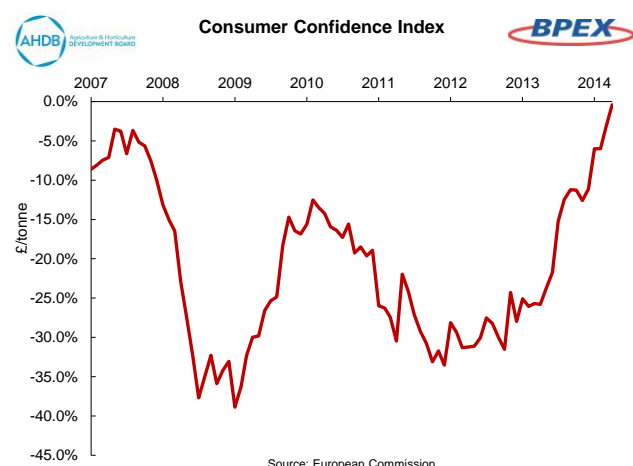


Impact of rising consumer confidence on UK meat demand

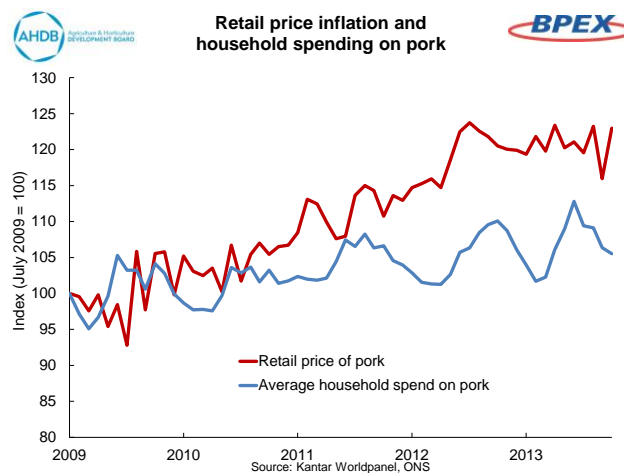
Consumer confidence has shown impressive growth over the last few months, which could be the beginning of shoppers spending more. However, the grocery shopping habits developed during the recession are now ingrained and as a result are likely to be slow to change.

There have been a variety of good-news stories about the British economy over the last few months, from an increase in the predicted growth of the UK's GDP to unemployment levels falling to under 7%. Inflation has also dropped below the 2% target and, importantly, wages are showing the first real terms growth for years. Consumer confidence has been boosted by the positive news. Rising confidence and higher spending power should provide opportunities for the grocery industry. Consumers potentially have more money to spend but will they want to spend it and will red meat benefit?



Over the five years between 2007 and 2012, average wages grew by 14%, while food prices rose much faster, averaging a 37% increase, according to figures from Defra. Consumers employed savvy shopping techniques in order to stop their grocery expenditure spiralling. They started shopping around a little more, particularly to the discounters such as Aldi and Lidl, which have both gone through a period of phenomenal growth. In contrast, the top four retailers have lost share, despite adopting a range of price-related messages and strategies. Shoppers also traded down to private label goods and cheaper alternatives across a variety of categories. IGD evidence suggests that this may not be a short term phenomenon; over two thirds of shoppers still say that saving money is a priority when grocery shopping.

Red meat has recorded steeper price rises than other food over the last five years, making many consumers change how they purchased meat. Although pork has remained competitively priced compared to other meats, average prices have risen. However, household spending on pork has not kept up with the price rises.



This is because of the tactics employed by shoppers. Some have cut down on how much they buy; others have switched to cheaper cuts or cheaper tiers. The discounters have shown particularly strong growth in fresh categories, supported by messages focusing on quality. Promotions have also been key for meat sales in recent years; at Christmas 2013 they played a particularly important role in retailers' messages.

Although some shoppers have switched to pork from beef and lamb, over the downturn pork has shown volume decline, although it has performed a bit better than other red meats. There have been pockets of growth for processed meat, such as premium sausages and bacon; perhaps these products fit the demand for small, affordable treats.

When consumers were asked in March about what they spend their extra money on, only around one in five said food or drink for a special occasion, according to Mintel. This figure has shown a slight decline in the last few years. The largest rise has been for 'I never have any spare money', a telling picture of a typical consumer's economic situation.

Going forward, consumers are unlikely to abandon their ingrained habits, certainly in the short term. They have been shopping carefully over the last five years and this has become normal behaviour. Meat purchases have remained a steady proportion of household expenditure (around 20% of grocery budgets) before, during and after the recession and this is unlikely to change significantly going forward.

On top of this, it should be noted that even before the recession, households were spending smaller proportions of their budgets on grocery shopping, so longer term spending forecasts remain fairly cautious. Areas where consumers have cut back on, such as furniture, are likely to be the biggest beneficiaries of an increase in purchasing power.

Eating out may be one area where meat could benefit from rising consumer confidence in the short term. It was one of the ways consumers cut back at the outset of the recession and some growth is expected over the coming months.