

# Louise Cooper



Things may be getting better but festive shoppers will still expect discounts

“The Christmas shopping season has begun. Last week the decorations went up on Oxford Street in London, while all the Christmas books were launched on Super Thursday. Retailers are hiring temporary staff for the seasonal rush. Soon adverts will begin to tempt us with the image of a perfect family Christmas — or at least to persuade us to throw money at creating one.

Yet a marketing image is far from messy reality. One Christmas Eve, we had some friends over and the kids flooded the bathroom. Water poured through the kitchen ceiling light socket, fusing the electricity. Christmas Day was also a washout as my son and I had a stomach bug and didn't eat any of the Christmas dinner that took four hours to prepare. On Boxing Day we went ice skating at Hampton Court and one of our party ended up in A&E. More *EastEnders* disarray than John Lewis perfection.

Will this be the year when Christmas goes without a hitch? History suggests not for the Cooper Jones family, but, for the retail industry, this could be a fabulous festive season, because Britons finally are feeling the economic recovery in their pockets. This is the first year since the financial crisis started eight years ago that wages have risen substantially faster than inflation. Wages are expected to be growing at about 3 per cent a year and inflation to be about zero when the latest inflation figures are published today and average wages tomorrow. In the private sector, wages are rising at their fastest rate for 15 years, according to the Resolution Foundation.

This is a marked change from 2007

to 2014, when wage growth lagged significantly behind inflation, resulting in what Ed Miliband dubbed the great cost-of-living crisis. That squeezed the amount Britons had to spend, resulting in lacklustre or falling retail sales between 2008 and 2012. Real household weekly spending in 2013 was lower than in 2006, according to the Office for National Statistics.

The situation has improved markedly. Unemployment has fallen from its high of 8.4 per cent in 2012 to 5.5 per cent in August 2015 and is back to pre-crisis levels. More Britons have work and they are being paid more for it.

But there is one dried-out turkey, one Christmas tree pulled over by the cat, one drunken misbehaving relative in this perfect Christmas envisaged by retailers: price.

The BRC-Nielsen shop price index showed that at Christmas 2013 and Christmas 2014, the average price of goods sold was lower than the year before. Consumers spent more last December, but only because of sales, promotions and price specials.

Amanda Callaghan, from the BRC said: “Last year most retailers didn't anticipate discounting but felt that they had to do it [before Christmas]. On reflection, this is now thought to be a business strategy that didn't work and they may not do it again this year.”

Retailers may not have a choice, though. Consumers have been “hardwired for a bargain” by the recession — although Gareth English, a customer psychologist at London Metropolitan University, argues that evolution had already persuaded Britons to seek more resource for less cost, much like our hunter-gatherer

ancestors, who would prefer more berries, nearer to home.

The real change has come from retailers providing greater discounts. And, once begun, game theory forces them to continue.

The post-crisis recession was brutal in its depth and length; the economy contracted twice as much as in a typical recession and the downturn lasted twice as long. This meant that retailers were fighting for their survival and some big names didn't make it, including Woolworths and MFI. The battle meant that discounting became ingrained. As Mr English says: “What is the point in waiting to sell at full price when the firm may be bankrupt in a month's time?”

The ultimate discounting day, Black Friday on November 27, is expected to be bigger than ever this year. The problem for a retailer that doesn't want to participate is that competitors that do will gain both sales and market share.

There is an advantage for an individual retailer to discount, even if the industry is damaged. It means that, once begun, it is hard for the industry to dial it back.

This year there has been no alleviation in price discounting, even though Britons have more cash in their pockets. Consumers are buying more, but at lower prices: retail sales rose by 3.9 per cent year on year in September, but prices were down by about 2 per cent, according to the BRC. People have not used their enlarged pay packets to pay full price.

Mr English is not surprised: “The ancient neural pathways of our mind predispose us to love bargains.” Like sugar and fat, signs such as “50 per cent off!” may trigger the release of dopamines — the feelgood chemicals in the brain. This is bad news for retailers that are trying to get us to pay full price.

However, for consumers, discounting is great news, particularly at Christmas. It means that money goes further and we can buy more stuff — but can we all agree not to tell the kids?



**Black Friday on November 27, the ultimate day for discounts, is expected to be bigger than ever this year. Last year shoppers fought over the bargains**

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