



The economic costs and benefits of easing Sunday shopping restrictions on large stores

DTI Sunday shopping consultation event, London

10 May 2006

Brian Williamson
Director, Indepen

+44 207 324 1800
www.indepen.co.uk



Outline

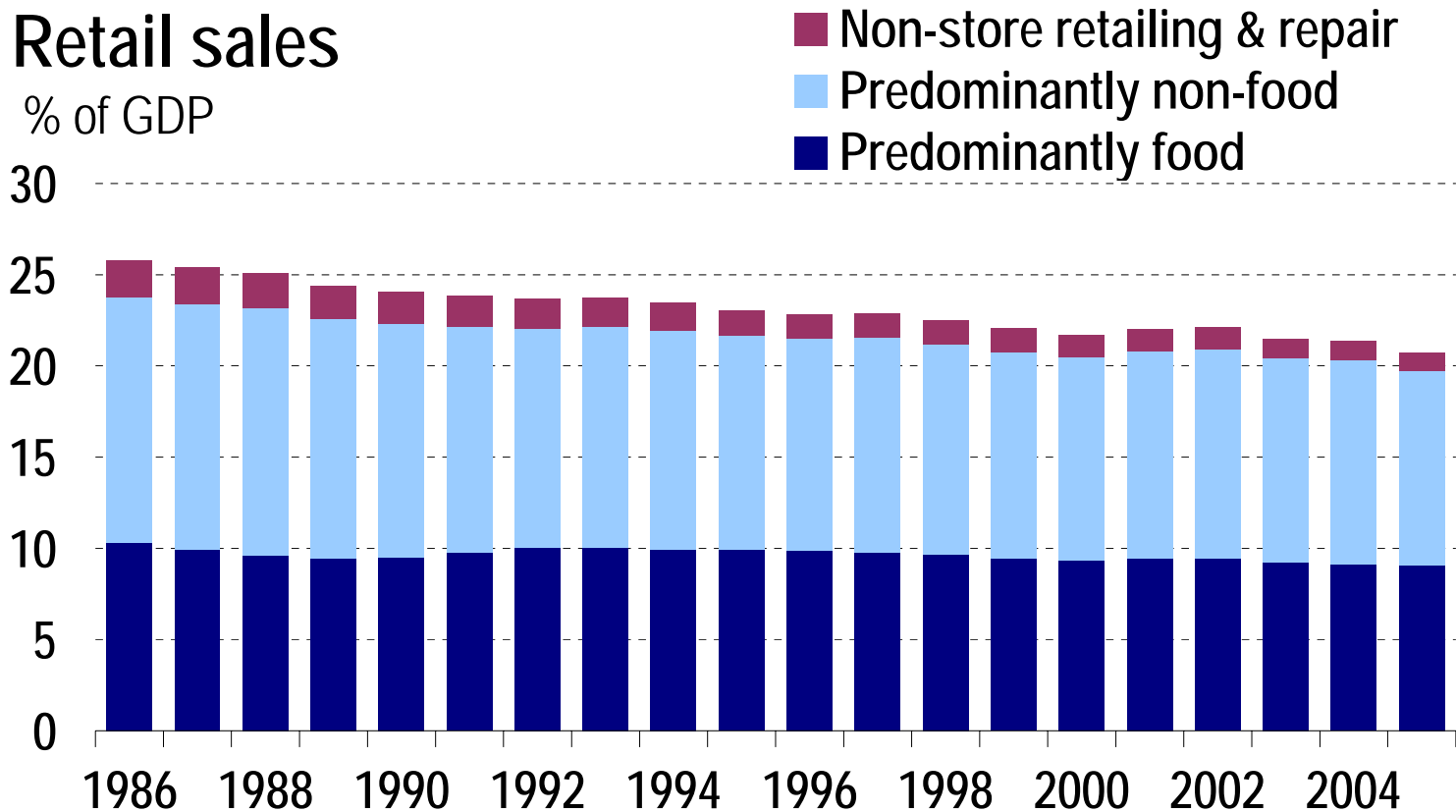
1. Underlying changes
2. Evidence from Scotland versus England and Wales
3. Cost benefit analysis
4. Distributional impacts
5. Conclusion



Relative sectoral decline with rising affluence

Retail sales

% of GDP



Source: ONS Retail Sales Index

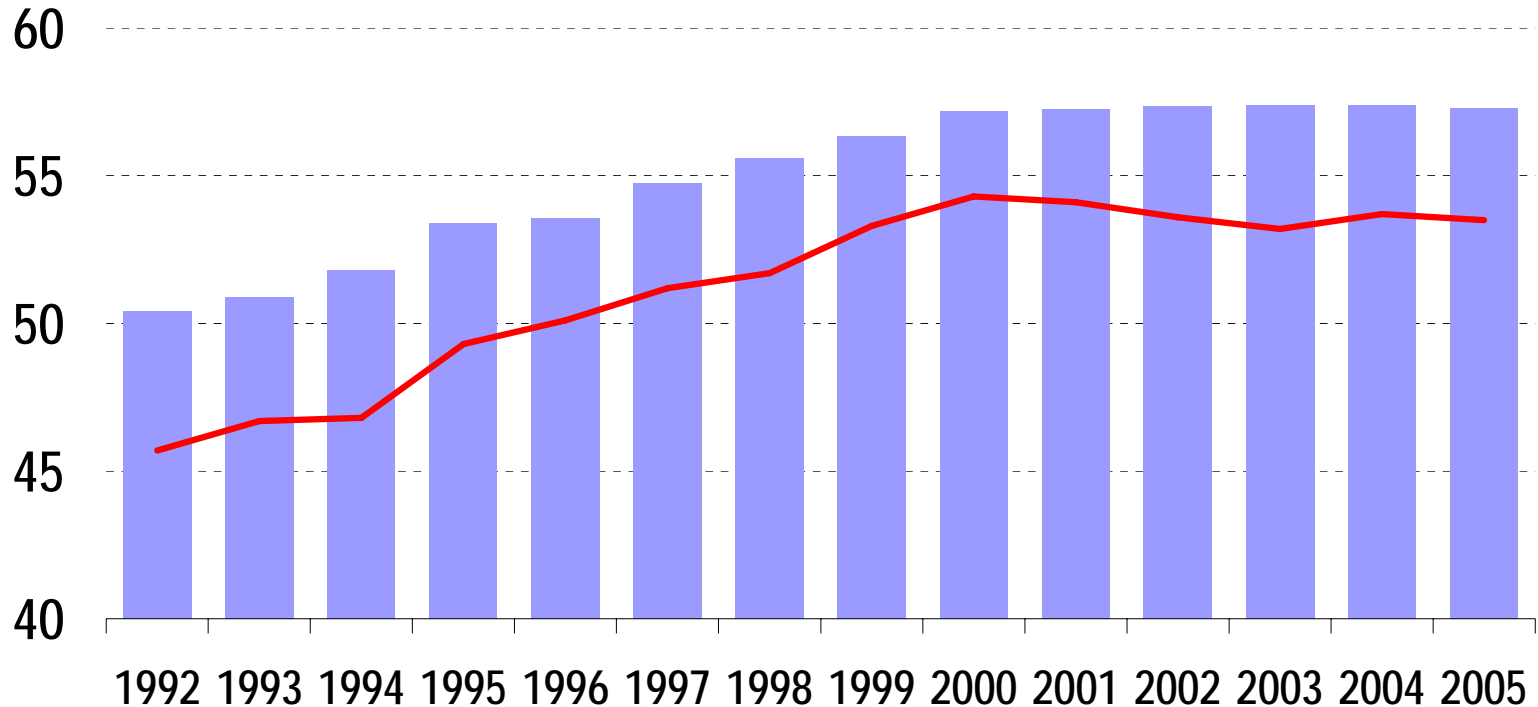


Growing pressure on weekday time

Household employment

% of working age households

- All employed households
- Household with two working parents



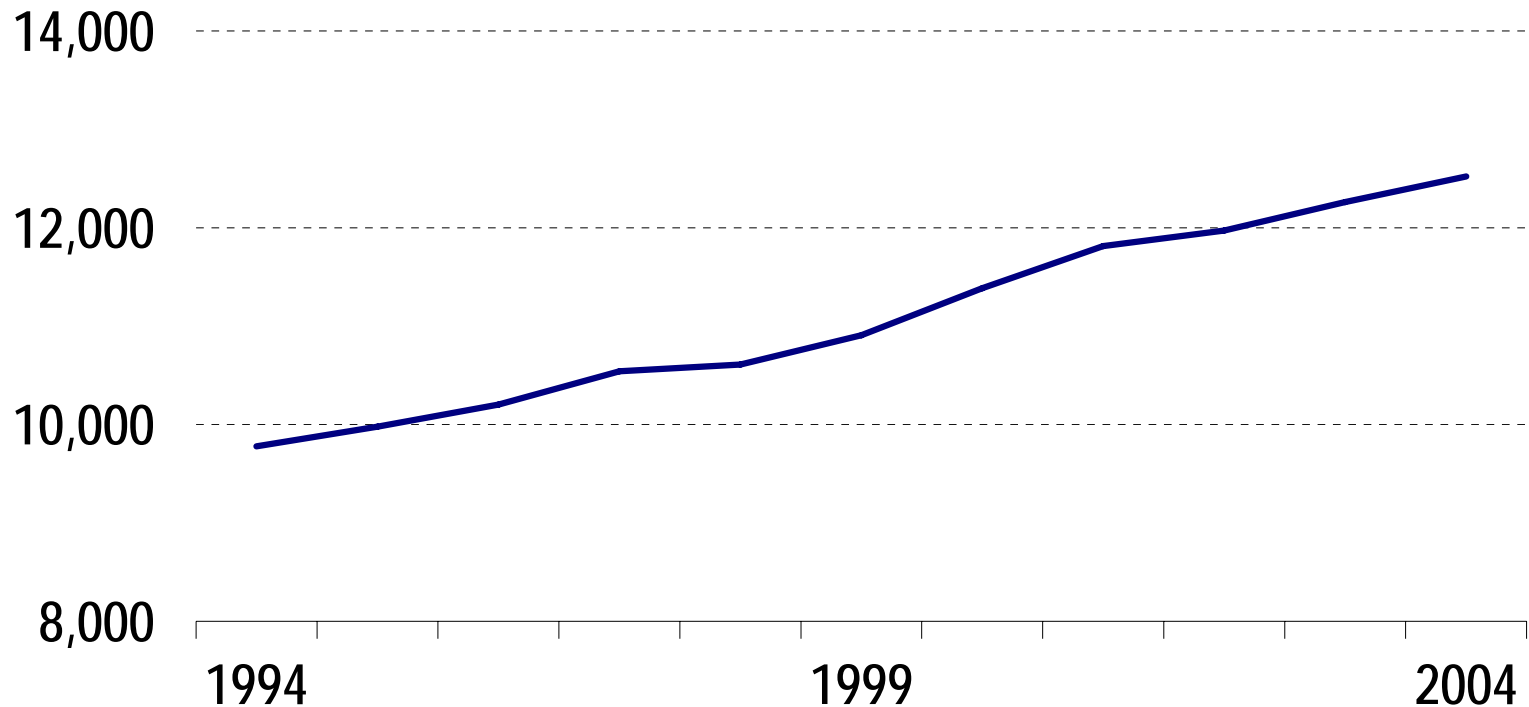
Source: ONS 'Labour force survey' (Spring 2005)



Rising income and value of time

Real household disposable income

£ per annum, 2002 prices

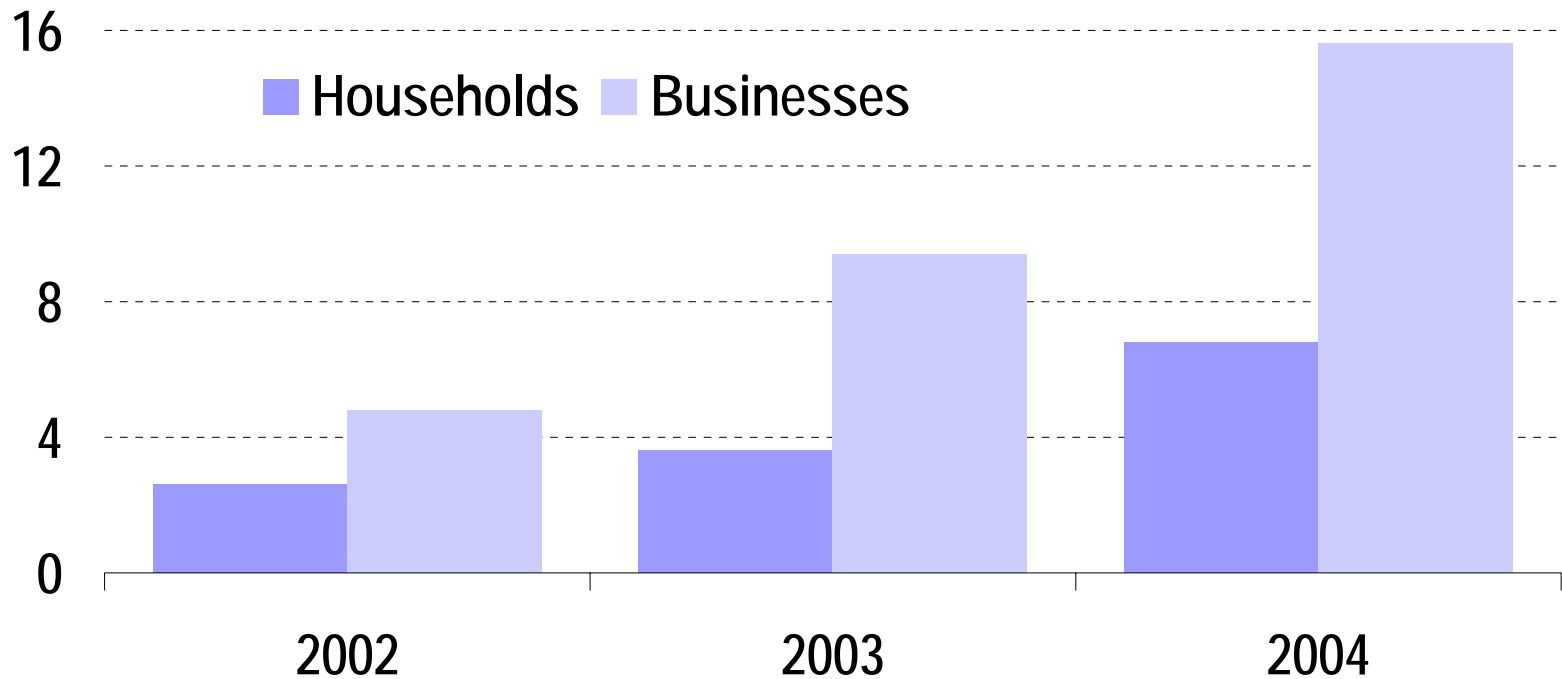


Source: ONS, Social trends

Growth in online sales

Internet sales - wholesale and retail trade

£ billion

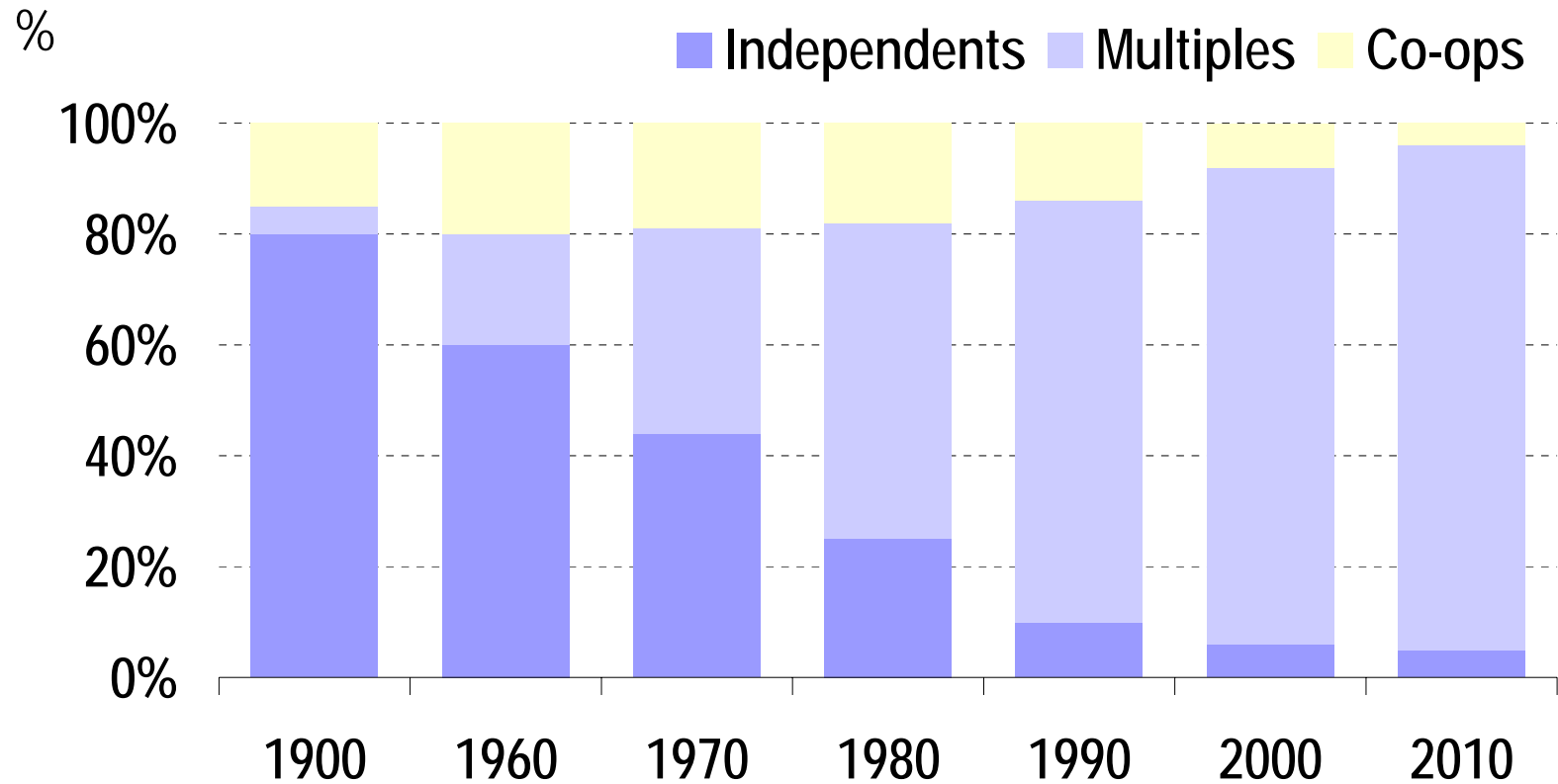


Source: ONS, ICT activity of UK businesses 2004



Huge change in convenience sector over past century

Value market share in the convenience sector



Source: Defra, Economic note on UK grocery retailing



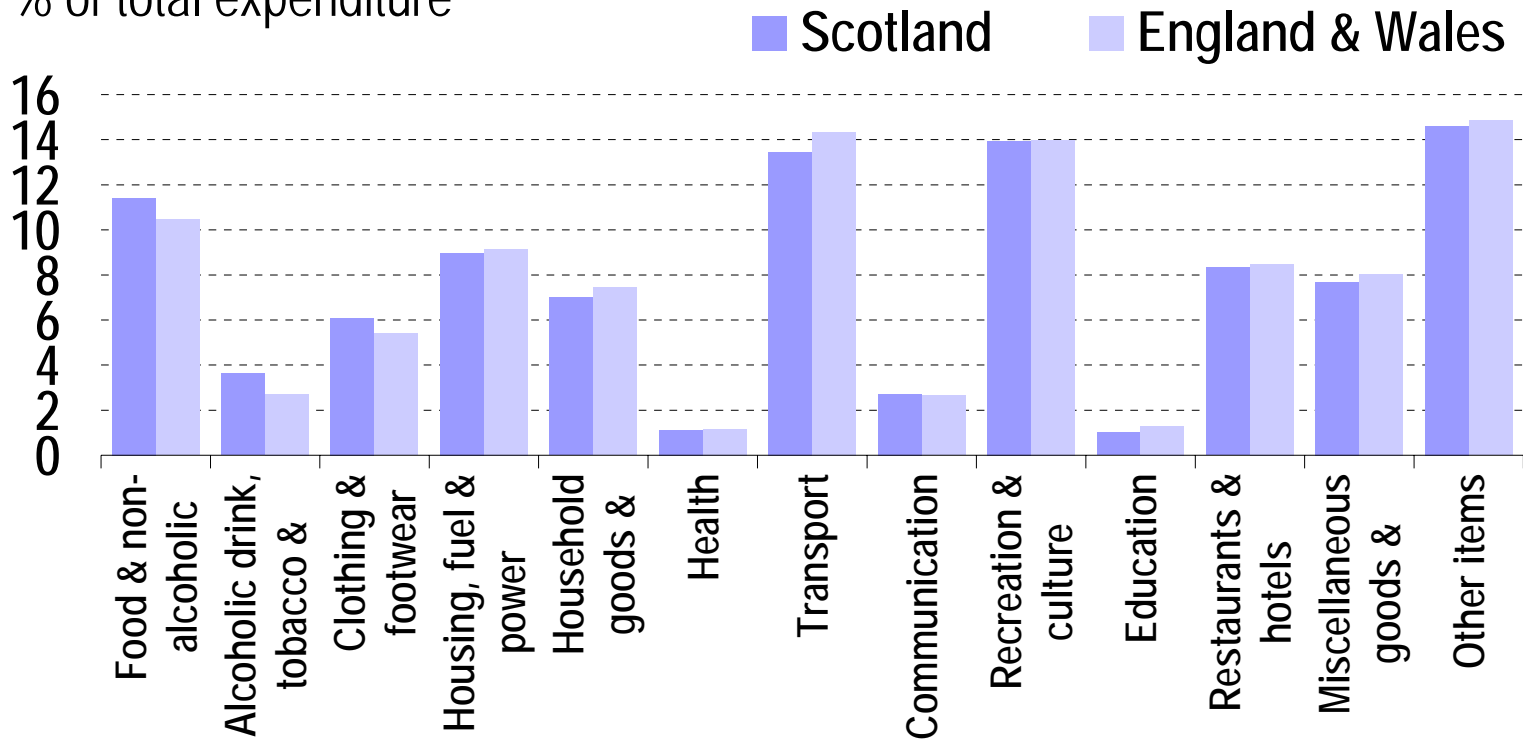
2. Evidence from Scotland versus England and Wales



Slightly higher retail spend in Scotland

Household expenditure

% of total expenditure



Source: ONS Family Spending 2004-05



More Sunday shopping in Scotland

Supermarket customers by day of week in England and Wales and Scotland

	Mon	Tues	Wed	Thur	Fri	Sat	Sun
Proportion in England and Wales	14.0	14.6	14.9	14.8	16.0	16.3	9.4
Proportion in Scotland	13.5	14.0	14.6	14.5	15.9	16.2	11.3

Other evidence: 14% of sales on Sunday in Scotland versus 10% in England and Wales



Similar retail related travel patterns in Scotland

Scotland

	1985/86	20002/03
Average shopping trips per year	189	192
Average trip time (minutes)	16	17.3
Average trip length in miles	2.9	4.7

Great Britain

	1985/86	2002
Average shopping trips per year	210	201
Average trip time (minutes)	16	17
Average trip length in miles	2.9	4.3

Source: Scottish Executive (2005) "Travel by Scottish Residents"
Department of Transport (2004) "National Travel Time Survey"



3. Cost benefit analysis



Previous studies point to benefits from liberalisation

- Institute of Fiscal Studies 1984 - reduce costs by 0.6% of turnover

- London Economics 1993 for Home Office - retail price reduction of 0.3%

- Kay and Morris 1997 concluded that
 - "...there is no economic case for general restrictions on Sunday trading, and that any argument about the subject should be conducted on other grounds."

- Previous studies did not attempt to put a money value on convenience



Approach to cost benefit analysis

- Add up national costs and benefits of proposed policy change

- Compare outcome
 - with and without liberalisation
 - not before and after liberalisation
 - since changes unrelated to liberalisation are occurring anyway

- Use established guidance
 - HM-Treasury “Green Book”

 - Cabinet Office regulatory impact assessment (RIA) guidance



Key assumptions

- Overall retail sales remain constant –
 - Extra sales capacity on Sunday accommodates growth

- Retail employment proportional to sales
 - Therefore no change in retail employment with no change in sales

- Productivity gain since labour costs increase with extra sales on Sunday, but not energy and space costs

- Time savings due to convenience are valued by consumers



Some sectoral changes have little national impact

- Even were retail employment to change labour supply and monetary policy would limit or eliminate any impact on aggregate employment

- Cabinet Office RIA guidance:
 - “...effects on jobs...are not normally relevant, since displaced workers will find other jobs...”

- Retail price reduction may have little impact on inflation since Bank of England has inflation target of 2 per cent

“The feedbacks in the business world are often positive; those in the world of economic policy are usually, though not always, negative.”

Professor Paul Krugman, 1996, “A country is not a company.”



Focus on first round impacts

- Cabinet Office RIA guidance:
 - “In general, the analysis of costs and benefits will need to quantify only at the first-round, or impact effects of proposed measures.”
 - “[second round effects]...represent simply a re-distribution of resources within the economy, without any net overall economic effect.”
- Do not count costs and benefits in downstream or upstream markets
- Do not count changes in asset prices

Impact on unit costs

Step 1: Calculate change in unit costs from increase in sales capacity from extended Sunday trading



Step 2: Calculate price impact of unit cost change and apply to relevant market



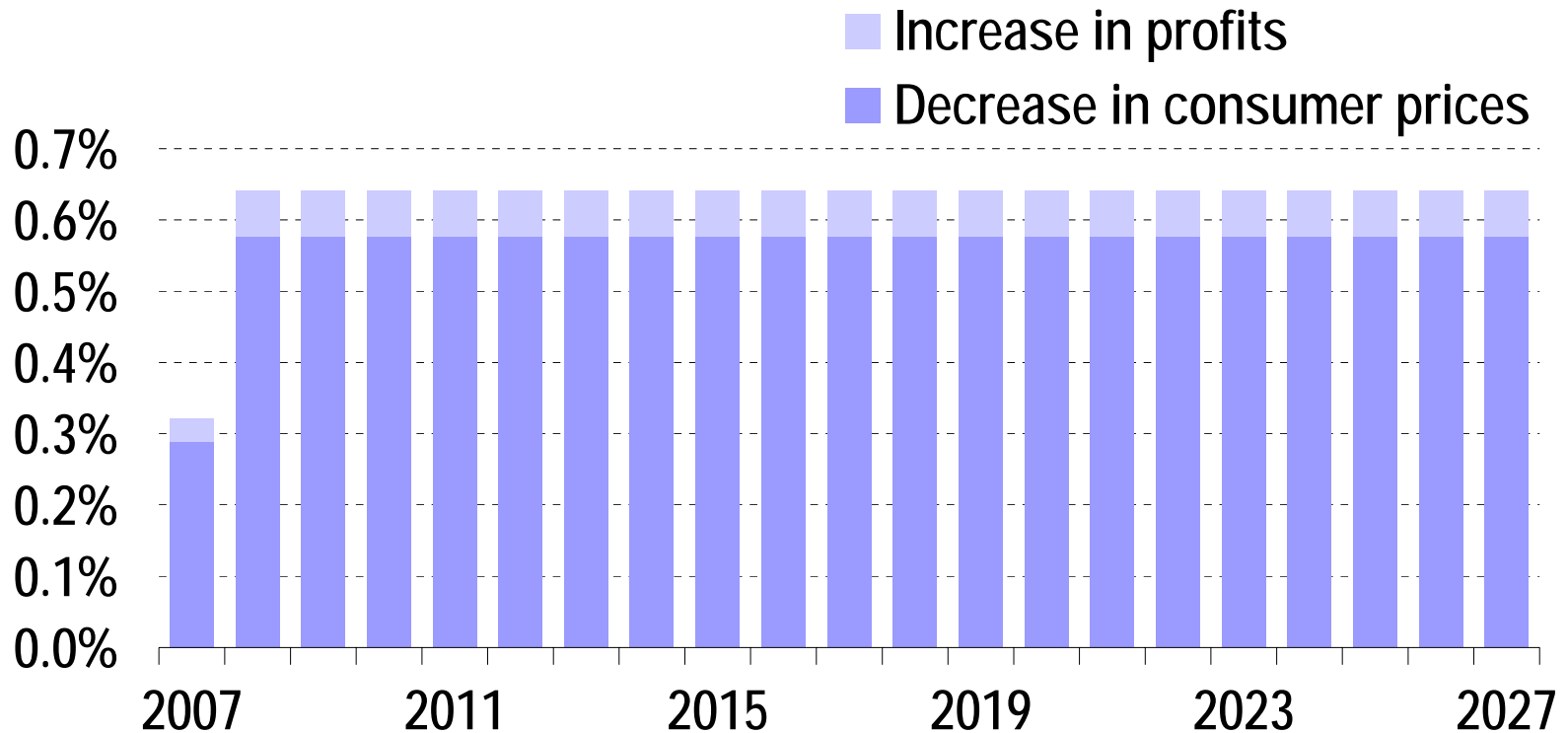
Step 3: Calculate benefits/costs over time allowing for underlying changes in Market and discount future benefits to calculate net present value

Detailed assumptions in Table 4.4



Lower unit costs assuming 4% increase in 'capacity'

Impact on prices and profits



Source: Indepen modelling

Impact on convenience (mainly peoples time)

Step 1: Estimate change in congestion, ability to coordination activity and possible impact of reduction in convenience stores from extended Sunday trading



Step 2: Calculate impact on time and cost involved in travel and shopping and value time based on the value of leisure time



Step 3: Calculate benefits/costs over time and discount future benefits to calculate net present value

Detailed assumptions in Table 4.5



Aspects of convenience considered

- Time cost of congestion

- Time and travel costs associated with increased difficulty in coordinating activities on a Sunday
 - more journeys
 - journeys on other days or at other times
 - foregone activities

- Time and travel costs for customers who turn up when stores are shut

- Reduced convenience for some customers if some small stores close

- But additional small store closure will only occur if some customers prefer to shop at large stores with extended Sunday trading

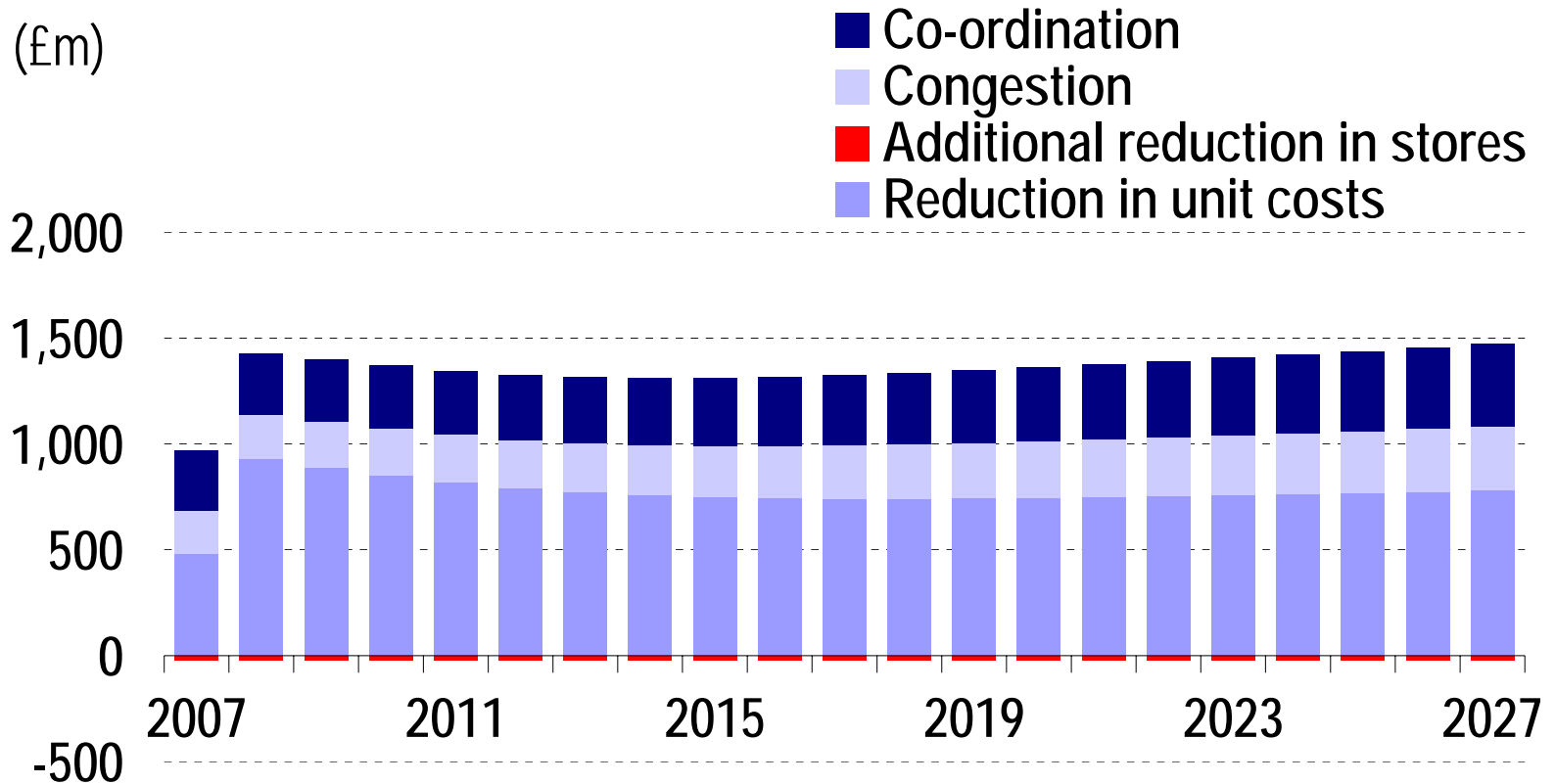
- We attribute a cost but no benefit to customer switching as a check that our overall analysis is conservative



Overall benefits in current money terms

Value of costs and benefits

(£m)



Source: Indepen modelling



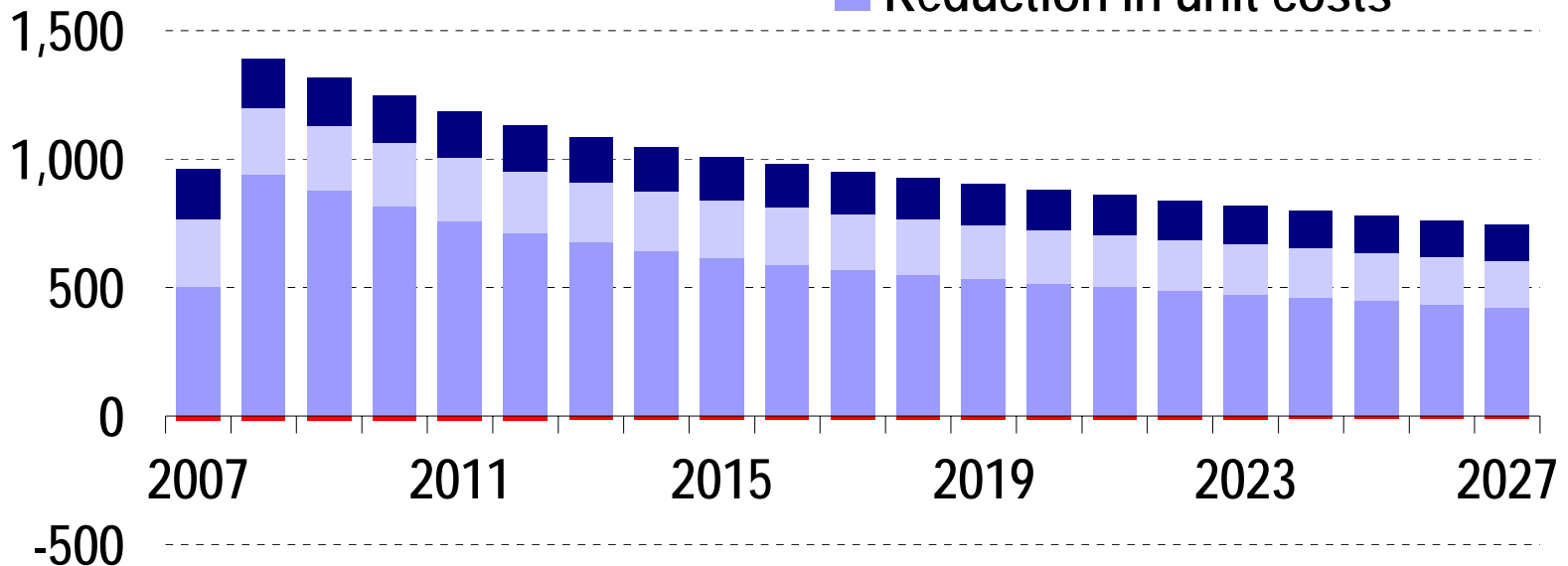
Overall result – discounted at HM-Treasury rate of 3.5%

Present value of costs and benefits

At 2006 prices (£m)

Total NPV = £ 20.3 billion

- Congestion
- Co-ordination
- Additional reduction in stores
- Reduction in unit costs



Source: Indepen modelling

95 per cent confidence interval for NPV approximately £16 to £28 billion



Summary of benefits to economy and per household

Calculated net present value from full liberalisation of Sunday trading

Category	Net present value (£ billion)	Equivalent annual annuity (£ billion)	Annual benefit per household (£)	Time savings per household that shops on a Sunday (minutes per week)
Reduction in unit costs	12.5	0.9	39.5	NA
Benefits from ability to co-ordinate trips and reduced congestion	8.1	0.5	25.6	10.4
Costs due to additional reduction in local stores	-0.3	0.0	-0.9	NA
Total	20.3	1.4	64.1	10.4

95 per cent confidence interval for NPV approximately £16 to £28 billion



Alternative liberalisation scenarios

Benefits and costs relative to normal Sunday full liberalisation calculation

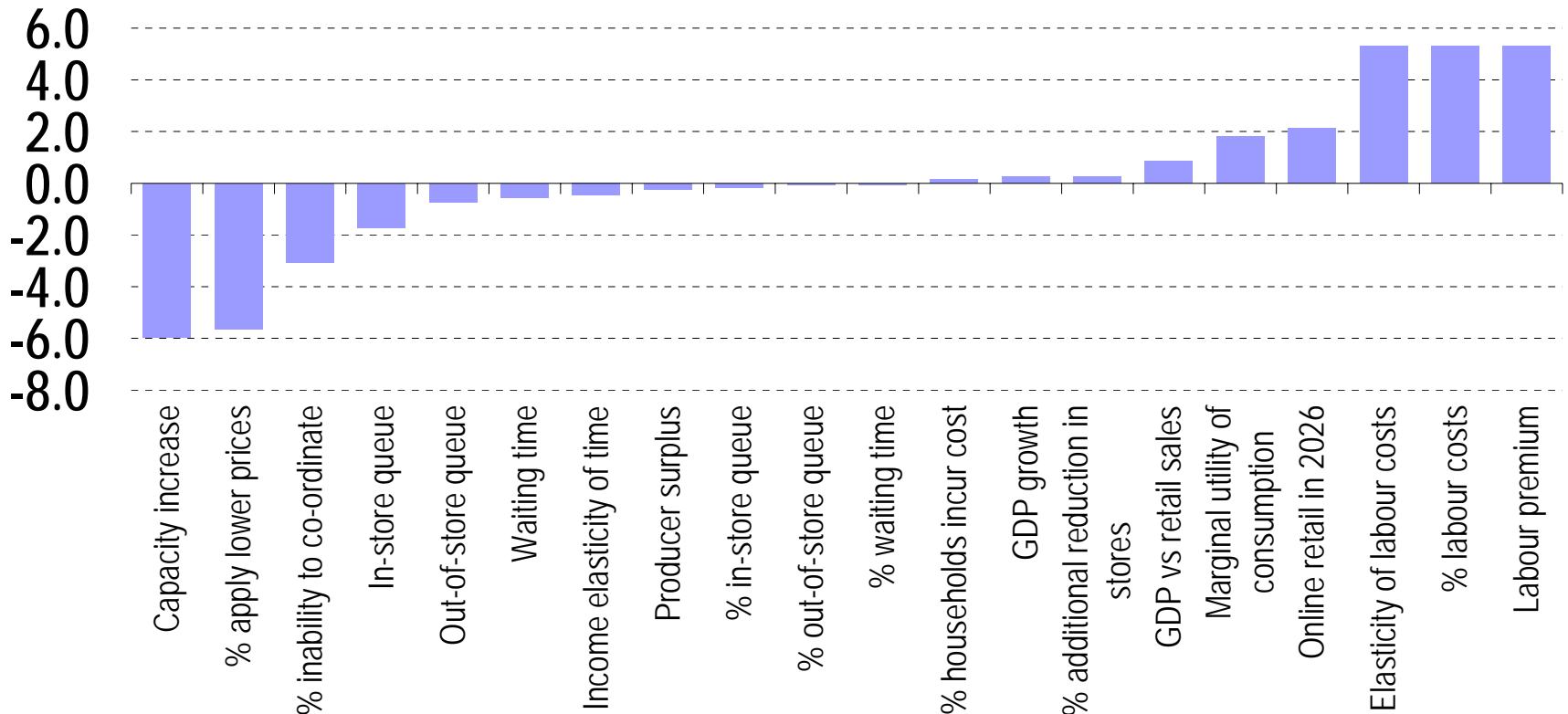
Category	10am-6pm	9am-7pm	Easter Sunday
Reduction in unit costs (and lower prices and/or increased profits)	75%	85%	250%
Benefits from ability to co-ordinate trips	75%	85%	100%
Benefits from reduced congestion at stores (we do not assess changes in road congestion which, for a given number of shopping trips, would be spread out and therefore reduced overall)	75%	85%	None
Costs due to additional reduction in local stores	75%	85%	100%



Sensitivity to changes in assumptions

Impact of -10% change in central estimates

% change in total NPV costs and benefits



Source: Indepen modelling

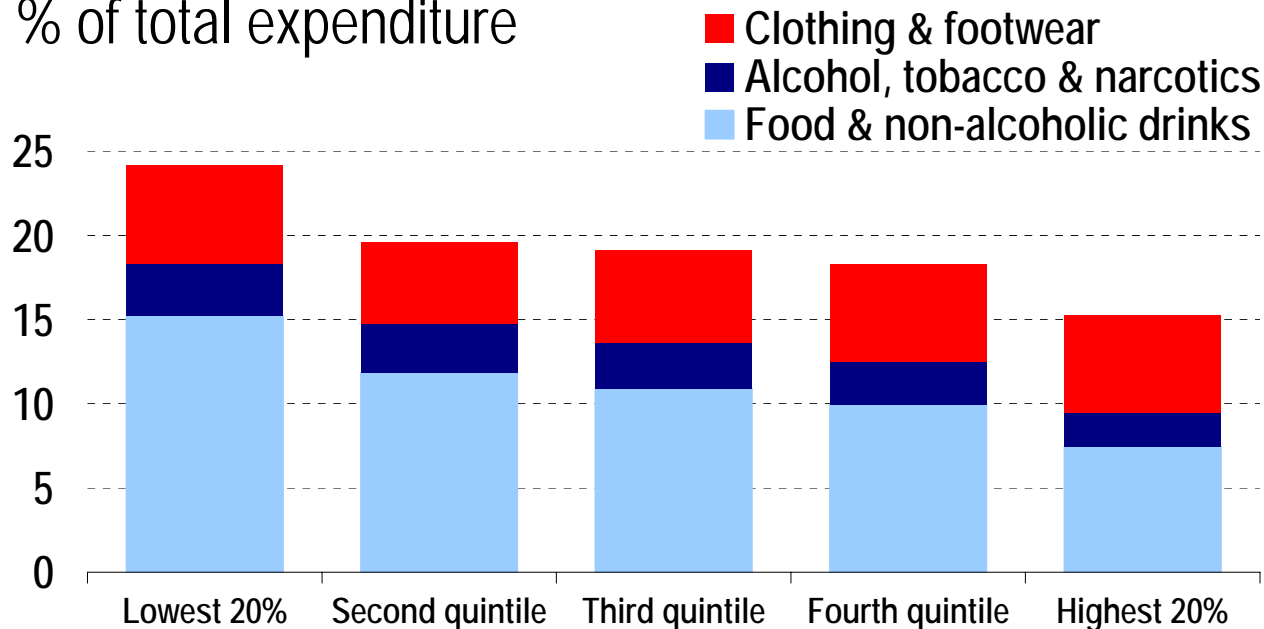


4. Distributional impacts

Low income households would benefit more relatively

Household expenditure by income group

% of total expenditure



Source: ONS Family Spending 2004-05



Environment and health impacts probably positive

- To the extent that environmental costs are “internalised” by existing regulation and taxes they are captured in our calculations
- Reduced use of energy, space and other resources per unit of retail sales would reduce any associated environmental impact
- Reduced congestion and coordination problems could reduce environmental impact of car use
- Improved availability of healthy food at lower prices could contribute to healthy eating

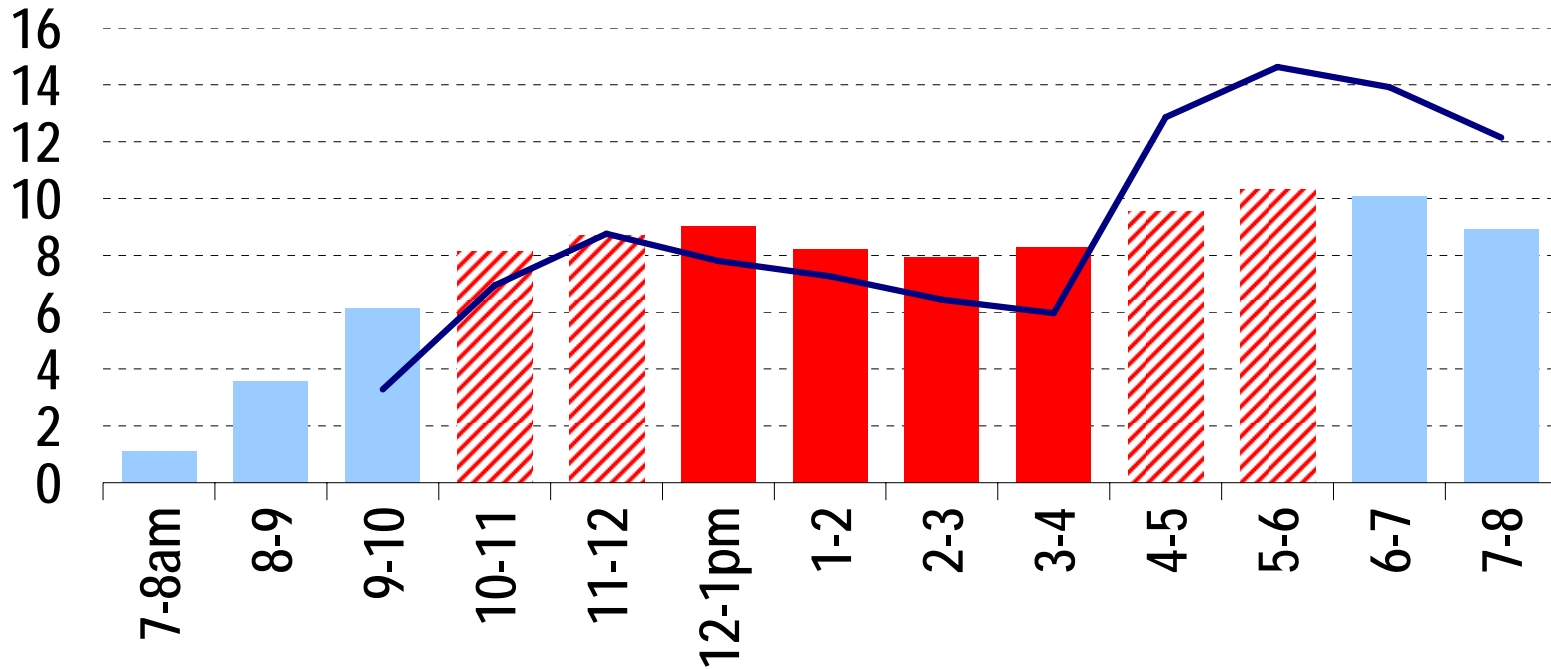


Convenience stores - importance of trade late on Sunday

Profile of Sunday trade

% of sales during the day

- Common opening hours
- Independent retailer
- Regulated opening hours



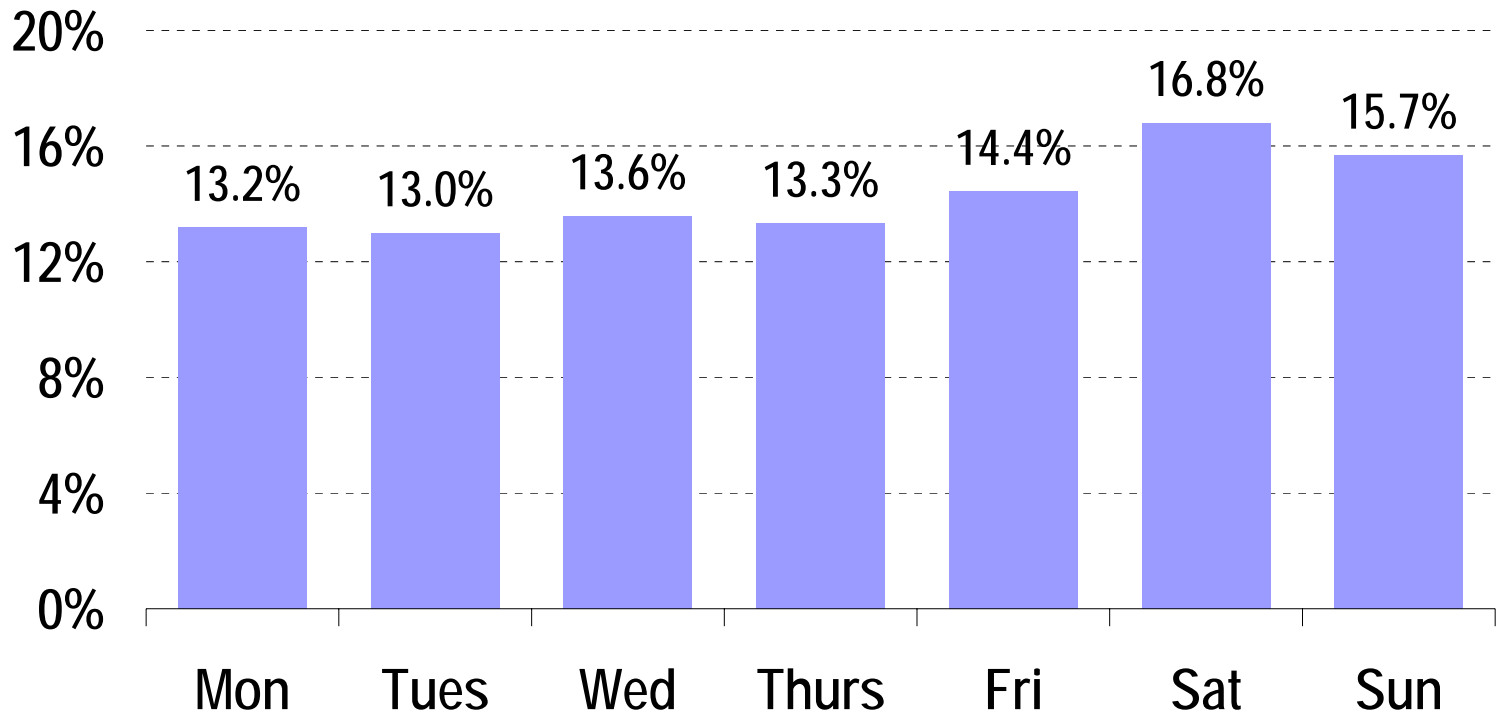
Source: Association of Convenience Stores



Symbol group - Saturday sales > Sunday sales

Symbol group profile of sales

% of total weekly sales



Source: Symbol group 2006

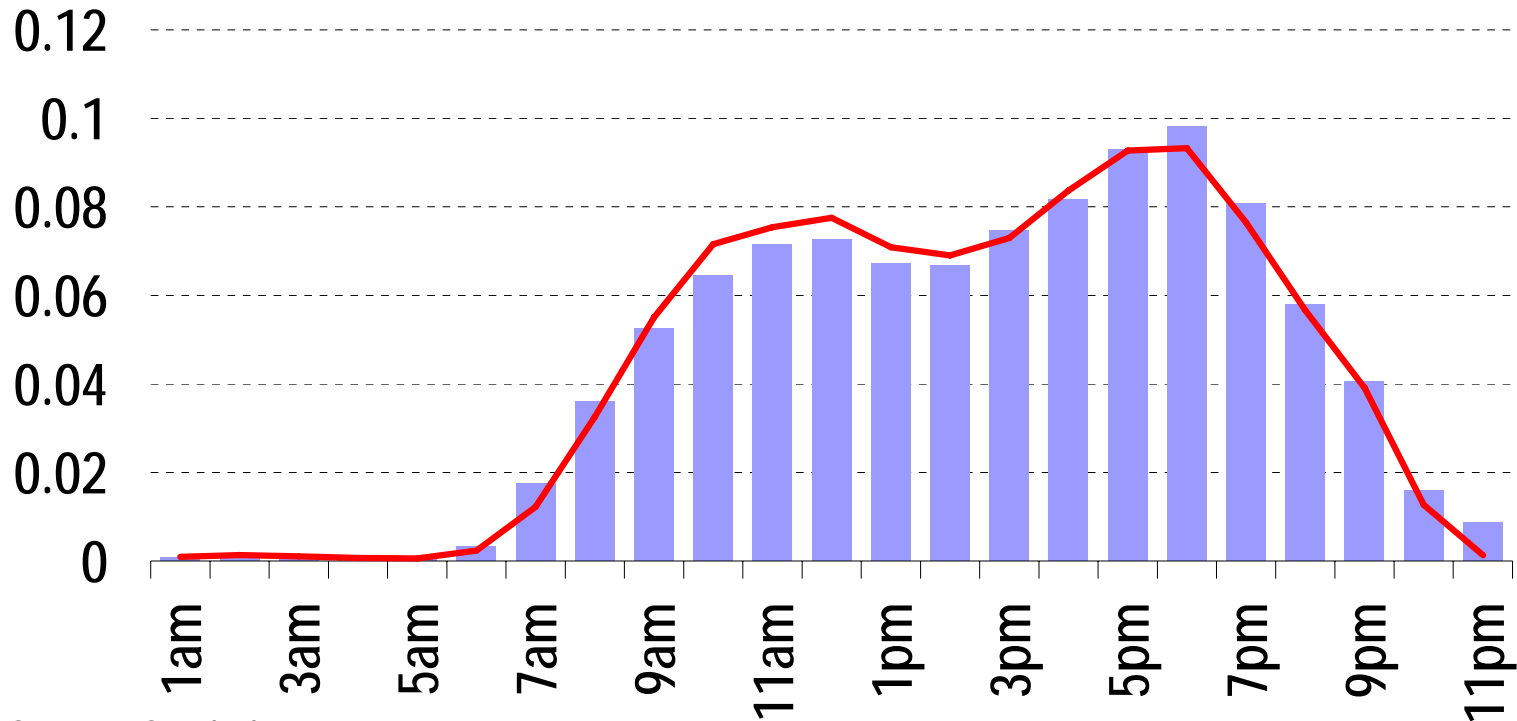


Symbol group – Saturday and Sunday profiles similar

Symbol group profile of sales

■ Saturday — Sunday

% of total daily sales



Source: Symbol group 2006



Retail sector distributional impacts

	Winners	Losers
Large store	Large stores who increase trade – particularly garden centres etc	Large stores who gain little and face more competition
Small store	Complementary stores gain from increased footfall	Substitute stores may lose current out of hours sales



5. Conclusion

- Calculated net benefit is substantial
 - Net present value over 20 years is £20 billion (discounted sum)
 - £1.4 billion per year (discounted and annualised)
 - £64 per household per year (discounted and annualised)
- Significant uncertainties – but nothing that would plausibly overturn conclusion of substantial net economic benefits
- “The cost benefit analysis will form part of the Government’s decision as to whether there should be any change to the current Sunday Trading laws.”
DTI News Release, 5 May 2006
- Overall decision can take into account wider considerations