

Consumer goods and retail outlook 2024

Higher footfall amid depleted savings



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Higher footfall amid depleted savings

A slowdown in inflation will bolster retail volume growth, but depleted savings and high food prices will act as dampeners.

- Retail sales will grow by 6.7% in US-dollar terms and 2% in volume terms in 2024, helped by a slowdown in inflation. But households have depleted much of their savings, so they will remain highly price-sensitive.
- Expansion in developing markets will lead to double-digit growth in global online sales in 2024. However, online retailers' profits will remain under pressure as regulatory woes challenge the sector.
- Consumers' preference for shopping at brick-and-mortar stores will bolster offline retailers, especially discount retailers. Some will expand their footprint across geographies to accommodate the high footfall expected in 2024.
- Food inflation will remain a concern in many developing economies. The El Niño climate pattern is likely to push up rice prices in developing Asia. This will dampen discretionary spending at a time when brands are looking to the region to offset slowdowns in mature markets.

A welcome slowdown in inflation will come hand in hand with a depletion in household savings, posing new challenges for retailers and consumer goods manufacturers. Globally, real growth in retail volumes will rise to 2% in 2024. Online retail, which has often been the driving force for retail growth since the pandemic, will continue to grow, accounting for 14.6% of total global retail sales, but challenges will abound.

Online sales growth will accelerate, but profits and jobs will face more challenges

Since 2022 spiralling inflation in North America and Europe has been bad news for online retailers, as consumers cut down on spending or went back to stores to hunt for bargains. **In 2024 global growth in online sales in US-dollar terms will return to double digits (10.5%) after a contraction in 2022 and 7% growth in 2023.** In Europe this acceleration will mainly reflect a slight revival of the euro against the dollar, but in Asia, the Middle East and Africa, and South America the lower penetration of organised retail will also create growth opportunities. In contrast, growth in online retail in the US (and in much of Western Europe) will be in single digits.



Despite an improved outlook in 2024, we do not have a sunny outlook for online retail. We expect to see continued profitability pressures, market consolidation and regulatory roadblocks. High interest rates across much of the world will make it difficult to attract new investment, and existing investors will demand better returns. In developing markets, where consumers are highly price-sensitive, online retailing is often (at least initially) loss-making. Profit and regulatory woes will shrink the number of pure play (online only) retailers, which in turn will also have an impact on gig workers employed by these businesses and potentially pose risks to retail and delivery jobs in 2024.

Online grocery delivery, which saw the fastest growth during the pandemic, is likely to be badly affected in 2024. Several players across Europe, such as Deliveroo and Getir, have been exiting markets and laying off employees amid rising food costs. Last but not least, the online retail sector will see more regulatory pressures, from scrutiny of anti-competitive practices to bans on dark stores that raise city-planning challenges.

Offline retail expansion will pick up pace

We forecast that global retail sales will grow by 6.7% in dollar terms in 2024, with brick-and-mortar stores accounting for over 85% of total sales. 2024 will see the strongest pace of growth for offline retail since the post-pandemic rebound of 2021. This recovery will be driven partly by the return of international tourism but largely by the cost-of-living squeeze. Even though inflation will ease in 2024, a search for lower prices, an unwillingness to pay delivery fees and the prioritisation of basic goods such as food will lure many bargain-hunting consumers back to stores.

Recovery in footfall at stores will encourage many retailers to expand their physical footprint in 2024 (even as many small businesses around the world shut down amid prohibitively high costs and interest rates). These expansion plans will not be limited to developing markets in Asia and the Middle East, where Western brands will set up shops to offset sluggish growth at home. Brick-and-mortar expansions are also on the cards for retailers in Europe and the US. Aldi, a German discount grocer, will complete the acquisition of 400 new grocery stores in the south-eastern US. Costco, a bigger rival in the US, will also open the first of its planned 30 new Sam's Club (big-box stores) stores next year.

Even in inflation-ravaged Europe, supermarket chains Carrefour (France) and Colruyt Belgium have announced plans to acquire new stores in Spain and Belgium, respectively, in 2024. New store openings will not be limited to the grocery sector—even fashion retailers like Nordstrom (US) and Primark (Ireland) will open new stores in the US next year. Although vacancy rates for retail real estate remain high in many markets around the world, they have started to decline in 2023 and should fall further in 2024.

Food inflation concerns will not be behind us

Food and beverage commodity prices will continue to decline in 2024, but this will not translate into much relief for consumers. One of the main reasons for this is labour costs, which continue to rise across retail and warehousing jobs. Moreover, with food prices still higher than in 2021, many governments will step in to protect consumers. Italy has already negotiated with food makers and retailers to hold down the prices of staple foods, while France's efforts to bring forward annual price negotiations are expected to bear fruit in early 2024.

We expect considerable regional disparities in price trends. Unlike in 2022-23, inflationary headwinds

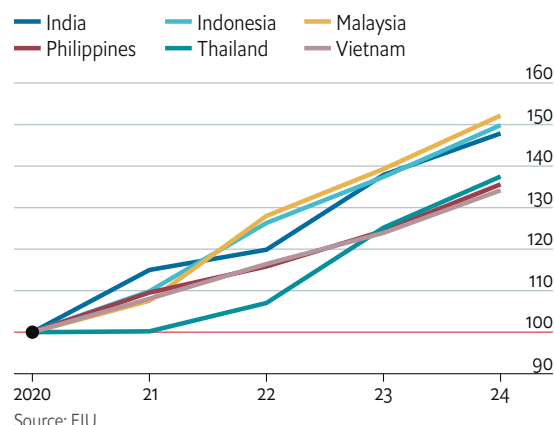
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HIGHER FOOTFALL AMID DEPLETED SAVINGS

will grow stronger in developing and emerging markets in 2024 as El Niño affects production of rice, coffee and cocoa. The outlook is particularly concerning for southern and south-eastern Asia, which account for 90% of the world's rice consumption. The region's households also allocate a high share of their consumer spending to food and beverages—from 31% in India and 32% in Indonesia to 42% in the Philippines. This will make them very vulnerable to food price rises. This in turn will dampen discretionary spending by Asian consumers at a time when many brands are looking to this region to compensate for slowdowns in Europe and the US.

Asian consumers will face more food price increases

(consumer spending on food, drinks & tobacco, US\$m; 2020=100)



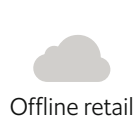
What to watch

Scrutiny of supply chains. By the end of 2024 the EU's deforestation regulation will prohibit the importation of goods linked to land deforested after December 31st 2020. The biggest impact will be felt in developing countries that specialise in selling products such as palm oil, coffee or cocoa to the EU. Whereas the largest consumer goods companies, such as Nestle (Switzerland), have better visibility of their supply chains, as well as lofty targets to ensure usage of deforestation-free materials, most small businesses will struggle to meet these requirements. The technological investment (such as in the blockchain) needed to better monitor supply chains will push up costs for EU businesses and consumers.

More Brexit pains. The UK government will introduce post-Brexit border controls on fresh food products from the EU in January 2024. The move has been delayed several times, while UK exports to the EU already face border controls. The new import controls would add to costs for the food industry, which would ultimately be passed on to consumers, potentially offsetting some of the gains made in controlling inflation in 2023.

Plastic purge. About 175 countries, as part of a UN intergovernmental panel, are aiming to agree on global standards for curtailing plastics pollution by the end of 2024. The task is difficult, especially amid differences among the country members, but it is an important step towards resolving the plastics problem. Current regulations on plastic waste control are fragmented, leading to uneven progress on waste control. Several countries will also clamp down on plastics usage through national regulations—for example, Germany will impose a levy on use of single-use plastics starting 2024.

EIU's weather forecast for retail and consumer businesses in 2024



Source: EIU.

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