

Seasonal PI

Economist Insights

Is there anything we can say about the actual price of Christmas? Well there may be, at least in the UK. The underlying data suggests that Christmas is getting cheaper. Yes people are spending more and more of their monthly income on Christmas. There has been a clear trend higher, despite the average cost having fallen. So what is driving these trends? Is Christmas actually getting cheaper? Or should the traditionalists who are upset by the commercialisation of Christmas remain worried by the ever-upward trend in spending?

In the past we have created a proxy price index for the presents listed in the Twelve Days of Christmas song (see for example Economist Insights of 24 Dec 2012, 23 Dec 2013 and 19 Dec 2014). Of course, these partridges and pear trees are looking a bit dated, and the inflation tends to be dominated by the price of those five golden rings. Is there anything we can say about the actual price of Christmas? Well there may be, at least in the UK.

First we need to figure out what constitutes Christmas spending. Spending patterns tend to fluctuate through the year, and spending in Western economies tends to be very high in December but very low in January. This pattern is known as seasonality, and makes it difficult to look at the month-on-month changes. If you looked at UK retail sales in December you would see a booming economy, and if you looked at retail sales in January you would see a recession. So statisticians strip out these effects using seasonal adjustment. They throw away this seasonal element and are left with the underlying average (effectively redistributing through the year) (chart 1).

But maybe we can do something with that seasonal part that the statisticians throw away. If the seasonally-adjusted part is the underlying spending for December, then the non-adjusted part they removed must be the extra spending for the Christmas season. If we can see how much the price of that extra spending has changed, we can get a good idea of how much the price of Christmas has changed.

This seasonal element is not total retail spending, just the additional component that comes from Christmas. The seasonally adjusted part of the spending is deemed as spending that would have happened anyway: people would still need to buy groceries if it wasn't Christmas. However, at Christmas they spend more. So, for example, last Christmas the underlying seasonally-adjusted real retail sales were GBP 28 billion, with an extra GBP 8 billion of seasonal spend.



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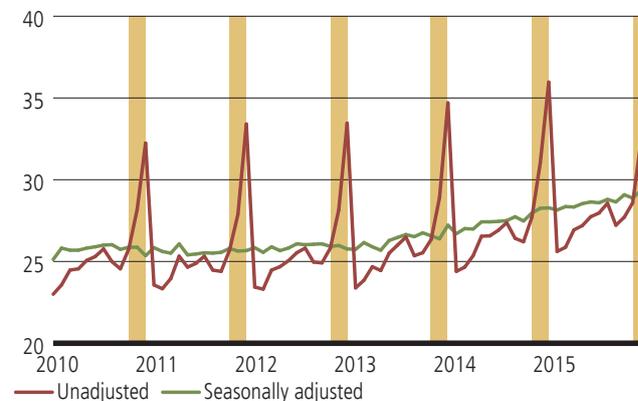


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Chart 1: Christmas trees

Seasonally adjusted and non-seasonally adjusted UK retail sales, GBP billions (constant 2012 prices)



Source: Bloomberg Finance LP, UBS Asset Management

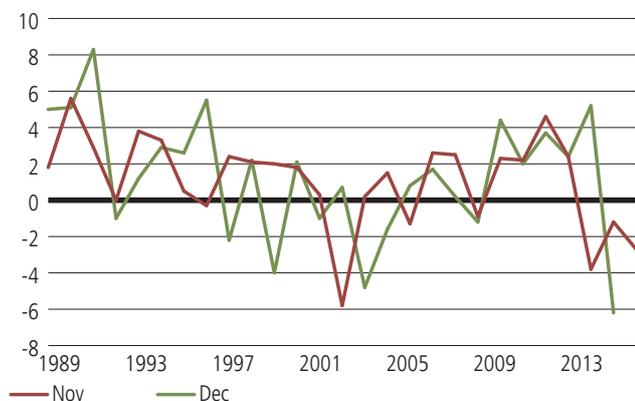
By comparing the value of the seasonal component of December retail sales in nominal terms with the value in real terms, we can get the price index. Then by seeing how this changes from year to year, we get an idea of the inflation in the extra Christmas spending. Of course, to the horror of traditionalists, Christmas is not just in December. Many shops put out their decorations as early as October or even September. In the data, at least, there is some evidence that UK consumers are a bit more traditional than the shops, but they do start their Christmas shopping in November as well. So it is worth looking at how the inflation of that month changes as well.

The Christmas price index has been quite strikingly volatile, and moves around a lot more than the general level of inflation (chart 2). The volatility is bound to be higher because it is dominated by goods (and the exchange rate affects goods' import prices) and most particularly by food prices which are

always very volatile. Some years inflation has been over 4%, but last year prices fell by 6% in December. We of course do not have the December data for this year yet, but November showed another solid decline. So it looks like Christmas is getting cheaper.

Chart 2: Christmas cheer

Price inflation for seasonal component of UK retail sales (ex-fuel) in November and December, YoY %



Source: ONS UBS Asset Management

Or it could just be that UK shoppers are getting cheaper in their tastes. The price index is not mix-adjusted, so what is under the Christmas tree or on the dining table this year may not be the same as what was under the tree last year. If people are buying lower-quality or cheaper versions of things then the average price would register a fall.

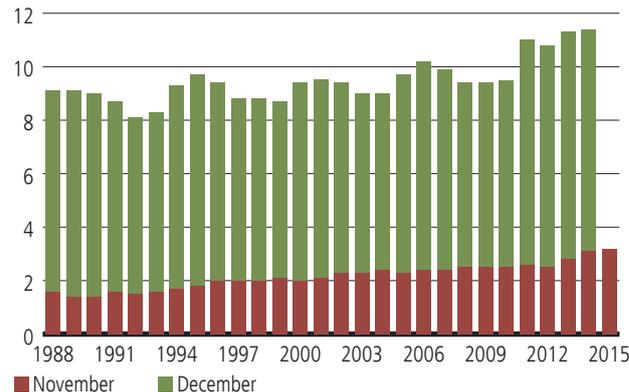
Online sales could be part of it too. Non-store retailing (which is primarily online) was just 2% of the seasonal component in December a decade ago, now it is 9%. Note that online ordering from supermarkets counts as store retailing; so the amount of orders placed through the internet is actually higher.

People are spending more and more of their monthly income on Christmas (chart 3). There has been a clear trend higher, despite the average cost having fallen. So the volume of

spending is even higher. The big driver of that trend has been the increase in seasonal spending in November. In recent years, in particular, stores in the UK have adopted the US custom of "Black Friday" sales. While this makes sense in the US, because it is the day after Thanksgiving and almost everyone has taken the day off, most people in the UK were in the office. But as the sales continued on into the weekend, there was quite a lot of advance shopping for Christmas. Plus there may well have been some increased sales simply to take advantage of the offers, even if it had nothing to do with Christmas. These sales may explain a lot of why the price index in November is falling.

Chart 3: Blacker Fridays

Seasonal component of UK retail sales (ex-fuel) in November and December, as % of monthly disposable income



Source: ONS UBS Asset Management

Then there are also the traditional post-Christmas sales, which may not be considered part of Christmas but could explain the lower Christmas price inflation. Regardless, there is some good cause for Christmas cheer for consumers in the UK. Shops may not be as keen, of course, since they have to lower prices to get the higher volume of retail sales. And of course, the traditionalists who are upset by the commercialisation of Christmas are going to be somewhat worried by the ever-upward trend in spending. But at least they can be consoled by knowing that the little that they do buy themselves at Christmas time is getting cheaper.

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