



Christmas 2011: European Assessment

Research Report Commissioned by Kelkoo

**Report Prepared by
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Christmas 2011: European Assessment Research Report

Executive Brief

This report from the Centre for Retail Research, Nottingham, into the retail prospects for Christmas 2011 is sponsored by Kelkoo, Europe's largest e-commerce website. The countries covered were: the UK, France, Germany, Denmark, Italy, The Netherlands, Norway, Spain and Sweden.

The results are derived from published national and international retail and economic data, BRC, Euromonitor and Mintel, previous studies by CRR, and a survey of 50 large retailers across Europe. All figures are quoted in value terms wherever possible at current prices with no seasonal adjustment. Earlier figures have been adjusted in line with changes in exchange rates.

National Importance

- The retail industries in the nine countries account for an average of 17.1% of GDP. Christmas sales are critically important to retailers. For the six weeks assessed in the report, Christmas sales account for between 15.4% and 18.5% of annual total retail sales. A poor Christmas can force a retail business into administration.
- Christmas retail spending (mid-November to end December) in 2010 was €314.80 billion for the nine countries.

Prospects for Christmas and New Year Spending

- The nine countries are all at different stages of emerging from recession, although GDP growth and retail sales are now starting to weaken. Germany and Sweden have been the best-performing economies. The economies of Spain, Italy and Norway have all performed poorly, although Norway now seems to be experiencing faster growth.
- Consumers are starting to cut back on spending as a result of: unfavourable economic news; low growth in real incomes; and fears of the future. However low interest rates mean that outgoings for many households are lower (or no higher) than they were three years ago.
- GDP growth for most countries fell between the first quarter of 2011 and the second from an average of 2.4% to 1.6%. Growth rates for 2011 were revised downwards by the IMF in September 2011.

Forecast

- Christmas sales are expected to rise by an average of 1.4% (a rise of €4.30 billion) in Christmas 2011 from €314.80 billion in 2010 to €319.10 billion.
- Christmas spending is expected to decline in Spain by 0.1%, but elsewhere gains will be made compared with 2010.
- Although this may seem counter-intuitive the reasons why Christmas 2011 is expected to show growth of 1.4% are:

- The poor winter in Christmas 2010 reduced retail spending below that predicted, so it should be easier to show real gains in 2011;
 - The performance of most economies except for Italy and Spain has been relatively good and most households have sufficient cash for a reasonable Christmas;
 - The weak retail spending seen during 2011 will give most households an incentive to spend slightly more at Christmas and treat their families, particularly the children;
 - Retailers will do their utmost to generate retail spending by households.
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- This 'reasonable' Christmas forecast is equivalent to the jobs of 30,844 employees. But it also provides security for retail shareholders, property owners, freight carriers and suppliers.
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- Retail spending on this scale will enable many companies (and their employees) to survive, but it probably will not be sufficient in the current economic climate to kick-start a recovery.

Online Spending at Christmas

- We estimate that Christmas spending online in 2011 will make up 13.2% of retail sales, compared to 10.3% last year, equivalent to €39.53 billion.

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Chapter 1

Spending at Christmas: Importance to Retailers

The *Christmas 2011: European Assessment* report assesses the importance of merchandise sales over Christmas to European retailers, forecasts the likely Christmas prospects for retailers, and shows how money is likely to be spent at Christmas.

The report deals with nine countries: the UK, France, Germany, Spain, Italy, The Netherlands, Denmark, Norway, and Sweden.

There are two main topic areas:

- 1) The importance of Christmas
- 2) Christmas forecasts for retailers

The Christmas Season

People in different countries may celebrate Christmas in different ways and at different times.

There are single events, such as Christmas Day itself and St Lucia's Day in Northern Europe, with their own customs and spending patterns.

In addition, Christmas is a period for socialising and parties and these cover several weeks. They require food and drink and decorations and help to boost Christmas spending in addition to the children-focused festivals like St Nicholas, St Lucia and Christmas Eve.

The timing of present-giving can vary and in areas like Spain and Italy there are two or three occasions for giving gifts.

In The Netherlands gifts are given to children on 5 December, the evening before St Nicholas' Day and Christmas Day itself is relatively quiet with gift giving between adults fairly untypical. In France, the Christmas retail period traditionally starts on St Nicholas' Day, but Christmas Day is important for gifts. In Sweden, St Lucia's Day (13 December) is a children's day celebrated as a festival of light. In Italy, Christmas celebrations traditionally start eight days before Christmas, known as La Novena and conclude at Epiphany (La Befana).

In the UK Christmas Eve (24 December) and Christmas Day (25 December) are the single time points for presents or gifts towards which the retail clock, much of the shopping population, and anxious children steadfastly work.

The importance of Christmas to Retailers

The peak trading weeks of Christmas are vitally important to every retailer. In the UK many earn 60% of their profits in the few weeks before Christmas (British Retail Consortium), whilst in the U.S. the start of the Christmas selling season (after Thanksgiving) is known as 'Black Friday' purely because, traditionally, that is when

stores started making a profit. Poor trading for one or two Christmases, particularly in the current low-growth consumer market, may mean that a retail group may be so weakened that any further problems make it impossible to survive.

Total Christmas Spending 2010

Christmas spending in 2010 in the nine countries surveyed here was a total of €314.80bn, equivalent to between 15.4% and 18.5% of total annual retail spending in each country.

'Christmas' is defined as the six weeks prior to Christmas.

Last Christmas, retailers in northern France and the UK suffered problems because adverse weather. This has had some impact on final retail sales, although it strengthened retail sales in the week before Christmas when weather conditions were less unfavourable.

National Importance of Retailing

In all nine countries surveyed, retailing is one of the three important industries in the economy. It employs almost 11.2 million workers and there are almost 2.5 million retail stores and online retailers. The retail sector is responsible for an average of 17.1% of GDP so the fortunes of distribution are important determinants of every country's prosperity. It should be noted that the number of retail employees in 2007-08 was a million higher than it was in 2010; the reduction in employees is most likely to have been caused by the poor performance of retail sales in most countries.

Table 1
Indicators of Scale of Retailing

	Number of stores	Number of employees	Retail as a percentage of GDP
	2010	2010	2010
UK	288,854	2,889,000	21.2%
France	347,000	1,596,458	21.0%
Denmark	24,094	183,053	14.5%
Germany	275,423	2,353,952	16.4%
Italy	857,317	1,778,668	17.2%
Netherlands	95,960	538,394	14.5%
Norway	30,000	166,040	13.2%
Spain	528,000	1,471,306	20.0%
Sweden	45,349	198,369	16.1%
Totals	2,491,997	11,175,239	17.1%*

[source: Euromonitor, CRR research, Eurostat]

[* arithmetic mean]

Research Methods

The Centre for Retail Research has been reporting on Christmas trends for more than ten years. We have used data drawn from national statistical authorities, independent research organisations including Euromonitor and Mintel, the results of research in previous years updated for 2011, and a survey of retailers and retail analysts.

- **Economic Forecast for Christmas:** based on economic forecasting methods to derive national figures.
- **Sales breakdowns by Category:** using objective data from research bodies, retailer survey and national estimates based on previous work.
- **Retailer survey:** a survey of a cross-section of 50 large retailers in the nine countries, using their expectations of Christmas and the New year sales understanding of likely consumer spending

'Christmas' is defined here as the six weeks from mid-November to the end of the year. Using a longer time period is more likely to include routine household and personal spending rather than spending primarily for Christmas purposes

All figures used in this report are retail values at current prices, not seasonally adjusted, except where otherwise indicated.

'Billion' means here 1000,000,000

Comparisons with Previous Years

There are some differences between these figures and those published last year.

The differences are caused by:

- The Christmas 2010 estimates have been amended to bring them into line with the real outcomes. These are small changes, but are obviously necessary to ensure that the forecasts for 2011 are as accurate as possible.

Chapter 2

Prospects for Christmas Retail Spending

Christmas spending normally gives a significant boost to retail sales at current prices even when retail sales were ultimately below expectations. In the last six weeks before Christmas, sales can rise by 30% to 80% compared to the rest of the year.

Christmas 2011 is one of the hardest-to-predict sales periods of any Christmas in the last ten years. Retail sales in most countries have been sluggish and consumers have been reluctant to spend. As the economic news has worsened – affecting most countries – so retail sales have shown little permanent growth or stagnated.

Economic Picture in the Nine Countries

In terms of every country's recovery from the recession, the pattern has been mixed. There are four categories of country performance in GDP expansion. These are:

- Category 1: GDP growth of > 4.0%: Sweden
- Category 2: GDP growth 2.0% -3.9%: Germany

- Category 3: GDP growth 0.0% to 1.9%: France, Italy, The Netherlands, UK
- Category 4: GDP growth -0.1% to -1.9%: Spain

Table 2.1

Selected Indicators 2011						
	Unempl- oyment July 2011	Inflation Aug 2011, 12 months	GDP Annual Growth		Retail Sales (Real Terms)	
			2011, Quarter I	2011. Quarters II	2005 Average	Jun-11
UK	7.9%	4.5%	1.6%	0.7%	100.0	121.3
France	9.9%	2.4%	2.1%	1.6%	100.0	112.2
Denmark	7.1%	2.4%	1.9%	1.9%	100.0	102.0
Germany	6.1%	2.5%	4.6%	2.8%	100.0	104.7
Italy	8.0%	2.3%	1.0%	0.8%	100.0	107.7
Netherlands	4.3%	2.8%	2.8%	1.5%	100.0	106.8
Norway	3.3%	1.3%	-0.1%	0.3%	100.0	127.7
Spain	21.2%	2.7%	0.9%	0.7%	100.0	99.4
Sweden	7.3%	1.6%	6.5%	5.3%	100.0	119.5
totals	9.3%	2.8%	2.4%	1.6%	100.0	110.5
	Eurostat	Eurostat	IMF	IMF	Eurostat	Eurostat

Table 2.1 provides key data for the nine countries, which demonstrate the nature of the problems.

Although most countries came out of recession in 2009 or 2010, the overall pattern during 2011 has become increasingly weak.

If we compare Spain, which has the weakest economy of the nine states studied, with Germany, which has the second strongest, it can be seen that both have causes for concern, although rather different.

- Spain has unemployment of 21.2% (July 2011) and retail sales are slightly lower than they were in 2005. GDP growth is weak at +0.9% in Quarter I, 2011 and +0.7% in Quarter II, 2011.
- Germany has a much better performance but its economy is slowing, from growth of 4.6% in Quarter I, 2011 to 2.8% in Quarter II, 2011. By June 2011 retail sales in real terms were only 4.7% higher than the 2005 average. The Germans have concerns about the implications for their own country (as the main paymaster) of the additional funding needed by Greece (and the possibilities of additional funds being needed for Italy and Spain) as part of the support for the euro; and concerns also about the implications for German banks if further problems in the Mediterranean euro states lead to a payment default, whether one which is orderly or disorderly.

Retrenchment, unemployment and uncertainty has created problems for the retail sector in Spain; in Germany, the retail sector has grown in the last 12 months, but uncertainty has certainly had an impact on consumer spending.

Apart from Spain, the economic picture looks satisfactory, but the following factors are inhibiting consumer spending:

- Many consumers have had no pay rise for more than two years and their hours may have been reduced;
- The fall in the stock market and house prices means that personal assets have fallen since 2007, so people feel poorer;
- People who work in the public sector may fear retrenchment as part of government attempts to reduce state spending;
- Increasing inflation has changed consumer behaviour and created bargain hunting;
- The emphasis by the media in every country on the problems of the euro, the economic problems of the U.S., the need for retrenchment in state spending, the problems of Greece, Italy and Spain, and the likelihood of other economic difficulties in the next few months all make people very cautious.

Forecasting Retail Spending 2011

Fear, uncertainty and doubt are probably the major drivers of consumer spending today. Last year the talk was of 'recovery', but the issue now is whether emerging problems can be handled decisively.

We expect that growth in sales at Christmas will be, on average similar to last year at 1.4% even though the economic conditions might seem worse. Predictions for Christmas 2011 are given in Table 2.2.

The rationale for this forecast is that:

- Because adverse weather reduced sales below those predicted or expected in 2010, retail sales in November/December 2011 that in historical terms are simply adequate will show some increase year-on-year;
- Most households have the resources to spend at Christmas even though their incomes have not risen as much as hitherto. Historically low rates of interest mean that households with mortgages or large loans receive a benefit which partly cushions them from slow or negative growth in real incomes.
- Many households have been cautious during the year, but we feel that, partly because of this caution, households will use the occasion of Christmas to spend on their family and their children.

The average growth in retail spending at Christmas 2011 is expected to be 1.4% so the projected growth in sales is not large.

Although the German figure looks to be on the high side it is lower than the current growth in retail sales so it is not unduly optimistic.

Table 2.2

Growth in Christmas Sales 2010 and 2011		
	Retail Growth Christmas 2010	Expected Retail Growth Christmas 2011
UK	1.0%	1.0%
France	1.1%	1.8%
Denmark	-1.9%	1.3%
Germany	1.9%	2.7%
Italy	-0.5%	0.4%
Netherlands	0.4%	1.2%
Norway	2.9%	1.8%
Spain	-1.2%	-0.1%
Sweden	4.4%	1.6%
totals	1.4%	1.4%

Downsides to these Estimates

There is little if any upside to the forecasts given in Table 2.2. The dangers are mainly

- The onset of a second recession
- Financial crisis affecting either the banking system or the euro or both.

Snow

The prospect of heavy snow will also affect outcomes, although it may have less affect than last year as households become used to it. Heavy snow in the two weeks before Christmas may reduce expected sales growth by 50% in Northern Europe.

Chapter 3

Forecast for Christmas Sales

Christmas retail sales in 2011 are expected to rise from €314.80 bn to €319.10 bn, an increase of 1.4%.

The percentage growth varies from +2.7% (Germany) to -0.1% (Spain), with the UK (1.0%) and France (1.8%).

Table 3.2

Christmas Sales 2010 and Forecast 2011				
	Christmas Retail Sales 2010 (billions)	Christmas Sales 2011 (billions)	Change in Christmas Sales 2010- 2011 (billions)	Percentage Change in Christmas sales 2010-11
UK	€78.60	€79.38	€0.78	1.0%
France	€ 62.50	€63.63	€1.13	1.8%
Denmark	€ 5.48	€5.55	€0.07	1.3%
Germany	€ 64.47	€66.21	€1.74	2.7%
Italy	€ 44.31	€44.49	€0.18	0.4%
Netherlands	€ 12.25	€12.40	€0.15	1.2%
Norway	€ 6.40	€6.52	€0.12	1.8%
Spain	€ 31.22	€31.19	-€0.03	-0.1%
Sweden	€ 9.57	€9.73	€0.16	1.6%
Totals	€ 314.80	€ 319.10	€4.30	1.4%

Italy (0.4%) and Spain (-0.1%) have the weakest economies (see also Table 2.1). Norway, after some transitional problems in 2008-2010, now seems to be growing and retail sales at Christmas are expected to increase by 1.8%. In the case of Norway this includes some catching up in household spending which has been very sluggish until 2011. Even if this proves to be on the high side, it will not affect the European average because Norway's retail sector is only 2.05% of Europe's retail sector.

What do the Forecasts Mean for the Economy?

The projected growth rates should enable the retail sectors in most countries to trade profitably. It will not be a disaster and even in the case of Spain (sales are expected to fall against Christmas 2010 by -0.1%) retailers will be prepared for these problems and so are unlikely to end the period with excess stock. Last year sales in Spain at Christmas fell by 1.2% so a decline of only 0.1% can be seen as an improvement.

Because the increase in sales at Christmas in most countries will come at a time of general economic uncertainty it is difficult to estimate what number of jobs or retail stores will be saved compared to a zero increase in Christmas retail sales. Based on the number of retail employees currently working in the sector, the increase in Christmas spending of €4.30 bn is associated with 26,821 retail jobs and 5,023 posts in other non-retail occupations, saving a total of 30,844 jobs in Europe as a whole (Economist, 2009; Cogan *et al*, 2009; Horton *et al*, 2009).

Although the increase in spending is comparatively small, its true importance is in assuring retailers and the network of suppliers, freight companies, landlords, banks, and tax authorities that depend on retailers that retail business will continue to survive and produce profits so that when real economic progress starts to be made, retailers will be able to capitalise on this.

There will be a positive and beneficial impact also on business confidence and consumer confidence, which should support future spending plans and investment.

Prospects for 2012

The prospects for 2012 are difficult to assess. Table 3.3 shows the current and expected rates of GDP growth in the nine countries studied, based on government/EU estimates made in early summer 2011. Table 3.3 shows that growth in 2012 was expected to be only slightly lower than 2011, at 1.9% compared to an average of 2.0% in 2011.

However actual growth rates in 2011 are likely to be, at best, 25% lower than those given in the Table. Along with many other countries, the UK's 2011 growth was revised downwards by the IMF on 20 September 2011; in the UK's case from 1.7% (the OBR estimate) to 1.1%, although the IMF expects 1.6% growth in 2012.

Although as recently as June 2011 the prospects for 2012 were seen as higher growth than 2011 (and for the UK the year of 'bounce back'), by mid-September 2011 most likely outcome for 2012 is that GDP growth will be either similar to 2011 or, optimistically, will be 10% to 20% better.

The prospects for retail sales in Europe in 2012 are therefore flat, with some slight improvement possible if economic news proves to be less unfavourable. However the situation changes daily and it is difficult to assess what the position will be in, say, April 2012. There is little sign now that conditions will be much better in 2011, therefore a no-

Economist (2009) 'Much ado about multipliers', *The Economist*, Sep 24th, p.28.
 Cogan, J.F., Cwik, T., Taylor, J. B. Wieland, V. (2009) 'New Keynesian versus Old Keynesian Government Spending Multipliers', *National Bureau of Economic Research, Working Paper No. 14782*, March, Washington DC: NBER.
 Horton, M. Kumar, M. and Mauro, P. (2009) *The State of Public Finances: A Cross Country Fiscal Monitor*, SPN/09/21, IMF Paper, Geneva: IMF.

change forecast for 2012 seems to be the most rational one.

A workable international agreement on financial flows, exchange rates or world trade that would create stability for the next few years would be the best news possible for consumers and the retail sector, but is extremely unlikely.

Table 3.3

	GDP Growth Actual and Predicted by EU Commission 2010-12 (June 2011)		
	2010	2011 (est)	2012 (est)
UK	1.4%	1.7%	2.1%
France	1.5%	1.8%	2.0%
Denmark	1.7%	1.7%	1.5%
Germany	3.7%	2.6%	1.9%
Italy	1.3%	1.0%	1.3%
Netherlands	1.8%	1.9%	1.7%
Norway	0.3%	2.7%	2.5%
Spain	-0.1%	0.8%	1.5%
Sweden	5.7%	4.2%	2.5%
Totals	1.9%	2.0%	1.9%

(source: Eurostat, National Governments)

Chapter 5

Shopping Online at Christmas

Because much Christmas spending is pre-planned and specified, particularly gifts, a larger proportion of Christmas items are purchased online than is normal in the rest of the year.

Tables 5.1 and 5.2 show that the proportion of Christmas spending that is expected to be made online. The European average this year is that 13.2% of Christmas spending will be carried out online, up from the 10.3% (adjusted for changes in exchange rates) in our study last year. The annual estimates are drawn from the report on online retailing published earlier in 2011 (Bamfield, 2011)

IMRG/eDigital research for 2011 showed that 33% of respondents expected to carry out one-half of their Christmas spending online and 25% expected to do up to 75% of their Christmas shopping online. An ICM poll (2011) showed that only 13% of respondents would not buy any Christmas items online

Online retailers are one of the few areas of rapid growth in most European countries, most significantly around Christmas. We expect this trend to continue in 2011. In 2010 online Christmas sales were estimated to be €33.69 billion at current exchange rates) compared to €39.53 billion in 2011.

Table 5.2

	Online Sales Christmas 2011			
	2011 Christmas sales (€ billions)	Percentage of Annual Retail Sales Sold Online 2011	Online Retail Sales as a Proportion of Total Christmas Sales 2011	Christmas 2011 Total Online Sales Value (€ billions)
UK	€79.38	12.0%	19.4%	€15.430
France	€63.63	7.3%	12.0%	€7.670
Denmark	€5.55	8.0%	12.8%	€0.708
Germany	€66.21	9.0%	14.4%	€9.521
Italy	€44.49	3.9%	4.0%	€1.764
Netherlands	€12.40	5.1%	9.2%	€1.141
Norway	€6.52	8.1%	13.0%	€0.854
Spain	€31.19	3.5%	4.6%	€1.438
Sweden	€9.73	6.9%	10.4%	€1.008
Totals	€319.10	8.8% *	13.2% *	€39.534

* mean

Table 5.4

Christmas Retail Sales Online and Offline 2010-11						
Figures in € euro billions						
	Total Christmas sales		Offline Christmas sales		Online Christmas sales	
	2010	2011	2010	2011	2010	2011
UK	€78.60	€79.38	€65.33	€63.95	€13.27	€15.43
France	€62.50	€63.63	€56.01	€55.96	€6.49	€7.67
Denmark	€5.48	€5.55	€4.86	€4.84	€0.62	€0.71
Germany	€64.47	€66.21	€56.09	€56.69	€8.38	€9.52
Italy	€44.31	€44.49	€42.97	€42.73	€1.34	€1.76
Netherlands	€12.25	€12.40	€11.27	€11.26	€0.98	€1.14
Norway	€6.40	€6.52	€5.65	€5.67	€0.75	€0.85
Spain	€31.22	€31.19	€30.23	€29.75	€0.99	€1.44
Sweden	€9.57	€9.73	€8.70	€8.72	€0.87	€1.01
totals	€314.80	€319.10	€281.11	€279.57	€33.69	€39.53

Table 5.4 shows the breakdown of Christmas spending between online retail sales and offline (bricks and mortar retailing). The growth of online retailing means that offline retail sales are expected to fall compared to 2010 in the UK, France, and Spain. The slight reductions seen, for example, in Denmark may not be large enough to be significant.

The improvement in the relative performance of offline sales compared to 2010 is caused by better sales growth in key markets.

Table 5.5

Growth in Christmas Retail Sales 2010-11										
Figures in Percentages										
	Total retail sales growth		Offline retail sales growth		Online retail sales growth		Online sales as Percentage of Total Retail Sales			
	2009-2010	2010-2011	2009-2010	2010-2011	2009-2010	2010-2011	2008	2009	2010	2011
	UK	1.0%	1.0%	-2.9%	-2.1%	28.8%	16.3%	10.9%	13.2%	16.8%
France	1.1%	1.8%	-1.5%	-0.1%	30.7%	18.2%	6.4%	7.8%	10.1%	12.0%
Denmark	-1.9%	1.3%	-4.8%	-0.4%	11.7%	14.2%	8.4%	9.8%	11.3%	12.8%
Germany	1.9%	2.7%	0.0%	1.1%	17.3%	13.6%	9.6%	11.0%	12.7%	14.4%
Italy	-0.5%	0.4%	-0.8%	-0.6%	19.7%	31.6%	1.1%	1.3%	1.5%	4.0%
Netherlands	0.4%	1.2%	-1.8%	-0.1%	36.8%	16.5%	5.7%	6.7%	9.1%	9.2%
Norway	2.9%	1.8%	-4.0%	0.2%	16.4%	13.9%	8.8%	10.1%	12.0%	13.0%
Spain	-1.2%	-0.1%	-1.6%	-1.6%	23.5%	45.3%	1.4%	1.6%	2.0%	4.6%
Sweden	4.4%	1.6%	2.9%	0.1%	21.1%	15.9%	6.6%	7.7%	8.9%	10.4%
Average	1.4%	1.4%	-1.4%	-0.6%	25.1%	17.4%	6.9%	8.3%	10.3%	13.2% *

* mean

Online Christmas retail sales have grown from an average of 6.9% of all Christmas retail sales in 2008 to a forecast share of 13.2% in 2011.

Too much emphasis should not be placed on individual figures because they are within normal statistical error. Nonetheless there is a consistency here as the growth of online retailing limits the options of many offline retailers.

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