

Retail

UK stores point to weaker sentiment

M&S and Tesco among chains to disappoint with Christmas trading results

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The precarious state of Britain's languishing consumer economy was laid bare yesterday, as several big retailers spooked investors with weak Christmas sales while upmarket outlets warned of lower profit margins.

Marks and Spencer's stock fell more than 7 per cent after the chain revealed lower same-store sales at its food business, which it has relied on for years to prop up a flagging clothing division.

"Consumers are behaving in a recessionary way," said Steve Rowe, chief executive. "Their budget is under pres-

sure. Inflation in food, petrol – that eats straight into it."

Consumer spending fell for the fourth consecutive month in December, according to Visa, the payment card provider. Transaction data showed the first year-on-year decline in spending since 2012, when the UK was emerging from a post-crisis recession.

The financial wreckage was strewn across the high street as retailers battled to keep profits flowing amid a consumer spending drought.

Tesco missed analysts' expectations for UK Christmas trading as consumers refused to splurge on expensive gifts.

"There is definitely some caution in the way customers are talking about the year ahead," said Dave Lewis, chief executive, as investors wiped 4.7 per cent from the value of Britain's biggest retailer.

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Among the few winners were stores that allow budget-conscious consumers to trade convenience for cash. Aldi, the German grocer that opened 76 stores last year, said sales were up 15 per cent in December against a year earlier.

Sales at House of Fraser, the privately held department store chain, were down 2.9 per cent. Sales fell even faster online where Black Friday promotions were less successful than last year.

Even those that had declared a Christmas victory said they had been forced to cede profits in a hard-fought battle for consumers' cash.

Department store operator John Lewis escaped the gloom enveloping rival Debenhams, reporting a 3.1 per cent increase in same-store sales. But the chain said it had not raised prices in line with the weaker pound, and would be forced to absorb higher import costs.

M&S tried and failed to mount a similar defence of its food business. Sales fell 0.4 per cent in the last three months of the year, at a time when a surge in food prices helped rivals report average growth of more than 2 per cent.

That was four times the pace of decline in November, when Archie Norman used his first public words as chairman to declare he was "pulling the skeletons" out of cupboards.

In clothing, the news was even worse, with M&S blaming a warm October for a 2.8 per cent decline in same-store sales. One in four of its 300 clothing stores will be shut down, relocated or remodelled, with more closures set to be announced within the next two weeks.

Consumers are "really making choices to spend only when they need to spend", said Mr Rowe.

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