



BREXIT Forecast
Cocktail of headwinds: price rise shocks and collapsing demand, retail stagflation to come

MAY 2016

INTRODUCTION

Assuming the vote on the 23rd of June produces a majority for Brexit, we would expect the Prime Minister to come under intense public pressure to invoke article 50 of the treaties straight away and set the divorce process in motion.

In such a scenario we forecast modest growth for UK retail, but this is down to stagflation - the combination of rising prices with flat-lining demand - a nightmare scenario to manage for the Bank of England and for retailers too.

To put this into context: Post Brexit growth is not something to be celebrated, because even in 2008, the year of the greatest financial crash since 1928, UK retail grew due to runaway inflation. Declines in UK retail spend are extremely rare and yet according to latest ONS data the sector is flat-lining already.

After a Brexit vote, for the second half of 2016 retail volume declines are likely. On the one hand this is a byproduct of inflation, as Sterling will come under pressure and most product imported from overseas (from clothing to furniture to consumer electronics) will become much more expensive - we believe that UK retailers have only hedged insufficiently. Trade barriers and tariffs might also be erected adding even more

to consumer prices. Rising prices will dampen demand.

Secondly for British shoppers there is less money going round. Another round of belt tightening will be on the agenda, driven by **a crash in consumer confidence, a falling housing market, more bankruptcies, unemployment going up and wages falling again.**

The big unknown is what will happen to EU citizens in the UK. We would expect a substantial amount of EU citizen to leave due to employment moving abroad (banks, insurance, law firms etc). Perhaps stricter retroactive visa requirements for low paid EU staff in warehouses, factories and on farms would force many to emigrate. If this happens, from an operations standpoint there will be real headaches in the supply chain, but perhaps more importantly in terms of spend **the major worry is the addressable shopping pool being shrunk.** Mass EU emigration and the loss of purchasing power on a greater scale could not be offset by retailers in the UK (or by returning British ex pat OAPs from Spain).

And at this point the BoE will be forced to raise interest rates, as UK inflation starts to soar, the oil price recovers ...

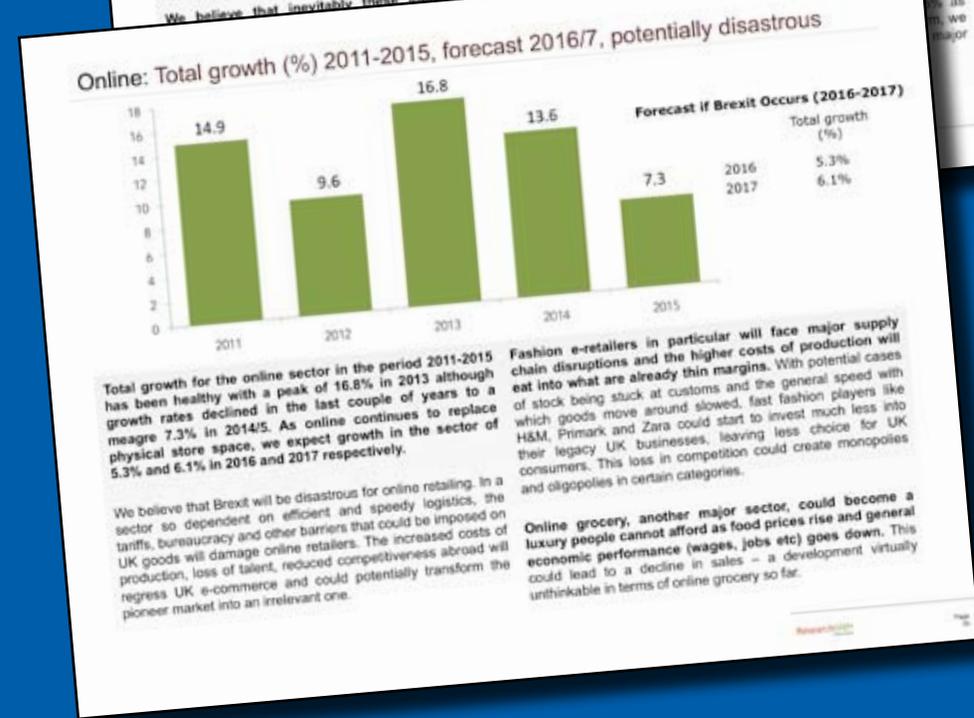
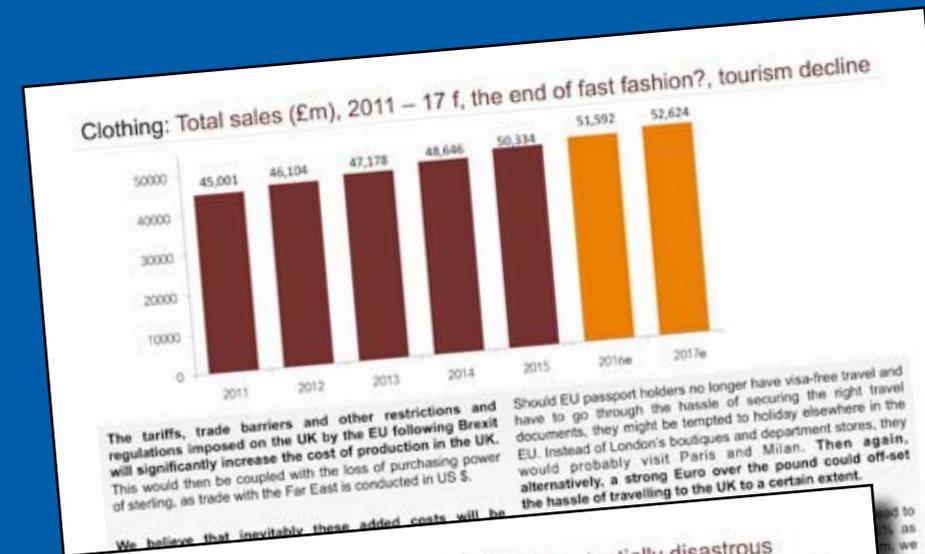


FEATURES

- Thirteen charts of data including total retail sales, growth rates and inflation plus 2016-17 forecasts
- Analysis on the impact of Brexit on four core sectors and total UK retail – food & grocery, clothing & footwear, home, furniture & DIY and online
- An outlook on the potential fallouts should the Leave campaign win

BENEFITS

- Access an independent economic scenario to understand the impact a Brexit could have on your business, sector and industry. Prepare for years of uncertainty
- Future proof your business and incorporate a third, independent and neutral view into your crisis and risk management procedures and business continuity planning
- Understand how reversed EU immigration flows would impact your business by sucking available spend out of the economy and prepare for bottle-necks in operations and hiring



KEY QUESTIONS ANSWERED 1/2

In case of Brexit:

- What will happen to Inflation?
- And what is the future outlook after the pound has taken a pummeling on currency markets?
- Will the UK be forced to erect tariffs as a bargaining position for future trade negotiations?
- What are reasonable central estimates for 2016/7?
- What will be the impact of EU citizen leaving the UK - as jobs and employers go to the mainland? Will lower paid EU nationals be forced out by tighter visa requirements? By how much will total UK purchasing power decrease? What is the magnitude in £ terms?
- How damaging could Brexit be on the grocery supply chain? Will Aldi and Lidl clean up after a Brexit vote?
- Out of grocery, clothing, home sectors and online, which industry will be the biggest loser upon Brexit? And by how much? Which sector will be the biggest winner? Will there be any? What are the growth figures for 2016 and 2017?
- What consequences could arise should foreign businesses end up leaving the UK?
- How would foreign clothing retailers like H&M, Primark



KEY QUESTIONS ANSWERED 2/2

and Zara react to the news of Britain leaving the EU?

- Why would Brexit make sourcing from non-EU markets like Asia more expensive? Why is the argument from the Leave campaign that the British textiles industry will be reinvigorated by leaving the EU deeply flawed? Would Brexit spell the end for fast fashion?
- What will happen to the housing market, the main driver of DIY, furniture and homewares retail performance in the UK?
- What will be the impact on the banking system? And UK consumers' ability to access debt and mortgages? How will this reinforce the negative spiral in mortgage availability?
- What will be the impact of negative interest rates to support the economy (pure poison for the banks)? Then as inflation spirals out of control, rates are set for shock rises, making mortgages more expensive, as house prices fall.
- What will be the impact on online, the UK's star performer? Will UK retailers be able to hire the required talent from the EU? What will be the impact of severely disrupted logistics? Why would UK e-commerce become less international and isolated by the UK leaving the single market?



METHODOLOGY

ResearchFarm are retail research & analysis experts with an in-house analyst team covering all major retail sectors. We pride ourselves on strong relationships with leading retailers and our proprietary in-house data. The company is well known for its culture of high quality analysis and independent opinion backed up by robust data.

We use company accounts, retailer contacts, consumer research, trade associations, government statistics and historical data to arrive at our market sizes. The forecasts take into account consumer trends and demographics, the performance of the economy and the housing market, research from the treasury and the Bank of England and others.



TABLE OF CONTENTS 1/2

Executive summary – Brexit and retail - business continuity planning	p6
Total Retail Sales – The threat of stagflation to come	p13
Total retail sales growth: 2007/8-14/15, negative for the first time since WW2	p14
Inflation: CPI, 2007-2015, inflation has vanished, interest rates on hold	p15
Inflation: monthly data, if Brexit happens inflation to come back with a vengeance	p16
Inflation: the considerable risk of stagflation post Brexit	p17
Total retail sales: value non-seasonally adjusted – in £billions, 2007 – 17 f	p18
Population: per capita spend 2015 (£), Brexit permanently lowering the shopper base?	p19
Population: what will EU migrants do in case of Brexit? Workforce impact	p20
Food & Grocery – Insulated at first, then at the mercy of the discounters	p21
Food & Grocery: growth 2010 – 15, forecast, inflation, volume for 2016/7	p22
Food & Grocery: in £billions 2010 - 17f, devastation of local farming, no more CAP	p23
Food & Grocery: big 4 to suffer, discounters to win	p24
Non-Food: clothing & footwear – Industry facing an exodus	p25
Clothing & Footwear: Growth 2011 - 15, forecast, inflation, volume 16-17, price shock to come	p26
Clothing & Footwear: Total sales (£m), 2011 – 17 f, the end of fast fashion?, tourism decline	p27
Clothing & Footwear: sourcing complications outside EU, domestic revival?	p28
Clothing & Footwear: domestic shoppers priced out, fashionista exodus, ecommerce impact	p29
Non-Food: DIY, Furniture, Homewares – Homeowners: falling house prices and higher mortgages	p30
The home sectors: Total growth 2010 – 15, forecast, inflation, volume 2016 – 17	p31
The home sectors: Total sales (£m) 2011 - 17f, falling house prices, impact on banks	p32
The home sectors: residential property to take a hit – taking down DIY along with it	p33

TABLE OF CONTENTS 2/2

Online – Going back a decade	p34
Online: Total growth (%) 2011-2015, forecast 2016/7, potentially disastrous	p35
Online: Total sales (£m) 2011 - 17 f, potential brain drain	p36
Outlook – Uncertain and unnecessary	p37
Outlook: Brexit unpractical and threatens breakup of UK	p38
Outlook: from integration to isolation – losing decades of progress	p39
Sources	p40

* * *

Charts

Chart 1 - Total retail sales growth: 2007/8-14/15	p14
Chart 2 - Inflation: CPI, 2007-2015	p15
Chart 3 - Inflation: CPI monthly data to March 2016	p16
Chart 4 - Total retail sales: value non-seasonally adjusted – in £billions, 2007 – 17 f	p18
Chart 5 - Population: per capita spend 2015 (£), EU nationals spend, potential loss in £	p19
Chart 6 - Food & Grocery: growth 2010 – 15, forecast, inflation, volume for 2016/7	p22
Chart 7 - Food & Grocery: in £bn 2010 – 17f	p23
Chart 8 - Clothing & Footwear: Growth 2011 - 15, forecast, inflation, volume 16-17	p26
Chart 9 - Clothing & Footwear: Total sales (£m), 2011 – 17 f	p27
Chart 10 - The home sectors: Total growth 2010–15, forecast, inflation, volume 2016–17	p31
Chart 11 - The home sectors: Total sales (£m) 2011 – 17f	p32
Chart 12 - Online: Total growth (%) 2011-2015, forecast 2016/7	p35
Chart 13 - Online: Total sales (£m) 2011 - 17 f	p36

GET THIS REPORT ON YOUR DESK TODAY



£499 excl. VAT

- **41** pages of insights
- Delivered as a Powerpoint/PDF file
- Payment via credit card or invoice
- Order on our website, by email or by phone

THREE EASY WAYS TO ORDER

1. ONLINE

store.researchfarm.co.uk

2. EMAIL

sales@researchfarm.co.uk

3. PHONE

+44 (0)207 193 3099

You can pay via a bank transfer or with a credit card.