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Commerce sector outlook 2020

Jaana Kurjenoja

Excerpts from the survey.

The full report is available to members of the Finnish Commerce Federation in the members' section of the [Kauppa.fi](https://www.kauppa.fi) website, in the Research section.



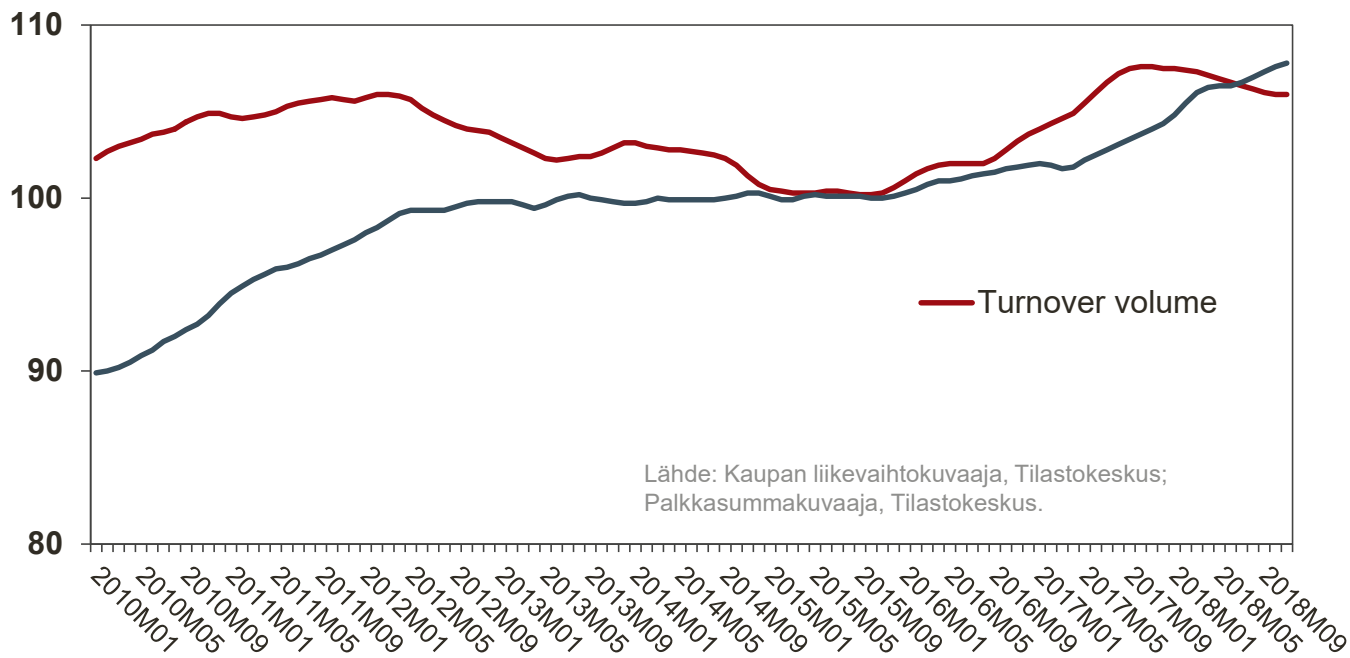
Growth of turnover slowed down at end of year

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Wholesale growth trend has turned – sum of wages and salaries continues to grow

Wholesale turnover volume index and sum of wages and salaries trend



Increase of wholesale prices of energy and some industrial products accelerated growth of turnover in wholesale trade – technical development and price competition lowered specialty goods trade prices

- Between January and November, the retail turnover in euros grew by three per cent and the volume of turnover* by two per cent.
 - The growth of the retail trade experienced a change around May–June: between January and May, the annual growth of the volume of turnover was approximately three per cent, whereas from June to November, it had dropped to one per cent.
 - The change was particularly evident in department store trade (incl. grocery sales in department stores and hypermarkets) where the volume of turnover increased by three per cent between January and May and decreased slightly between June and November.
 - The strict price competition in the specialty goods trade is evident in falling prices: the euro-denominated turnover has increased at a slower rate than the volume of turnover.
 - Especially when it comes to household appliances, the price level is influenced not only by the price competition but also by the ongoing technological advancements.
- The euro-denominated wholesale turnover grew by five per cent between January and November, largely due to the increase in the wholesale prices of raw materials, capital goods and energy. In the same period, the volume of turnover* increased by less than one per cent.
 - A change also took place in wholesale trade around May-June: between January and May, the cumulative annual change in the volume of turnover was more than three per cent, whereas between June and November, it decreased by more than one per cent.
 - The wholesale ICT trade continues its strong growth.

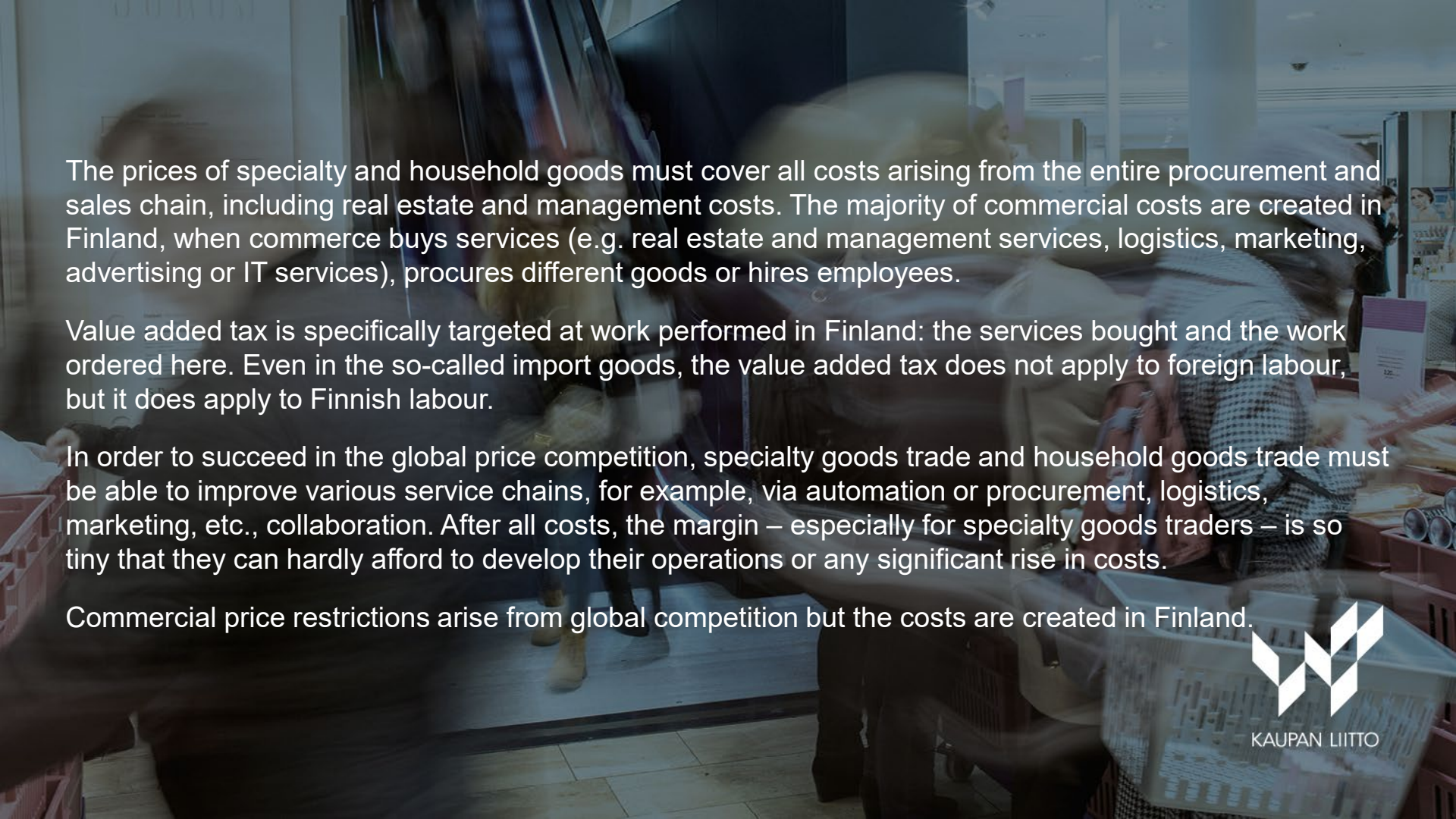
* Turnover adjusted for price fluctuations.

Global price competitiveness also a source of concern for commerce: The prices of consumer services and products multiplied by taxes

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The prices of specialty and household goods must cover all costs arising from the entire procurement and sales chain, including real estate and management costs. The majority of commercial costs are created in Finland, when commerce buys services (e.g. real estate and management services, logistics, marketing, advertising or IT services), procures different goods or hires employees.

Value added tax is specifically targeted at work performed in Finland: the services bought and the work ordered here. Even in the so-called import goods, the value added tax does not apply to foreign labour, but it does apply to Finnish labour.

In order to succeed in the global price competition, specialty goods trade and household goods trade must be able to improve various service chains, for example, via automation or procurement, logistics, marketing, etc., collaboration. After all costs, the margin – especially for specialty goods traders – is so tiny that they can hardly afford to develop their operations or any significant rise in costs.

Commercial price restrictions arise from global competition but the costs are created in Finland.



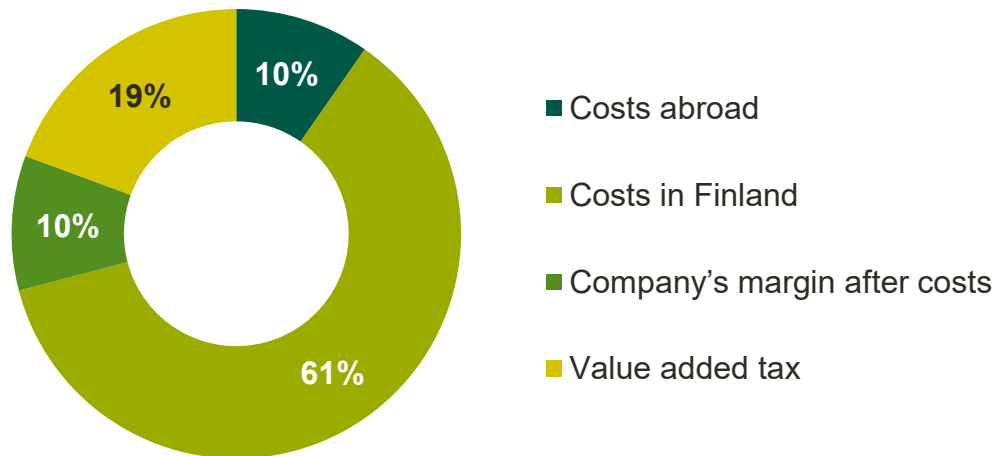
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Above all, value added tax targets work performed in Finland

Example: the formation of the price of a top made in Asia, a total of EUR 31

The price of a top made in Asia not subject to VAT and costing EUR 31 is EUR 25. Of the price not subject to VAT, the various costs linked to retail operations and procurement make up EUR 22 (88 per cent). Of these costs, 86 per cent result from Finland.

Above all, VAT is targeted at services bought and purchases made in Finland as well as work carried out in Finland.





Commerce creates economic growth by investing and employing in Finland. It produces an almost equal amount of added value by purchasing products and services from other sectors. In order to survive in the competition, many traders are now seeking to cut down this part of the cost chain – services and goods purchased in Finland.

Global chains, online stores and digital trade platforms rarely engage in R&D to develop their operations in Finland. This work is usually performed in the country or location of the company's HQ, on which the whole group's strategic development work is focused. The operating methods or systems developed elsewhere are then adopted – perhaps with slight adjustments – in Finland.

The strategic development, planning and operational management of business create more added value than acting as a simple distribution channel. This is why it is important that businesses operating in the commercial sector have their headquarters as well as design and development functions in Finland.

If Finland lacks sufficient university-level commerce sector education and research, then we will also lack sufficient functions that bring the most added value.



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Without Finnish retail and wholesale trade, the added value produced by many sectors would collapse

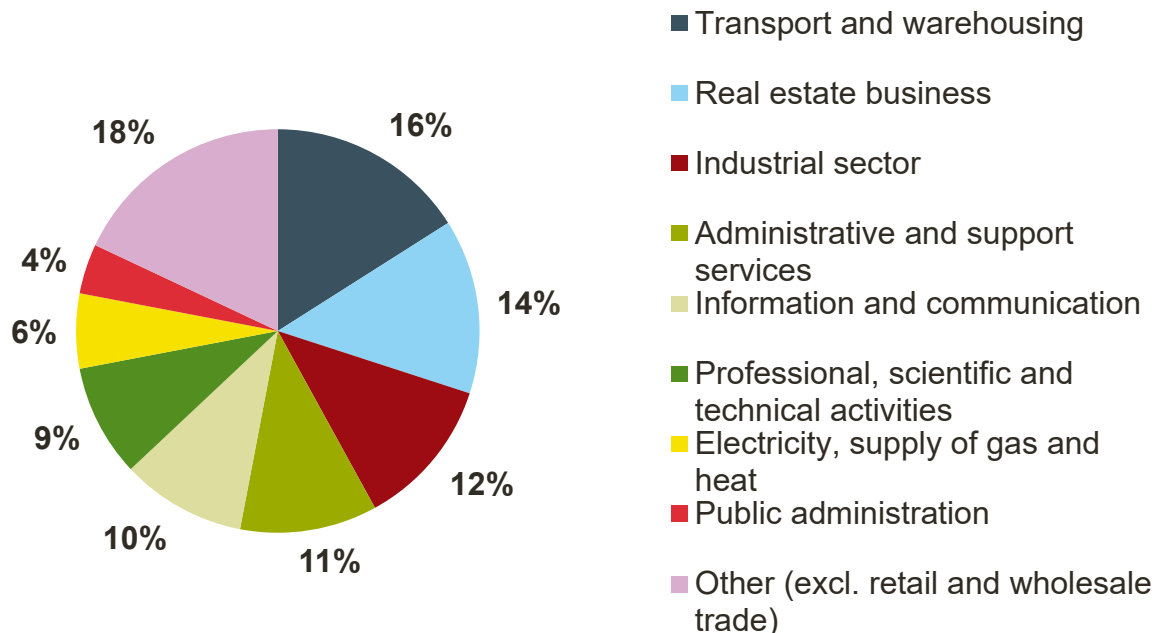
Commerce operating in Finland produces indirect added value via products and services purchased from other sectors.

The distribution of the indirect added value produced by ongoing commercial operations by sector

Especially the HQ operations and different strategic commercial operations pertaining to business planning, steering and procurement also create growth for other sectors in Finland.

For instance, without the services bought from Finland by commerce, the added value of the logistics sector would drop by 12 per cent.

(Fixed price GDP, Statistics Finland, Annual National Accounts)





Was that it? Commercial growth will slow down without
commerce has time to properly join in

Commerce sector turnover and employment 2019–2020

Excerpts from the survey.

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Background information on the commerce sector outlook

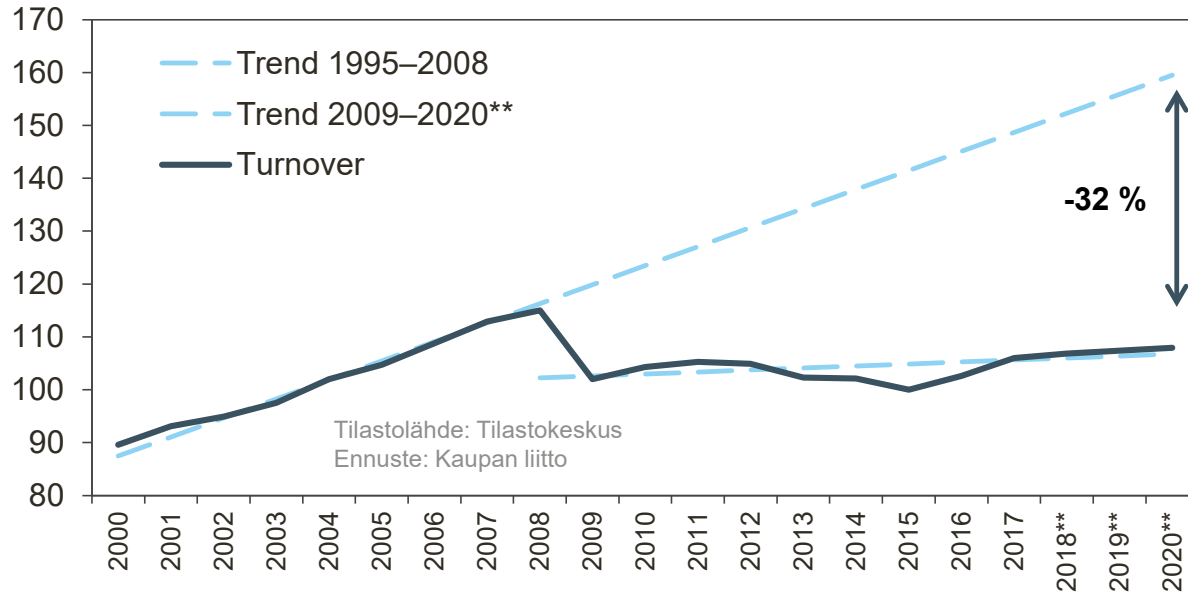
- The economy will grow by approximately 1.5 per cent this year and by a little bit over one per cent next year.
- Global growth and the growth of the Eurozone will slow down, which will directly affect exports and industrial production. With investments in construction simultaneously decreasing, the conditions for growth of the Finnish wholesale trade will become harder.
- With new building slowing down, rebuilding will grow. In addition to rebuilding, the wholesale trade is helped by new orders from the industry, especially from the chemical industry.
- The prices of raw materials and oil dropped at the end of 2018 but they will start to increase this year, also resulting in cost and price pressures on commerce. This year, inflation will only increase slightly, remaining below 1.5 per cent. Next year, inflation will continue to increase, however, remaining below two per cent.
- Employment will continue to grow, albeit slower than in 2018. Despite the inflation, real earnings will continue to increase also this year, especially via wage shifts. The real sum of wages and salaries as well as purchasing power will slightly grow across the economic spectrum at a slightly lower rate than last year.
- The increase in available earnings will be only partly directed at the retail sector: A little over half of private consumption comprises other than retail trade products. The increasing cost of living and transport in particular takes away from the growth of the retail trade.
- Interest rates will begin to rise in late 2019, but only moderately. Preparations especially for the increase in mortgage interest rates may restrict the consumption drive and promote saving.

Background information on the commerce sector outlook

- This forecast contains no assumptions regarding taxation apart from the Government's official tax decisions.
- Primarily, growth this year and in the next few years involves downward risks.
 - *Downward risks include, among other things, Brexit and other potential similar political initiatives in Europe, problems in the Eurozone banking sector, the spread and strengthening of protectionist economic policies, potential rising interest rates in late 2019 and the measures taken by households and businesses to prepare for them.*
 - *The costs arising from the ageing population and public sector reforms, such as the reform of the Finnish social welfare and health service system, create pressures for increased taxation, particularly taxes on consumption. If implemented, higher taxes would erode purchasing power and increase costs in the commerce sector.*

The global competitive environment of the digitising wholesale trade will become stricter and growth will slow down

Wholesale turnover volume index*



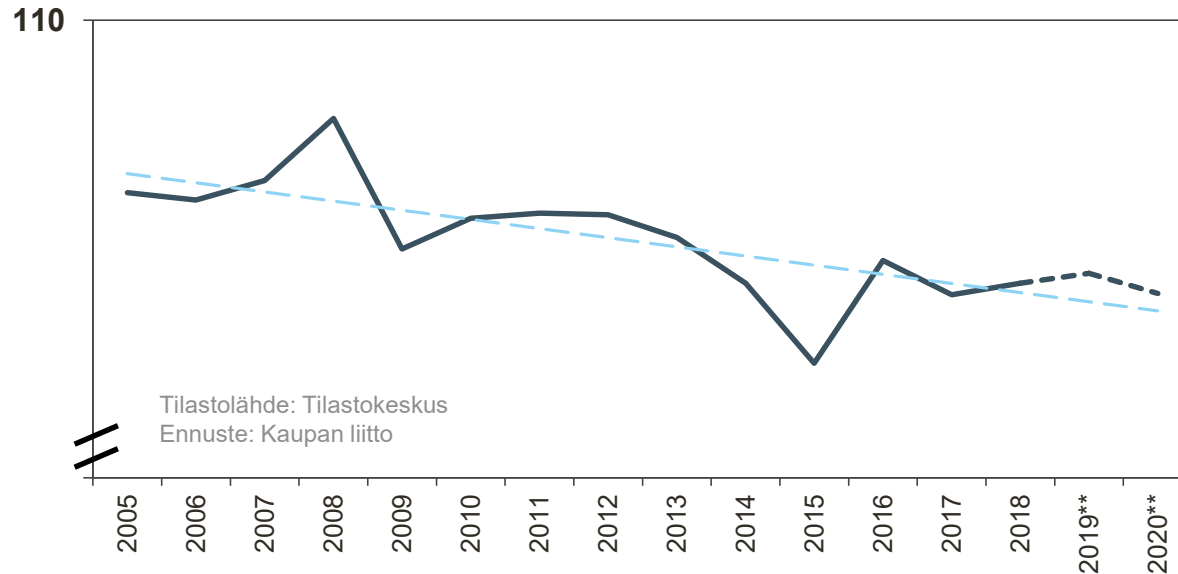
Retail sales volume to grow by 0.5 per cent this year and next year.

* Turnover adjusted for price fluctuations.

Automation, the cost-efficiency of customers and international competition are reflected in the number of people employed in the wholesale trade

Wholesale trade employees*, 1,000 persons

* Wage earners, entrepreneurs and family members employed by entrepreneurs



The number of people employed by the wholesale sector will grow by one per cent this year and decrease by two per cent next year.



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