 300 Tesco Cafés across the country. The first Tesco Café-run Creams Cafe will open at Tesco Extra Gateshead on Thursday (3 August), followed by Tesco Extra, Maryhill, Glasgow on Friday (4 August) with further sites planned to open later this year. Under the new agreement, the co-branded cafés will offer Creams’ full 24-flavour gelato selection, alongside its dessert range of waffles, milkshakes, cookie dough, crepes and sundaes. Tesco Café will continue to provide customers with its core selection of breakfasts, light meals, hot and cold drinks as well as an extensive range of baked goods.
- The number of people heading out to the shops fell for the first July in 14 years as the UK grappled with one of the wettest months on record.** Overall footfall was down by 0.3% in the first drop in July since 2009, said retail analysis firm Springboard. High Streets were hit hardest but shopping centres and retail parks got a boost in visitor numbers. Aside from the rain, the rising cost of living and rail disruption were also behind the fall, Springboard said.

Market News (2 of 5)

Week 31 2023 – Week ending 04/08/2023

- Big Easy, the London barbecue concept, has said the business has “recovered well” from the covid pandemic.** The company, which operates five sites, reported turnover increased to £18,101,472 for the year ending 31 July 2022 compared with £5,041,033 the year before. For the year ending 28 July 2019 – the last full year before the pandemic – the business turned over £20,595,992. Group Ebitda increased to £1,140,000 from £813,000 the previous year despite a number of its restaurants not fully opening until November 2021. The business made a pre-tax profit of £32,491 compared with a loss of £307,139 the year before.
- Bistrot Pierre, the Nick White-led business, has launched a new app-based members club scheme.** Called Club Bistrot Pierre, diners earn 5p of “Bistrot Pounds” for every £1 spent at a Bistrot Pierre as well as receiving exclusive deals and rewards each month. The 17-strong company said that Bistrot Pounds “cashback” can be earned on all food and drink, with guests able to redeem their Pounds off their bill at any time, choosing to redeem all their pounds, or just a certain amount.
- US brand Chipotle has opened its fourth site in as many months, at The O2 in London.** It follows its debut site in Surrey, in Guildford – its first venue outside Greater London – launching last month and openings at Westfield White City in June and Twickenham in April, taking Chipotle to 17 UK locations in total.
- Rob Lynch, president and chief executive of Papa John’s, has said while the business knows there will be macroeconomic challenges ahead, it is “confident we can improve sales and profitability within our UK market”.** Earlier this summer, the business, which operates more than 500 sites here, announced a shift in its UK strategy with the acquisition of 91 sites previously operated by the M25 division of Drake Food Service International to form a portfolio of company-owned restaurants. Lynch said: “Our international business is a long-term growth driver for Papa John’s. We’ve recently established a corporate-owned restaurant portfolio in the UK, our largest international market, allowing us to build a similar success model to the one we’ve created in the US. This model accelerates our ability to scale our company’s capabilities with franchisees in the UK, and worldwide, to grow like-for-like and new unit development. While we know there will be macroeconomic challenges ahead, particularly in the short term, we’re confident we can improve sales and profitability within our UK market, and in our international segment overall.” It comes as the business reported a 1.6% decline in total revenues to \$514.5m in the second quarter of 2023 compared with the previous year. Excluding the impact of purchasing the 91 international stores in 2023, total revenue decreased 1.9% compared with the year before. It said the revenue decline was driven by lower North American commissary revenue, driven by lower sales volume and decreased commodity prices in 2023 as compared with 2022. The decrease was partially offset by like-for-like sales growth from domestic company-owned restaurants. In the quarter, global systemwide restaurant sales were \$1.22bn, up 2% from a year ago. The company said the increase reflected higher equivalent units from net restaurant openings primarily in its international markets. International like-for-like sales were down 1% from a year ago but up 5% on the first quarter.

Market News (3 of 5)

Week 31 2023 – Week ending 04/08/2023

- Julian Metcalfe, the founder of Itsu, the healthy Asian food chain, has said headwinds have been “more ferocious than ever before in our industry”, as he hinted at a return to the US for the brand.**

Talking to Bloomberg, Metcalfe said: “A great many customers are feeling it because the prices are going up. Often, if your business is inefficient, really inefficient, the only way to handle it is to put your prices up. Our prices have gone up a tiny bit. We've moved our menu a lot over to more hot food and it's taken years of work to be able to create these products.” Metcalfe said the return to office is “happening slower than we thought”, but the business was becoming “much less dependent” on the office lunch market. However, he said the brand plans to open “one of the biggest Itsus in history soon, right in the City...so we're still dedicated to serving our office worker”.

- Côte, the French brasserie chain backed by the Partners Group, has brought back its Prestige set menu “featuring high quality French dishes at affordable prices”. The menu has been designed by Côte executive chef Steve Allen who has previously worked alongside Gordon Ramsay at his Michelin-starred restaurants including Claridges and Petrus. Prestige will be available Monday to Friday from 7pm at its London restaurants in St Martin’s Lane and Covent Garden along with Chester, Manchester, Liverpool, Cirencester, Winchester and Dorchester. The set price menu will be trialled throughout the summer and if it proves successful it will be considered as a permanent fixture. The menu ranges from £18.95 for two courses and £22.95 for three courses (prices may vary). Main courses include Sea Bass Rouge, Confit Pork Belly, Squash Taboulé, Poulet Grillé and an 8oz sirloin steak (£3.50 surcharge). A Côte spokesperson said: “In France almost every restaurant offers a set menu prix fixe and we wanted to showcase our fine French cuisine at affordable prices. At Côte we believe in life’s little luxuries and the Prestige menu was loved so much by our guests that we decided to bring it back.”**

- Starbucks reported Q3 numbers** saying consolidated net revenues rose by 12% to a record \$9.2 Billion. It reports that Q3 comparable store sales rose by 10% globally. They were up by 7% in North America and up by 24% in the group’s international markets. Starbucks reports that the like-for-like sales increase was ‘primarily driven by a 5% increase in comparable transactions and a 4% increase in average ticket.’ This broke down as to ticket sales up 6% and a 1% increase in comparable transactions in the US and a 21% increase in comparable transactions and a 2% increase in average ticket in overseas markets

- Yum! Brands has reported KFC system sales in the UK were up 10% for the second quarter, ended 30 June 2023, compared with the previous year.** In the year to date, KFC UK system sales have increased 7%. The UK accounts for 7% of KFC’s system sales worldwide. Globally, KFC like-for-like sales in the quarter were up 13% with US like-for-like sales up 5% – system sales worldwide rose 14% to \$8,298m. Operating margin was up 4.5%. Operating profit increased 11% to \$326m. KFC opened 600 gross new restaurants in 60 countries during the period. Meanwhile, Pizza Hut system sales in Europe, including the UK, were flat – the continent accounts for 14% of Pizza Hut’s system sales globally. Year-to-date sales are up 1% in the region. Pizza Hut sales in the quarter were up 5% globally to \$3,201m, with like-for-likes increasing 4%. US system sales, which account for 41% of global sales, were up 2%. Operating margin was down 1.9% while operating profit fell 2% to \$91m. Pizza Hut opened 357 gross new restaurants in 42 countries during the period. Taco Bell like-for-like sales increased 4% and system sales were up 7% to \$3,760m. Operating margin was up 0.1% while operating profit increased 6% to \$228m. Taco Bell opened 63 gross new restaurants in nine countries during the period. Yum! Brands’ total revenue in the quarter was up 3% to \$1.687bn.

Market News (4 of 5)

Week 31 2023 – Week ending 04/08/2023

- French artisan bakery and patisserie brand Paul plans to upgrade a third of its 36-strong UK estate to its Le Café concept**, which has already proved successful in other countries. The company opened the first Paul Le Cafe in Europe, outside France, where it operates more than 15 sites under the concept, in April, near the Tower of London, in Lower Thames Street. The business plans to upgrade a third of its UK estate over the next 12 months. The concept has been designed to evoke a “modern coffee lounge spirit” with the business taking inspiration from the original Paul site, including “graphic tiles and rosewood-coloured details”.
- Uber Technologies has announced its first quarterly operating profit**, a breakthrough for the ride-hailing company after losses of tens of billions of dollars over the past decade. The Times reported the group reported a record number of trips and active customers as it drew a line under the impact of the pandemic. Outside London, it said sales throughout the UK had climbed by about 45%. Its operations generated income of \$326m in the three months to 30 June, after a cost-cutting drive that included layoffs and budget cuts. A year ago, it suffered an operating loss of \$713m. Total revenue rose 14% to \$9.23bn. The company is best known for its ride-hailing app, but its food delivery and freight divisions generate almost half its business. It rapidly built its food delivery unit in the pandemic, which triggered a steep fall in demand for its ride-hailing service. Dara Khosrowshahi, Uber’s chief executive, described a “strong demand environment” for ride-hailing as leisure travel picks up and as office workers return to their desks.
- Michael Skipworth, president and chief executive of Wingstop**, has said the brand’s UK business has set a record sales week, and that the brand’s international business is well-positioned for further growth. Lemon Pepper Holdings, which is rolling out Wingstop across the UK, currently operates 35 sites here. Skipworth said: “We believe our international business is well positioned for growth. During the first half, we saw an acceleration in international same-store sales growth and the investments we have been making and the team are paying off. We’re really excited about the momentum we see in our international business and the demand that’s in our pipeline. I’ll give you one example – and that is the progress we’ve made in the UK. Last week, our UK business set another record week of sales. And in fact, our original restaurant in the UK, in London’s Shaftesbury Avenue, that opened roughly five years ago, last week had a record week and sold over \$100,000 (£78,100) in sales. So, I think that just speaks to some of the momentum that I referenced.”
- The government has decided to call time on covid-era licensing rules that made it easier for pubs in England and Wales to sell takeaway drinks.** Landlords were given permission in 2020 to serve customers in the street through hatches when they were forced to close their premises by covid laws. The move was extended twice during the pandemic. BBC News reported the Home Office has decided to wind up the initiative on 30 September. The government has decided from that date pubs with an on-site licence will need a licence change from their local council to do takeaway sales.
- West Midlands dessert franchise Little Dessert Shop (LDS) has said it is aiming to hit the 50-site landmark by end of 2023** as it sets out a roadmap to an eventual UK estate of 150-200 locations. The company, founded in 2014 by Mu’azzam Ali and launched the following year in Wolverhampton, currently has 44 sites. Two more – in Woking (Surrey) and Wilmslow Road (Manchester) – are in the latter stages of construction.

Market News (5 of 5)

Week 31 2023 – Week ending 04/08/2023

- **Azzurri Group-owned Zizzi** is planning to expand its at-home frozen meal range with investment in its in-house team, a programme of new products this autumn and quality improvements. Zizzi at Home sold more than three million units in its first 12 months in Tesco, with its most popular product its Zizzi Rustica Piccante Pepperoni Pizza. Its plant-based products make up more than 12% of overall sales. Zizzi debuted at-home frozen rustica pizza in Sainsbury's in 2020, expanding the range to include pasta dishes, which were launched in Tesco in March 2022.
- **Popeyes UK, the fast-growing QSR chicken brand, has secured £50m of additional funding from leading private equity firm TDR Capital**, to accelerate its successful restaurant opening programme. Popeyes UK has opened 27 locations across the country since its first store in Stratford opened to huge crowds in November 2021. This year, it opened its first drive-thru restaurant in Rotherham, which it said broke multiple sales records for the global brand with a portfolio of over 4,000 locations. Popeyes also confirmed it will open its first site in Manchester later this year, as it said that its most recent openings have been "some of the biggest to date, not just in the UK but for Popeyes globally". The new Manchester site will be situated in the city's Piccadilly Gardens, and will mark the brand's 15th opening in 2023, and the chain's 32nd opening since debuting in the UK in November 2021. It will seat up to 67 people for dine-in, with 32 seats outside.
- **Shake Shack has announced Q2 numbers** reporting total revenue of \$271.8 million, up 17.8% versus 2022, including \$261.8 million of Shack sales and \$10.0 million of Licensing revenue. It reports system-wide sales of \$426.3 million, up 21.2% versus 2022.
- **Private equity firms TDR Capital and Sycamore Partners are in talks to team up in their pursuit to acquire sandwich restaurant chain Subway**, people familiar with the matter have told Reuters. Subway expects to fetch well over \$9bn in a deal, and it remains uncertain whether TDR and Sycamore can meet its price expectations, the sources said. Another group led by Roark Capital remains in the running, the sources added. The bidders are continuing to carry out due diligence, and Subway may wrap up the sale process by the end of the month, one of the sources said.

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