

Upcoming releases

- 12 Mar: Labour Market Overview
- 20 Mar: ONS Inflation Data
- 22 Mar: ONS Retail Sales Data
- 22 Mar: GfK Consumer Confidence

29 February 2024

# Reasons to hope

Resilient wage growth and steady inflation helped to deliver a rebound in retail sales growth last month. Retail sales volumes increased 0.7% YOY, only the second time the ONS has reported positive retail volume growth since March 2022. Whilst headline consumer confidence softened slightly, the measure of consumers' outlook on their personal financial situation for the year ahead held-strong. Real terms pay has been rising since last summer, and an anticipated step down in energy price inflation from April should mean wage growth consistently outpace inflation through 2024 and 2025.

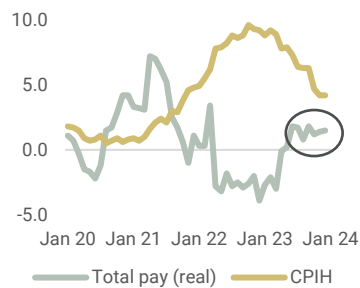
**UK retail sales** rebounded in [January](#), following an unexpected fall in December. Sales volumes were 3.4% higher MoM, following the 3.3% decline reported in December 2023, returning to levels seen in November 2023. The reported increase was more than double the 1.5% rise economists had expected, and the largest month on month increase since April 2021. Sales volumes increased across all categories except clothing stores, attributed in part to consumers taking advantage of the January sales. On an annual basis, sales volumes were 0.7% higher between January 2024 and January 2023, the largest annual increase since March 2022, and only the second month of positive YOY growth in almost two years (following the 0.3% YOY retail sales volume growth reported in November 2023). Sales volumes remain 1.3% below pre-pandemic levels reported in February 2020, but with the trend improving as price inflation eases.

**UK inflation** held steady in [January](#), with the Consumer Price Index increasing by 4.0%, the same rate reported in December 2023. Upward pressures from an increase in the cap on household energy bills and higher second-hand car prices were offset by lower furniture and household goods prices, as well as the first month on month fall in food prices in two years. The cost of food dropped 0.4% from December to January, with the overall rate of food inflation at 8%. Less than a year ago, in March, food inflation was at a 45-year high of 19.2%. Softening food price inflation combined with a step down in energy bills due in April should result in noticeably lower inflation by Spring. Whilst double the Bank of England's 2.0% target, January's CPI rate was lower than the 4.2% economists had forecast, supporting the possibility that the BoE will begin cutting benchmark interest rates from as early as June.

**UK wage growth** remained resilient in the three months to [December](#). Annual wage growth for total earnings (including bonuses) was +5.8% YOY in October to December 2023. Wage growth is now consistently outpacing inflation, with total real pay increasing 1.4% YOY (adjusted for inflation using CPIH). Whilst a return to real wage growth is positive for consumers, the combination of solid wage growth and a tight labour market is considered an indicator that the Bank of England will be more cautious in its approach to the timing and pace of any rate cuts.

**Consumer confidence** ticked slightly lower in [February](#), following three months of consecutive increases. The GfK consumer confidence index fell to minus 21, down from a two year high of minus 19 reported in January. The slight softening in confidence was driven by a two-point MoM decrease in both consumers' assessment of their personal financial situation and their view of the general economic situation over the past 12 months. Confidence in the economic outlook for the next 12 months was also lower, down by three points to minus 24. These declines have been attributed to the impact of inflation holding steady at 4% in January, driving expectations of a more hawkish outlook from the Bank of England. Of more positive note is consumers' expectations for their personal financial situation for the next 12 months (considered a key metric in understanding the propensity for consumers to spend), which was unchanged vs. January 2024 at Zero. Consumer confidence has also materially improved YOY, with February's read 17 points higher than February 2023 (-38), and 38 points above its recent low (-49), reported in September 2022.

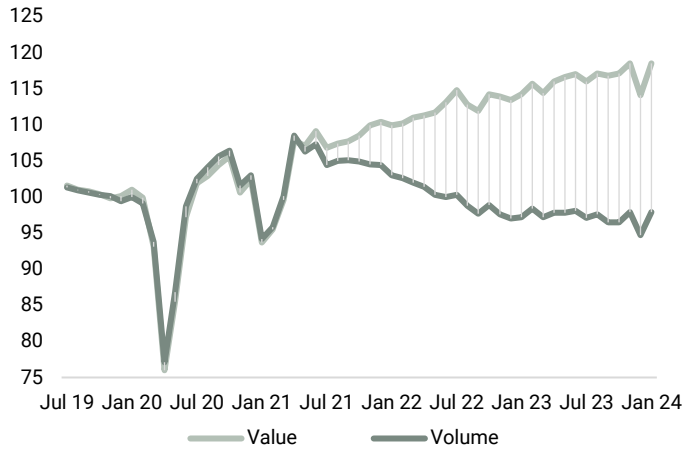
## Return to real wage growth



Source: ONS, Zeus

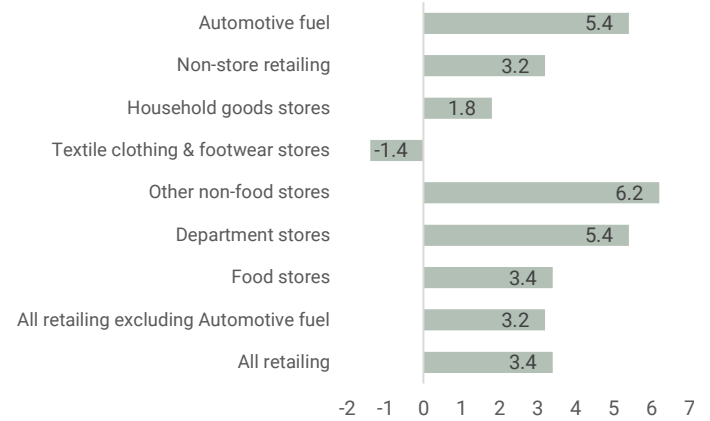
## Charts

**Exhibit 1: Retail sales vol. vs. val. (MoM)**



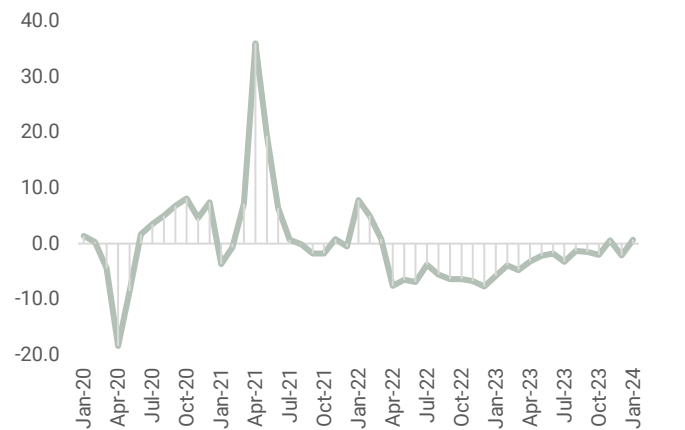
Source: ONS, Volume sales, monthly percentage change, seasonally adjusted, Great Britain, January 2024

**Exhibit 2: Retail sales volumes MoM (%)**



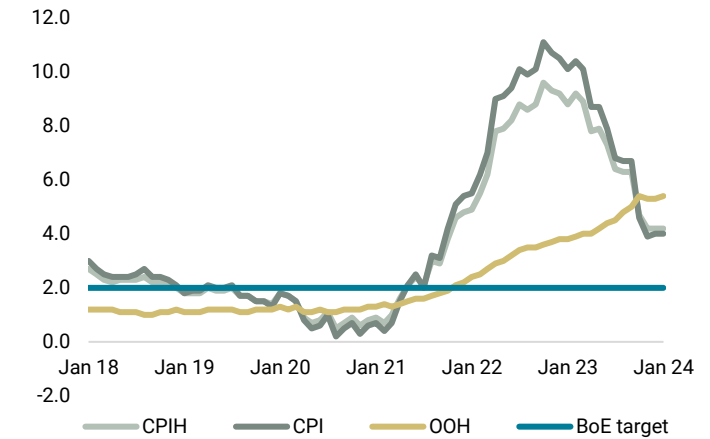
Source: ONS, Volume sales, monthly percentage change, seasonally adjusted, Great Britain, January 2024

**Exhibit 3: Retail sales volumes YOY (%)**



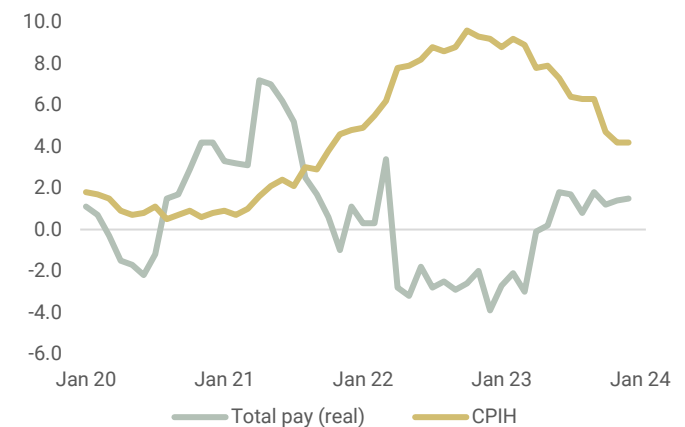
Source: ONS, All retailing inc. automotive, volume seasonally adjusted, percentage change on same month a year earlier.

**Exhibit 4: UK Inflation**



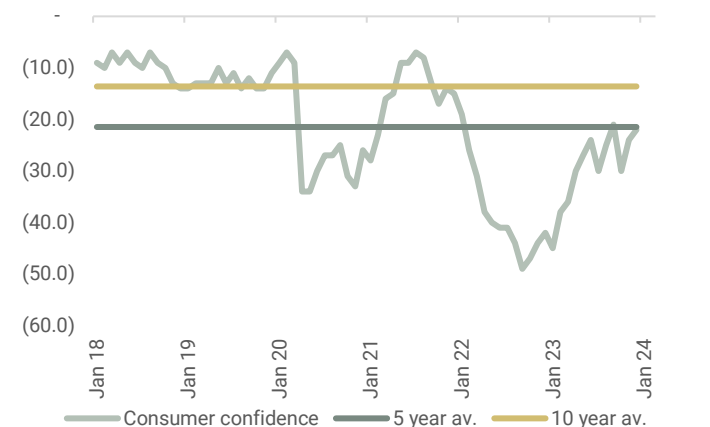
Source: ONS, BoE, Zeus

**Exhibit 5: UK real wage growth vs. CPIH (%)**



Source: ONS, Zeus

**Exhibit 6: UK consumer confidence index**



Source: GfK, Factset, Zeus

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## News flow

**Currys (CURY)** share price jumped higher after news of potential take private bids. [Elliot Advisors](#) confirmed it is considering a possible cash offer, with the Currys Board having unanimously rejected its initial bid of [62p per share](#) and a revised bid of [67p per share](#) saying it “significantly undervalued the Company and its future prospects”. A separate announcement from [JD.com](#) confirmed it is also considering a bid for the retailer.

**Superdry (SDRY)** share price increased after it announced CEO Julian Dunkerton is in discussions with potential financing partners to back a [possible offer](#) for the entire share capital not already owned by him. The Group also confirmed it continues to work with advisors to explore various material cost saving options, in line with its turnaround strategy.

**Halfords (HFD)** shares fell sharply after a [trading update](#) revised FY24 PBT guidance lower to a range of £35m - £40m (previously guided at £48m - £53m on 25 January). The reduction in profit expectations has been driven by lower demand in Cycling and Retail Motoring attributed to weak consumer confidence and lower footfall. The Cycling market was said to be more challenging and competitive with increased promotional activity and more customers purchasing on credit.

**Saga Plc (SAGA)** share price fell after a mixed [H1 Trading Update](#) that saw its travel business delivering good growth, but flagged lower sales and a more uncertain outlook in its insurance broking business. It confirmed exceptional demand for its boutique ocean cruise offer means it is operating at close to capacity and that is exploring [partnership options](#) consistent with its strategy to move to a capital-light business model.

**Watches of Switzerland (WOSG)** reported a slowdown in sales for [Q3 FY24](#), citing more pronounced volatility in luxury demand in the UK. Group revenue of £397m was 2.5% lower YOY, with online sales down 15% due to product mix and UK weakness. Its shares fell sharply earlier in the month, after it issued downgraded FY24 guidance on 18 January.

**Jet2 Plc (JET2)** raised expectations for FY24 PBT to £510m - £525m (from £480m to £520m) in a [trading update](#) following strong forward bookings over its winter season. Its outlook for FY25 was positive with encouraging forward bookings and an improvement in load factors YOY.

**Dunelm (DNLM)** confirmed trading remained in line with FY24 expectations in its [Interim Results](#) announcement. H1 revenue of £872.5m was +4.5% YOY with an improvement in sales volumes and values, with PBT of £123.0m +4.8% benefitting from strong gross margin performance. It raised its interim dividend to 16p from 15p and declared a special dividend of 35p per share.

**Pets at Home (PETS)** [Trading Statement](#) reported Q3 revenue of £362.4m, +4.3% YOY with strong performance in the Vet Group (+13.4%) but softer than expected growth in its Retail business (+3.5%). Revised FY24 PBT guidance of £132m assumes no sequential improvement in LFL retail business through Q4.

**On the Beach (OTB)** announced a [Partnership with Ryanair](#) to offer Ryanair flights on its platform. In December, several online travel agents removed Ryanair flights from their platforms, citing concern over potential changes to customer bookings.

**Inspeks Group (SPEC)** shares fell after a [Full Year Trading Update](#) reported performance below expectations due to a soft market in December. It also announced the purchase of Norwegian distributor A-Optikk for an undisclosed nominal sum. The eyewear provider said the acquisition will provide the company a distribution hub in Norway.

**Naked Wines (WINE)** announced Rodrigo Maza as its [New Group CEO](#). Maza was previously the Group's UK Managing Director and will work side by side with Executive Chairman Rowan Gormley.

**Revolution Beauty (REVB)** released an [FY24 Trading Update](#) ahead of a Capital Market's Day, with FY24 revenue growth expected to be in the low single digits following an acceleration of its brand and SKU rationalisation strategy. FY24 adj. EBITDA was guided between £11m - £12m (vs. previous guidance of 'not less than double digits'). In a separate announcement it confirmed it had reached a [Settlement Agreement](#) with former CEO Adam Minto.

**Hornby (HRN)** [announced Frasers Group \(FRAS\)](#) had acquired an additional 11.1m shares taking their total holding to 15.2m shares of 8.9% of the company. It said it "looked forward to exploring commercial opportunities in working together to unlock the full potential of Hornby's much loved brands."

**McBride (MCB)** shares railed after it raised FY24 profit guidance in its [Interim Results](#), with FY24 adj. EBIT raised 10-15% vs. previous expectations. Demand levels in early 2024 have remained in line with H1, with favourable trends for private label markets expected to continue through the year. H1 revenue of £468m was +9.8% YOY with adj. PBT of £22.4m materially improved versus a loss of £7.9m in H1 FY23.

**Nightcap (NGHT)** announced the [Acquisition](#) of The Piano Works, an interactive live music entertainment concept, typically involving pianists, vocalists and other musicians performing an audience curated playlist, accompanied by a high-quality food, drinks and cocktail offering for total consideration of £200k.

**Angling Direct (ANG)** confirmed trading in line with market expectations in its [Full Year Trading Update](#) but warned it expects the consumer backdrop to remain challenging in FY25, citing uncertainty over macro expectation for economic growth and consumer spending.

**Accrol (ACRL)** reported a strong H1 performance in its [Half Year Results](#) with strong recovery in gross margin despite lower headline revenue as input price deflation was passed on to customers. FY24 guidance was unchanged, but FY25 expectations were raised following the acquisition of Severn Delta, announced in January.

**Kitwave (KITW)** released [FY23 results](#) in line with expectations. Revenue of £602.2m is +20% YOY, with adj. EBIT of £32.0m +49% YOY. It announced a further acquisition of Wilds of Oldham, a family run drinks wholesaler and confirmed CEO Paul Young will retire from the business on 22 March.

**Victorian Plumbing (VIC)** released an [AGM Trading Update](#). FY24 YTD average order values are 3% lower YOY, offset by order volume +4% YOY as the Group increased market share, delivering revenue growth of 1%. Customers continue to seek value, purchasing proportionally more own brand products driving an improvement in gross margin. FY24 adj. EBITDA remains in line with market expectations.

**Supreme (SUP)** released a [Market and Trading Update and announced a Share Buyback](#) with FY24 trading significantly ahead of expectations and FY25 outlook unchanged despite the planned changes resulted from the Vaping Review. It proposed £1m share buyback reflecting its confidence.

**AO World (AO)** announced the [acquisition](#) of certain assets of A1 Comms Limited principally the intellectual property rights in and to the websites [www.affordablemobiles.co.uk](http://www.affordablemobiles.co.uk) and [www.buymobiles.net](http://www.buymobiles.net) as it seeks to expand its mobile proposition.

**Comptoir Group** [pre-close trading update](#) confirmed trading in line with expectations, with revenue of c£31.5m in the 52 weeks to 31 December 2023 and year end net cash of £5.4m. The company ended the year with 21 restaurants and a pipeline of further sites identified for development, including London's South Bank.

**Theworks.co.uk (WRKS)** announced the appointment of John Gould and Mark Kirkland as [Non-Executive Directors](#).

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