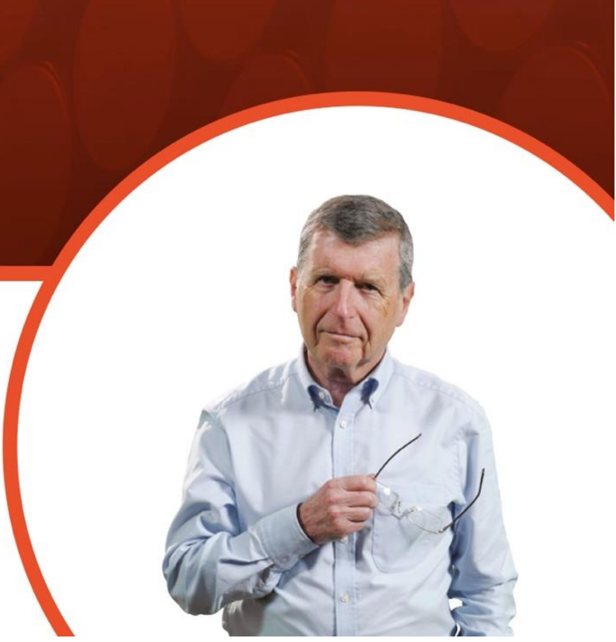
# WEEKLY BRIEFING REPORT

**Week ending 20 November 2022**

Published 21 November 2022



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## The numbers

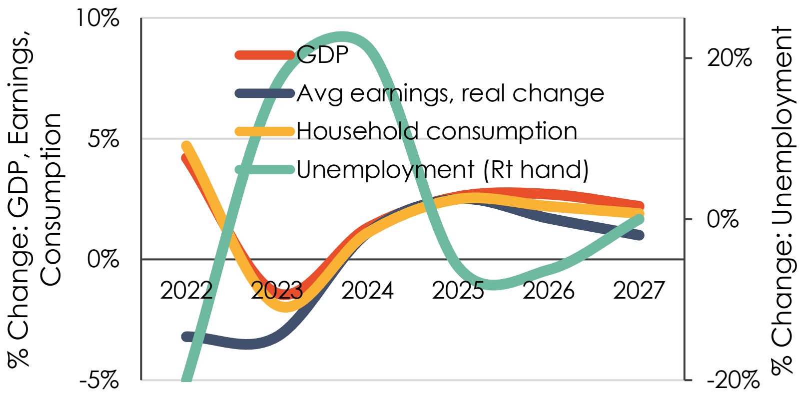
And so, last Thursday, we had the Chancellor's Autumn Statement.

Amid the tax rises, spending cuts, and prospective fall in living standards, three things stood out for me about the statement itself and Office for Budget Responsibility's analysis.

First is the long term nature of the tax rises - they won't really get going for a couple of years and when they do, they will extend into 2028, five years away (and may become even more swingeing than the Chancellor proposed). This says invest now, which I suppose is a good thing, so that the rewards arrive at the time for them to be more highly taxed, which will not be so good.

The second thing is the future volatility of so many aspects of the economy. The OBR expects inflation to be rising at over 9% this year and 7.4% next, before subsiding to an average of 0.5% over the following four years. In the meantime, GDP growth is forecast to fall to -1.4% next year and then increase by 2.5% (which is unheard of over the last dozen years) for the following three or four years. And then there is the real (as opposed to inflation-adjusted) rate of increase in average earnings. These are expected to fall to -3.2% next year then to grow by 2.5% in 2025. Volatility gives rise to uncertainty – amongst businesses (and consumers) who will find effective and realistic planning a real challenge.

Change in GDP etc: YoY




Source: OBR; Peter Backman

And that will be compounded by the third aspect of the OBR's analysis which is that living standards will fall by -3.4% next year - and the year after. Basically, people will spend less – not just next year but beyond. That truly terrifying prospect will translate into much less spending in restaurants, pubs, and hotels.

Within this grim picture, the outlook for operators will be slightly strengthened by the proposed Transitional Relief Scheme to limit the effects of changes in business rates.

That, I suppose, is something positive to hold on to amidst the gloom.

## My insight

There's the trickle-down theory of economics in which the riches generated by the wealth creators slowly find their way to less well of people and eventually reach the poorest.

And then here's the trickle down view of eating out; under this theory, in hard economic times people forsake their 'usual' places to eat at, and instead they go to places that offer meals at lower prices. The end result of this theory is a smaller market for higher priced establishments and an increased market for cheaper ones.

It's a beguiling view but I don't think it's totally correct. Just imagine you're going to have lunch at The Wolseley - and then you think 'Nah! Let's go to Pizza Express' (I don't have anything against Pizza Express by the way). That doesn't happen. An alternative is, you're going to Pizza Express and then say 'Nah! Let's go to Zizzi, their Margherita is 50p cheaper.' That also doesn't happen – or it doesn't happen most of the time anyway.

It's just not that simple. Instead, when times are tough, a number of alternative changes kick in that reflect how people react to having less money to spend.

One: People stop eating out, or maybe the less well-off start to eat out less than the better off. In which case the market for more expensive meals will increase its share. No trickle down here – whether real or imagined.

Two: Consider the retail grocery market for a moment. The customer absolutely must buy food from somewhere; and with less money in the pocket can readily migrate from, say, Waitrose, to say, Aldi. That's trickling down at work. But eating out is rarely anything someone 'must' do. It's a choice whether to eat out or not - the customer can stop eating out entirely. So no trickle down. Of course, there are occasions when it is necessary to eat out – at school, for instance, or at work. But even under these circumstances sometimes there is a choice – perhaps the choice between eating in the bargain priced staff cafeteria and going out for a more expensive Pret sandwich. This is maybe trickling down, but possibly it's more trickling sideways.

Three: Customers don't have to spend the same in tough times as in good times. They can choose to spend less in their regular restaurant – they can select cheaper options from the menu, they can forego a course or an extra drink. The total number of meals stays the same, but the total amount that customers spend is smaller. This may happen in more expensive places than in ones charging lower prices. In which case, in overall terms, the  more expensive places lose out to cheaper ones. Under these circumstances, there is an impression of trickling down – more business in cheaper places. But that's not what's happening because it's not a case of a customer forsaking a more expensive place for a cheaper one.

Four: Customers may desert more expensive venues and start to frequent cheaper ones – that's true trickle down at work.

In tough times (indeed at any time) it's important to understand not only that something is happening but also why it is happening. I've outlined four ways that trickling down might appear to be happening even though it may not actually be happening. Getting the reasons right matters because without the correct understanding, the outcome is the wrong decision.

The rest of this Weekly Briefing Report provides a summary of the news in the past week:

## News in the past week

### Financial & Legal

- UK Insolvency Service reports 1,948 registered company insolvencies in England and Wales has updated in October – 69% fewer than October 2021

### QSR

- AMT Coffee acquired by SSP

### Pubs

- Fuller's LfL sales rose 13% in the seven weeks from early October; they rose 20% in the half year to end September versus 2021

### Hotels

- London hotels daily room were 23.3% higher in October versus 2019; revpar rose 18%

### Delivery

- Deliveroo to deliver Birds Eye ready meals

### Around the World

- Jollibee sales rose 49% in the quarter to end September
- Krispy Kreme organic revenue rose 8.9% in the three months to end September
- Deliveroo withdrew from Australia

### Delivery Around the World

- Deliveroo pulls out of Australia
- Menulog to accept unclaimed Deliveroo vouchers in Australia

### Delivery Offers in the Week

- Deliveroo: Enjoy a delicious 20% off or more It's Tasty Thursday
- Deliveroo: Get a free Pepsi Max with your order
- Deliveroo: Get up to 25% off Meal Deals
- Uber Eats: Get in-store prices, plus 50% off your total shop
- Uber Eats: 40% off your next 5 orders