

UK Food & Grocery Monthly

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Food & Grocery
11.0%

Food & Grocery retail sales increased 11.0% in March, year-on-year, value and non-seasonally adjusted, according to Retail Economics

Food & Grocery Volumes
-3.2%

Food & Grocery retail sales volumes fell by 3.2% in March, year-on-year, according to Retail Economics

Food & Grocery Forecast
X.X%

Retail Economics forecasts Food and Grocery sales to rise X.X% YoY in 2023

UK Retail Sales
6.0%

Retail sales rose by 6.0% in March, year-on-year, value and non-seasonally adjusted, according to Retail Economics

Average Weekly Sales
£3,233m

Average weekly sales for Food & Grocery were £3,233m in March, according to Retail Economics



Food & Grocery sales

- Food & Grocery sales rose by 11.0% YoY in March, according to the Retail Economics Retail Sales Index (value, non-seasonally adjusted).
- Food inflation accelerated 19.1% in March, up from 18.0% in February and remaining at a 45-year high (CPI).
- In volume terms, Food & Grocery sales fell by an estimated 3.2% YoY in March.
- Despite financial pressures, people still spent on Mother's Day, boosting grocery retail as many chose to celebrate at home.

Inflation and Mother's Day lift Grocery sales

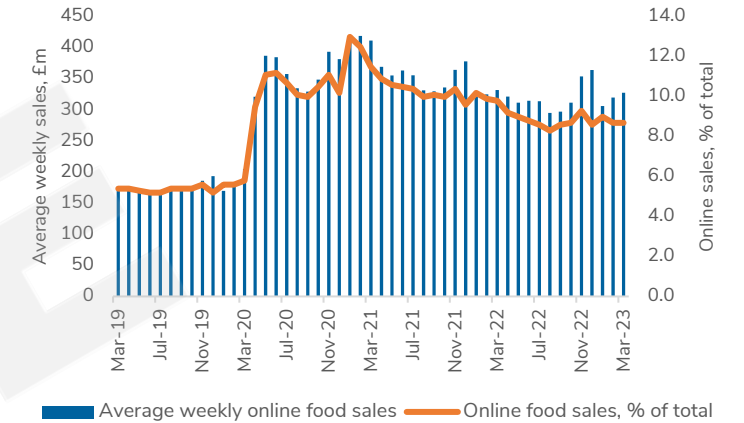
Sector Growth Rankings	Mar-23	3 month avg.	6 month avg.	12 month avg.
Food	11.0%	9.9%	8.8%	6.3%
Footwear	7.8%	7.9%	7.5%	9.6%
Clothing	5.4%	5.3%	4.4%	6.8%
Health and Beauty	5.2%	5.8%	5.4%	4.3%
Furn & Floor	2.9%	2.6%	2.6%	-0.7%
Homewares	-0.8%	-1.4%	-1.0%	-2.7%
Electricals	-1.8%	-2.6%	-2.8%	-3.1%
DIY and Gardening	-3.8%	-2.1%	-3.5%	-5.2%

Source: Retail Economics

Online performance

- Online Food sales fell by 1.3% YoY in March, against a sharp decline a year ago (-19.3%).
- Sales growth remains supported by double-digit food inflation and a return to shopping in store with consumers visiting at least three major grocers every month on average.
- Online sales accounted for 8.7% of total Food sales March, unchanged on the previous month but down 1.1 percentage points from a year ago.

Online food sales penetration stabilising

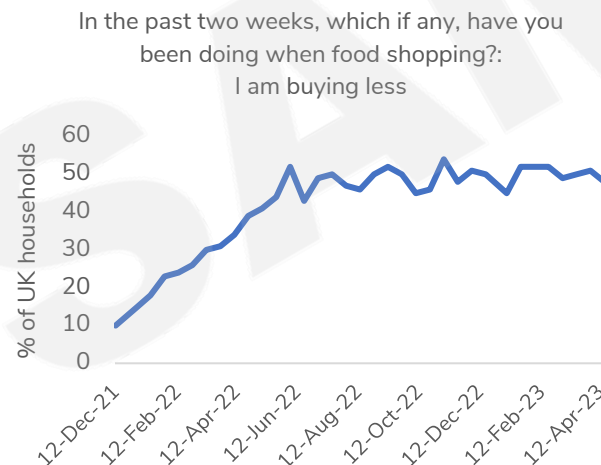


Source: ONS, Retail Economics

Volumes under pressure

- 88% of shoppers are concerned about the impact of rising food prices on their household finances, and more than six in 10 (62%) are finding ways to reduce the cost of their weekly shop (Barclaycard).
- Around half of UK adults said they bought less when shopping for food in the two weeks up to 16th April due to rising prices (ONS).
- Food price rises are expected to ease over the months ahead, though it may take until the summer for shoppers to feel the benefit as farmers and food suppliers typically use fixed, long-term contracts.

Half of UK adults are buying less when food shopping



Source: ONS

Outlook

- May presents clear opportunities for grocers to boost sales of party and BBQ food and alcohol, with three Bank Holidays, the King's Coronation, and Eurovision – but as with most seasonal events, the weather will play a key role in determining overall performance.
- Retail Economics forecasts Food & Grocery sales to jump X.X% YoY in 2023, with total annual sales hitting £XXX.Xbn.
- High inflation will continue to boost top-line growth across the sector, but sales volumes will decline as households economise on their food shop.

Food & Grocery sales forecast to hit £XXX.Xbn in 2023

Source: Retail Economics

Food & Grocery – Retail Economics Index

- Food & Grocery sales jumped 11.0% YoY in March, according to the Retail Economics Retail Sales Index (value, non-seasonally adjusted).

Three key factors impacted this performance:

Surging prices: Food inflation is lifting sales values, but dragging down volumes as consumers pay closer attention to budgets and purchase fewer items. In volume terms, Food & Grocery sales fell 3.2% YoY in March.

Wet weather: March rainfall was the highest since 1994 and the sixth wettest on record. Coupled with ongoing cost-of-living concerns, the inclement conditions dampened consumer demand for dining out, supporting Grocery sales.

Mother's Day: Food sales received a mid-month boost as many families chose to celebrate Mother's Day at home instead of dining out, indulging in premium meals and treats for their loved ones.

Inflation not easing as quickly as expected

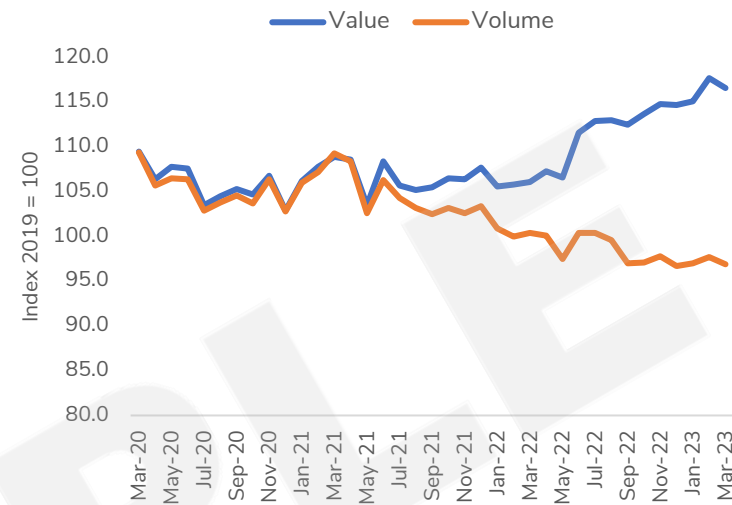
- In March, Food and Grocery sales continued to follow the pattern of previous months, with volume sales remaining negative while value sales showed a positive trend (Fig 1).
- Headline inflation fell less than expected in March (CPI: 10.1%), as stubbornly high food inflation maintained pressure on households.
- Food inflation accelerated to 19.1%, from 18.0% in February, staying at a 45-year high.
- Fruit, chocolate and confectionery, and meat prices all soared, while the price of ready meals and sauces, and hot beverages rose at the fastest annual rate since comparable records began in 1989 (ONS).

- Food prices have surged since the Russian invasion due to soaring energy, fertiliser, and ingredient costs, as well as poor weather affecting harvests in several countries.
- Hope is on the horizon as key food commodity prices have fallen on global markets in recent months, with the UN Food and Agriculture Organization's price index now at the lowest level since July 2021.
- Food price rises are therefore expected to ease over the months ahead, though it may take until the summer for shoppers to feel the benefit as farmers and food suppliers typically use fixed 6 to 9 month contracts.
- Lower wholesale dairy prices prompted the major grocers to cut the price of milk by at least 5p in April - the first cut in the price of milk at UK supermarkets in over three years.

At-home celebrations

- Despite financial pressures, people still spent on Mother's Day, boosting grocery retail as many celebrated at home.
- Across all grocery channels, shoppers spent £2.8bn in the week leading to Mothering Sunday, up £168m from last year (+6.4%). Key growth drivers were flowers and chocolate gift boxes, with sales rising in volume terms (NIQ).
- As three bank holidays and a Royal Coronation approaches, our research suggests the trend of celebrating at home will continue as consumers prioritise their finances.
- Our latest survey shows 27% of consumers are cutting back on restaurant and takeaway spending, rising to 44% for the least affluent.

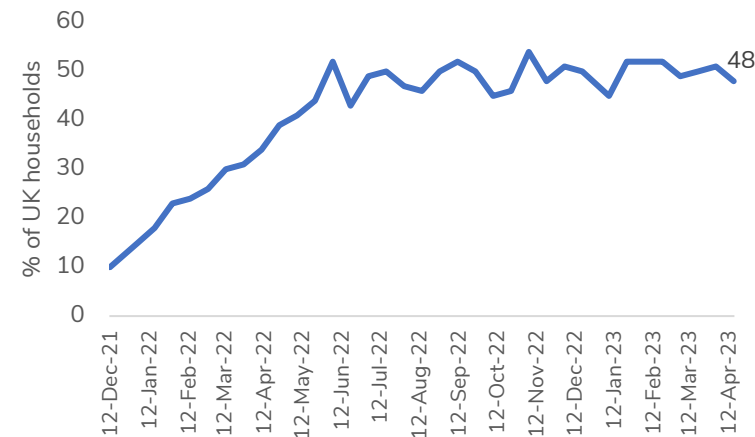
Fig 1: Food retail sales values and volumes diverge



Source: Retail Economics, ONS

Half of UK adults are buying less food when grocery shopping

Q. In the past two weeks, which if any, have you been doing when food shopping?: I am buying less



Source: Retail Economics, ONS

Food & Grocery

Value growth

11.0%

Food sales rose 11.0% YoY in March (Retail Economics)

Food & Grocery

Volume growth

-3.2%

Food & Grocery retail sales volumes fell by 3.2% YoY in March (Retail Economics)

Around half of UK adults reported buying less food when shopping for groceries during the month.

Shopping around in-store

- 88% of shoppers are concerned about the impact of rising food prices on their household finances, and more than six in 10 (62%) are finding ways to reduce the cost of their weekly shop (Barclaycard).
- Shoppers continue to shop around and 'trade down' in a variety of ways, including switching to discounters or cheaper retailers, purchasing more own-label products, and shopping in-store to avoid delivery fees and capitalise on end-of-aisle discounts.
- UK supermarkets saw a 7% rise in in-store visits in March, and a 13% increase in spending compared to a year ago (Nielsen).
- Retail Economics research suggests that the post-pandemic swing back in-store will continue for the Grocery sector, amidst rising living costs. A net 10% share of consumers plan to shop more in-store for Food & Drink in 2023, highest of any retail sector.

Rapid grocery delivery ramps up

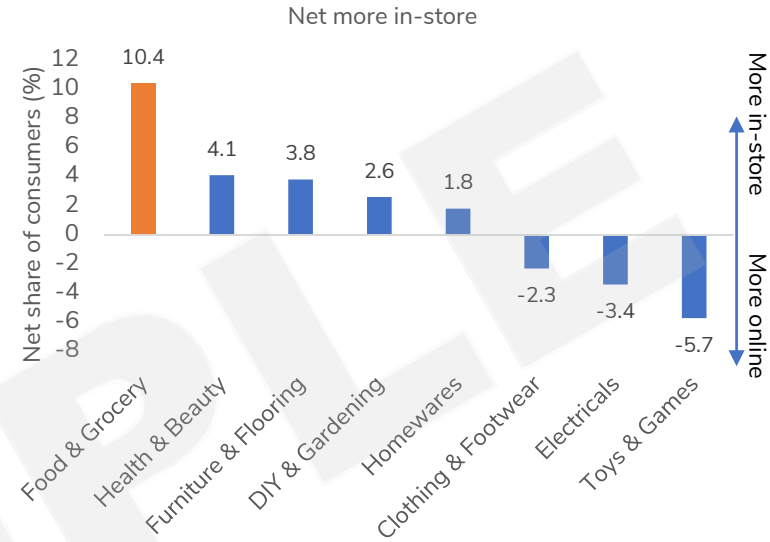
- Since the start of the year, Sainsbury's, Iceland and Co-Op have all formed partnerships with JustEat for on-demand grocery delivery,
 - On-demand groceries accounted for 11% of Deliveroo's revenue in the first half of its financial year – up from 9% a year ago, driven by expanding offerings with Asda and Morrisons.
 - For grocery retailers, joining forces with established delivery operators involves less financial risk than going it alone, and can help them access new customer segments and channels, such as those who prefer to shop exclusively online or via mobile apps.
- By leveraging their supply chain expertise and geographical proximity to shoppers, rapid delivery partnerships enables retailers to utilise underused space and unlock greater value from their store estate.
 - If delivery aggregators and retailers can share the customer relationship and create a 'connected customer' view, there may also be future opportunities for cross-merchandising, providing additional channels to push own-label products and loyalty schemes.
 - Rapid grocery delivery is another piece in the puzzle for retailers as they look to invest in omnichannel solutions, serving customers wherever and whenever they want.

Outlook

- Consumer confidence saw a marked increase in April, reaching the highest level since February 2022. This was driven by robust wage growth, a brighter economic outlook and extended energy bill support.
- Near-term pressures remain. Amidst double-digit inflation and recent increases in council taxes and broadband bills, consumers are expected to continue seeking ways to reduce costs, such as switching stores, cutting back on non-essentials, and reducing basket sizes.
- Retailers are also facing their own cost pressures, with rising minimum wage rates and inflation challenging margins.
- May presents clear opportunities for grocers to boost sales of party and BBQ food and alcohol, with three Bank Holidays, the King's Coronation, and Eurovision – but as with most seasonal events, the weather will play a key role in determining overall performance.

More in-store as consumers shop around for deals

Q. Thinking about your shopping habits throughout 2023, do you think the proportion you will spend in-store or online will change?



Source: Retail Economics. Note: Net balance = more often minus less often.

Food	Annual % growth	Avg. weekly spend (£m)
Oct-22	6.2%	£3,167
Nov-22	7.8%	£3,317
Dec-22	9.4%	£3,860
Jan-23	7.8%	£3,005
Feb-23	10.7%	£3,233
Mar-23	11.0%	£3,233

Source: Retail Economics: Retail Sales Series – value, non-seasonally adjusted
*Period aligned to ONS trading calendar 26 February – 01 April 2023

Food Prices

14.2%

Shop prices at Food stores rose 14.2% YoY in March (ONS)

Average Weekly Sales

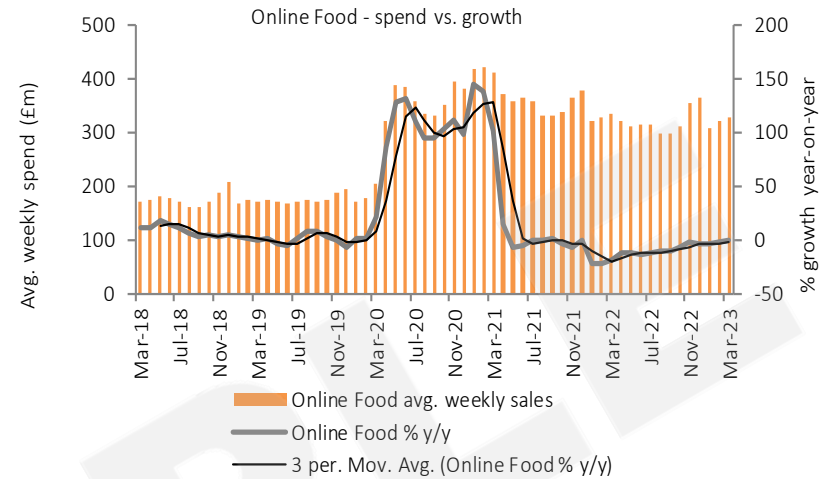
£3,233m

Average weekly spend on Food & Grocery in the UK in March (Retail Economics)

May presents clear opportunities for grocers to boost sales of party and BBQ food and alcohol, with three Bank Holidays, the King's Coronation, and Eurovision.

Online Food – Office for National Statistics: March 2023

- Online Food sales fell by 1.3% YoY in March, against a 19.3% decline a year ago.
- Sales growth remains supported by double-digit food inflation and a return to shopping in store with consumers visiting at least three major grocers every month on average.
- Resultantly, in-store visits rose by 7% in March, while spending increased 13% compared to a year ago (Nielsen).
- Notably, Tesco announced that the minimum online basket value for home delivery would increase from May which could deter consumers from shopping online.
- Online sales accounted for 8.7% of total Food sales March, unchanged on the previous month but down 1.1 percentage points from a year ago.
- Average weekly spending for Online Food was £328m in March, lower than the £332m per week spent a year ago.



Online Food

-1.3%

Online Food sales fell 1.3% YoY in March

Average Weekly Sales

£328m

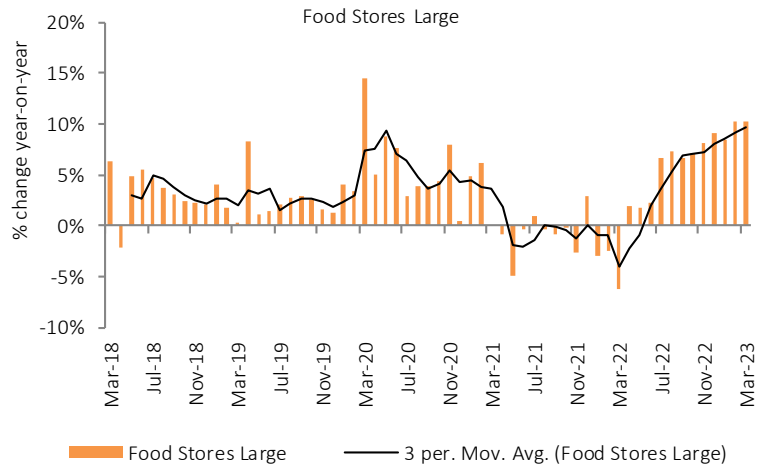
Average online weekly spend on Food was £328m in March

Sales growth remains supported by double-digit food inflation and a return to shopping in store with consumers visiting at least three major grocers every month on average.

Online Food	Annual % growth	Avg. weekly spend (£m)
Oct-22	-7.3%	£312
Nov-22	-2.9%	£354
Dec-22	-3.6%	£365
Jan-23	-4.8%	£307
Feb-23	-1.6%	£320
Mar-23	-1.3%	£328

Source: ONS Retail Sales Index – value, non-seasonally adjusted

By Size of Retailer – Office for National Statistics: March 2023

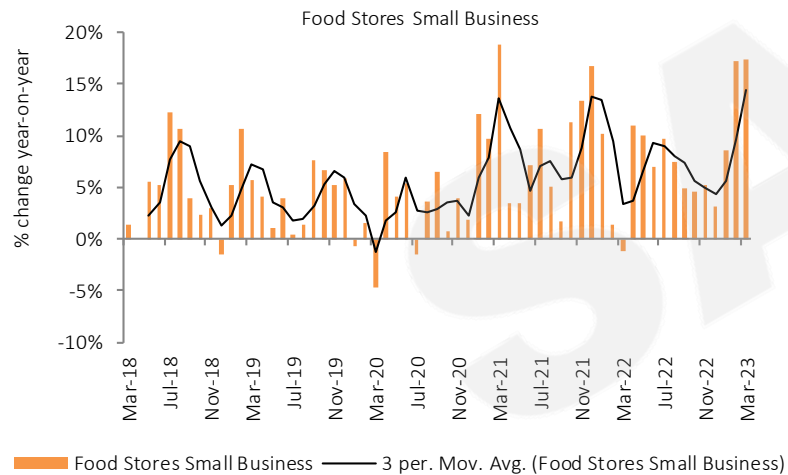


Food: Large retailers	Annual % growth
Oct-22	7.1%
Nov-22	8.2%
Dec-22	9.1%
Jan-23	8.4%
Feb-23	10.3%
Mar-23	10.3%



Large Food Retailers
10.3%

Large food retailers saw sales increase 10.3% YoY in March (ONS)



Food: Small retailers	Annual % growth
Oct-22	4.6%
Nov-22	5.2%
Dec-22	3.1%
Jan-23	8.5%
Feb-23	17.2%
Mar-23	17.4%



Small Food Retailers
17.4%

Small food retailers saw sales rise 17.4% YoY in March (ONS)

Source: ONS Retail Sales Index – value, non-seasonally adjusted

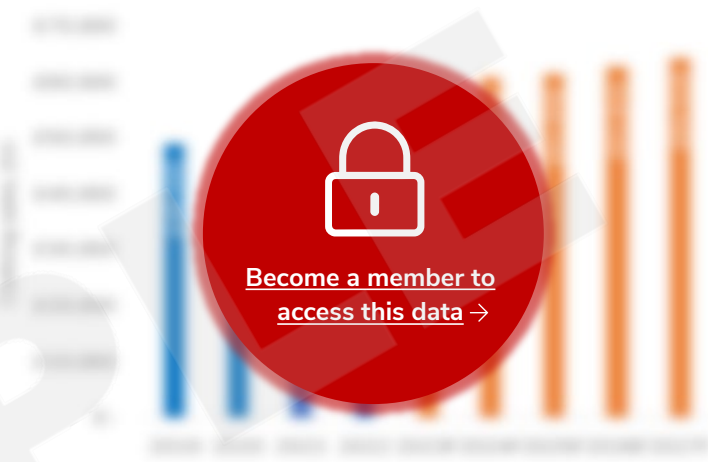
Food & Grocery Outlook

- Grocery is set to be the strongest performing retail category in 2023 as inflation drives shoppers to prioritise essentials.
- Retail Economics forecasts Food & Grocery sales to jump X.X% YoY in 2023, with total annual sales hitting £XXX.Xbn.
- High inflation will continue to boost top-line growth across the sector, but sales volumes will decline as households economise on their food shop to combat rising living costs.
- Recessionary behaviour is clearly evident, with shoppers trading down, switching to discounters, shifting to private label items and reducing basket sizes.
- In a fiercely competitive market, the battle for customer loyalty is intensifying. Retailers are anchoring their offer around value, expanding the breadth and quality of their own-brand ranges, enhancing loyalty schemes and investing heavily in price.
- Grocery retailers will also benefit from people eating out less in 2023. Substitution of restaurant meals or takeaways with at-home consumption will help to partially offset the pressure on retailers' sales volumes.
- Retail Economics forecasts Online Food & Grocery sales to grow by X.X% YoY in 2023, returning to growth after dropping 12.0% in 2022 against tough lockdown comparisons.
- Online penetration will continue to moderate, partly due to unwinding pandemic habits, but also a reflection of consumers shopping around for deals and making more physical trips to stores rather than a big weekly online shop that may incur delivery charges.
- Retail Economics forecasts Food & Grocery sales to grow by a X.X% compound annual growth rate (CAGR) over 2023-2027, reaching total annual sales of over £XXXbn by the end of this period.

Retail Economics Food & Grocery Forecasts

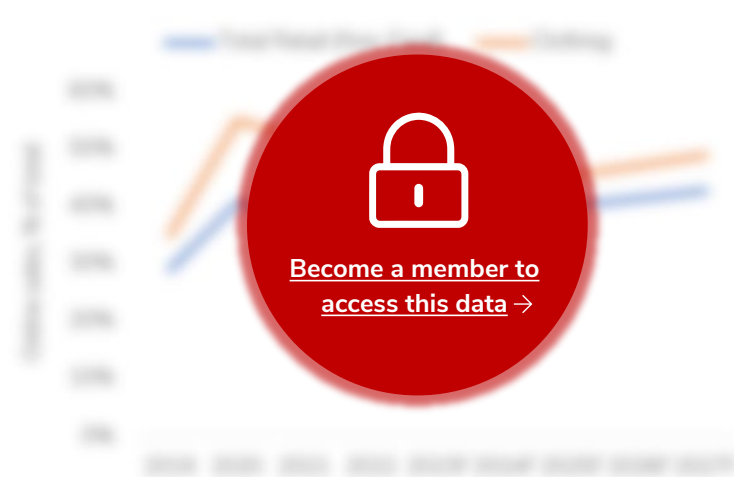
Forecasts updated quarterly. Last update: February 2023

Food & Grocery sales forecast to hit £XXX.Xbn in 2023



Source: Retail Economics

Online to account for 10.0% of Food and Grocery sales in 2023



Source: Retail Economics

Food & Grocery 2023 Forecast

Retail Economics forecasts Food and Grocery sales to rise X.X% YoY in 2023

Online Grocery 2023 Forecast

Retail Economics forecasts Online Food and Grocery sales to rise by X.X% YoY in 2023

Grocery is set to be the strongest performing retail category in 2023 as inflation drives shoppers to prioritise essentials.

Latest developments

Financial results

- **Tesco** recorded a 6.1% fall in adjusted retail operating profit to £2.49bn in the year to February, compared with £2.65bn in the previous year. Group sales increased 5.3% YoY to £57.6bn up from £54.7bn.
- **Morrisons** reported a 3.4% increase in total sales to £4.7bn, with group like-for-like sales excluding fuel inching up by 0.1% for the 13 weeks ending 29 January 2023.
- **Co-op** reported a £300m increase in revenues to £11.5bn in 2022, while underlying EBITDA dropped £15m to £490m impacted by inflation. Co-op's pre-tax profit rose by £190m to £247m and food revenue increased by £134m to £150m. Despite challenging markets, it absorbed £100m in costs and invested £37m to maintain prices on key products.

Price competition and loyalty

- **Aldi** and **Lidl** followed **Tesco's** lead in cutting the price of milk by at least 5p as wholesales prices fall. The discounters have reduced the cost of their four-pint own-brand milk to £1.55, matching their rivals.
- **Sainsbury's** is offering Nectar cardholders exclusive discounts of up to 50% on 300 products in store and online, rivalling Tesco's successful Clubcard discount scheme.
- **Co-op** is investing over £240m into its membership model in a bid to cut prices for customers. The retailer hopes to add a further one million customers to its existing 4.5 million members over the next five years.
- **Marks and Spencer** is extending its price lock campaign until the summer.

Acquisitions, mergers and partnerships

- **Planet Organic** was rescued from administration by Bioren Limited, whose shareholders include the founders of the organic supermarket chain. The deal will see 10 Planet Organic stores continue to trade in locations across London, safeguarding 194 jobs in-store and 71 head office jobs. But four stores are not included as part of the transaction and will close with immediate effect.
- **Waitrose & Partners** will open dedicated GAIL's Bakery areas in 64 stores across the south and east of England by May following a successful trial at three stores last year.
- **Sainsbury's** plans to transfer 3,000 logistic roles to three dedicated 3PL partners by the end of 2024. Wincanton will take on transport operations, GXO will oversee fresh and frozen food at certain warehouses, while DHL will handle warehouse operations for Argos, Habitat and Tu clothing, as well as warehousing and transport for general merchandise home delivery.

Legal disputes

- **Tesco** lost a High Court case against **Lidl** over a trademark dispute involving the use of a circular yellow logo. The claim was filed in 2020 after Tesco unveiled its Clubcard Price logo for a discount scheme. Lidl argued that the design was too similar to its own logo. The trial started in February, and Tesco will now be required to stop using the logo.
- **Ocado** has seen off claims from international rival AutoStore that alleged it had stolen several of its technological inventions. Two patents held by AutoStore were ruled invalid, and Ocado was found not to have infringed upon any.

Technology

- **Asda** and self-driving car AI developer Wayve have launched Britain's largest autonomous grocery delivery trial. The year-long trial will replace Asda vans with driverless Jaguar I-Pace electric cars for home delivery from the Asda Park Royal store in west London. The catchment area covers over 170,000 residents and 72,000 households. Shoppers can place their orders online as usual, with some randomly selected for self-driving delivery.

Cost cutting

- As online delivery costs escalate, **Tesco** is making changes to its online order terms, including raising the minimum spend customers must reach for free delivery by £10 to £50, and increasing the minimum basket charge for orders that do not reach the threshold from £4 to £5.

Staff and suppliers

- **Tesco** is urging suppliers to reduce prices in response to easing inflationary pressures, aiming to lower costs for shoppers on select products.
- **Asda** announced that store colleagues will be offered a paid day off for the King's coronation bank holiday on 8 May. This will allow staff to participate in The Big Help Out, a national day of volunteering for local groups and charities. Colleagues who choose to work on the holiday will receive double-time pay. Holiday entitlement will remain unaffected for those who book time off.

Total Food & Grocery Market

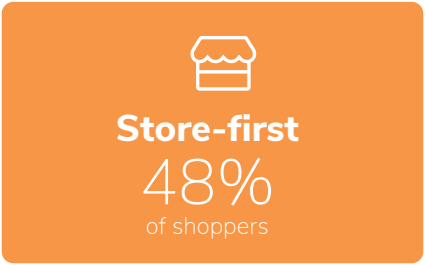
Retail Economics forecasts Food & Grocery sales to total £XXX.Xbn in 2023

Fresh & chilled

48%

Fresh & chilled food accounts for 48% of the Food & Grocery market

Waitrose & Partners will open dedicated GAIL's Bakery areas in 64 stores across the south and east of England.



Most consumers (64%) are Omnichannel shoppers when buying apparel, regularly switching between online and in-store.

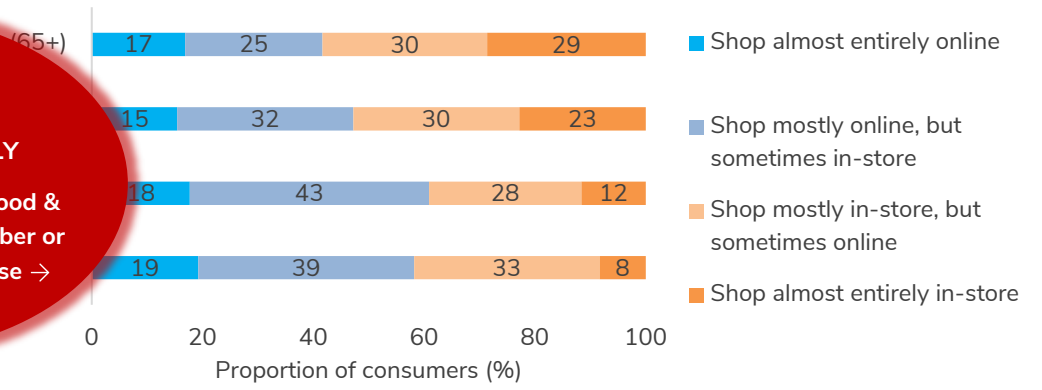
UK Omnichannel Retail 2023
Understanding consumer segmentation for in-store & online market trends

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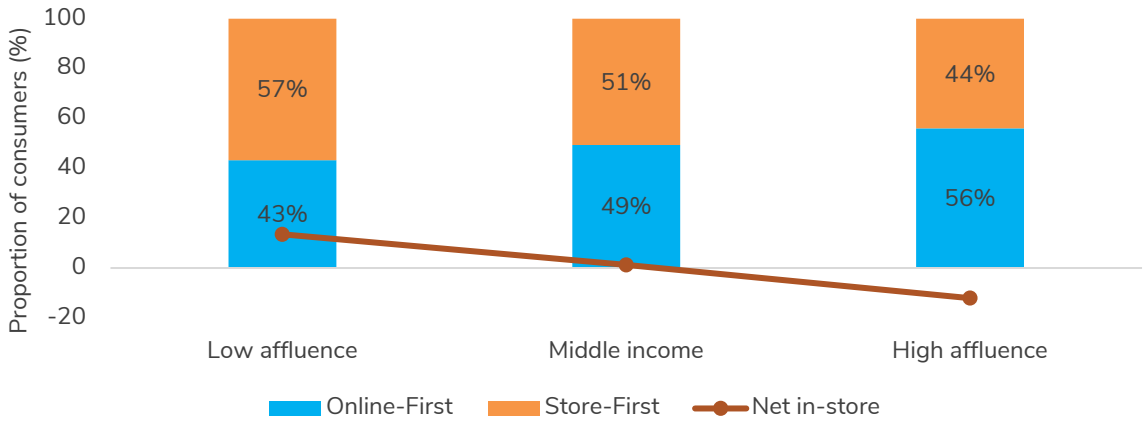


EXEMPLARY DATA ONLY
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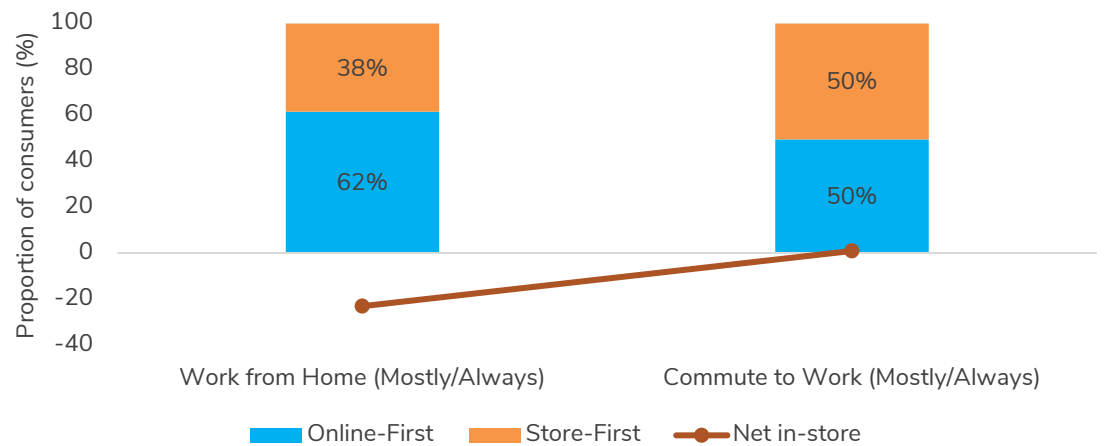
Age: Millennials & Gen Z are online-first, Gen X & Boomers are store-first



Income: Least affluent shop more in-store, Most affluent shop more online



Work location: Even split between online and physical channels for commuters



Source: Retail Economics. N=2000. Net in-store = % of consumers that shop more in-store minus % that shop more online

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We're trusted. We're independent. We're an authority within the industry



We're trusted by world class corporations...

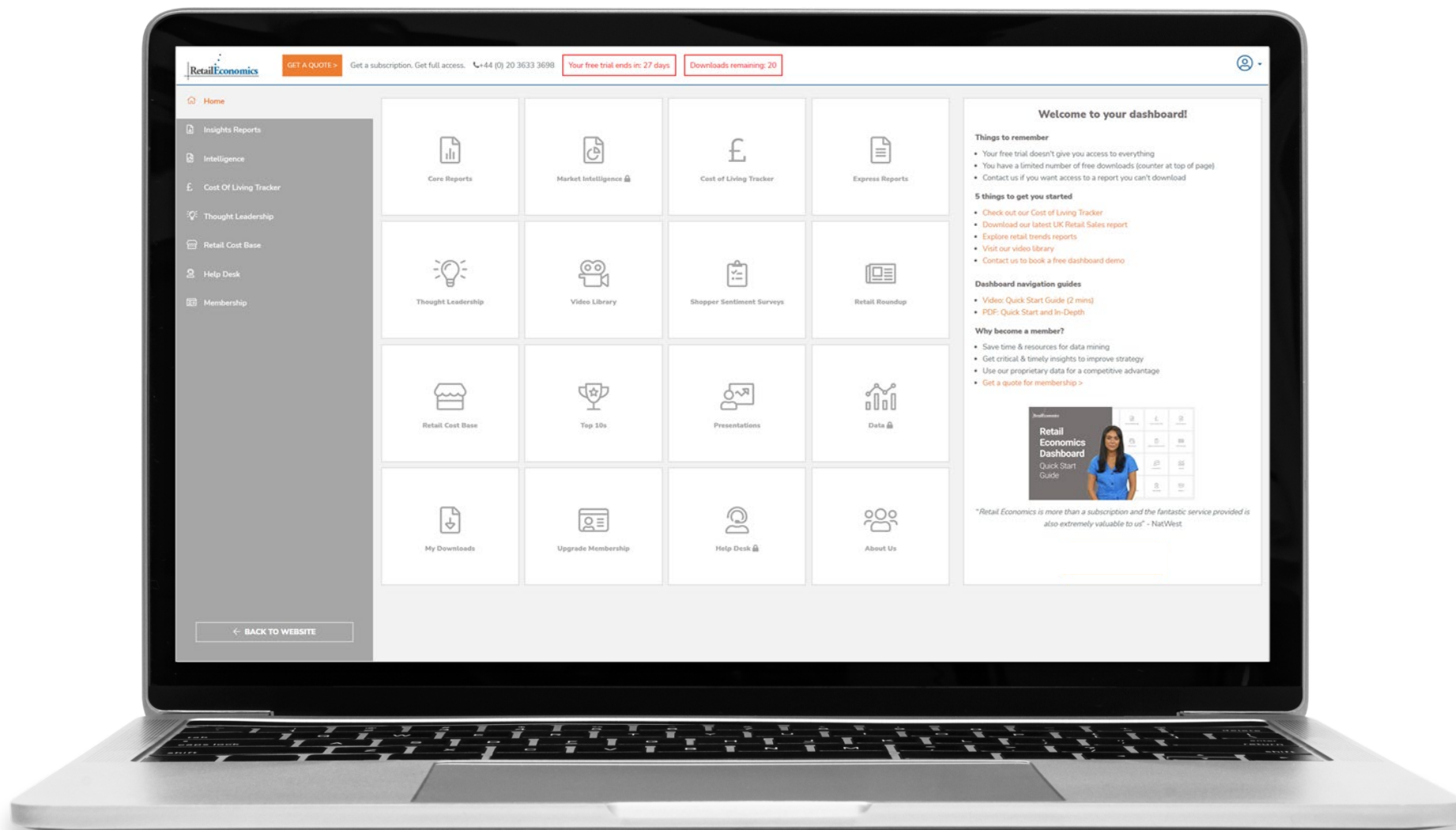
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Monthly overview of all key retail categories with macroeconomic insights in a summary format

Chartbook →

Key economic charts published every month for the UK & other international markets

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Tracks impact of inflation, earnings growth & discretionary spending on household income groups (monthly)

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About

Retail Economics is an independent economics consultancy focusing on the retail and consumer industry. Our membership service empowers you with a deeper understanding of the key economic drivers within the UK retail industry, giving you a competitive edge needed to make critical business and investment decisions.



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