



KAUPAN LIITTO

Commerce sector outlook 2021

Jaana Kurjenoja

Excerpts from the forecast.

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



Strong growth in retail turnover over the first half of the year, wholesale trade growth based on increased prices

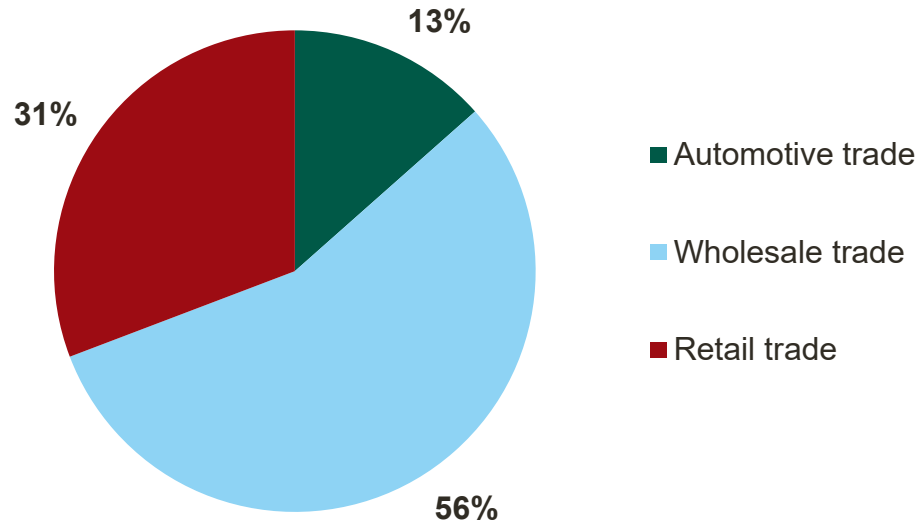
Excerpts from the forecast.

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



Sales 2018

Total turnover in 2018 EUR 126 billion (excluding VAT)

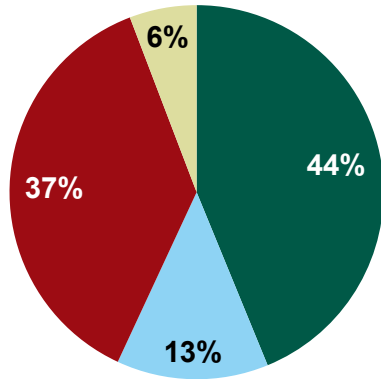


Source: Economic trends in trade, Statistics Finland.

Retail and wholesale turnover 2018

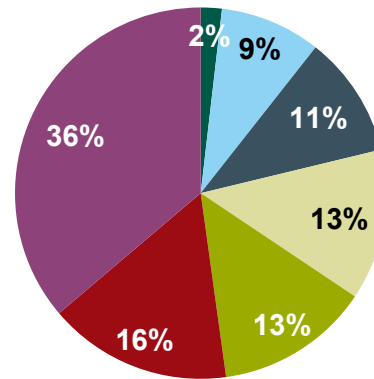
Excluding VAT, excluding car sales

Retail sector turnover 2018
total EUR 38.9 billion



- Daily consumer goods trade
- Department store trade (incl. hypermarkets)
- Specialty goods trade

Wholesale turnover 2018
total EUR 70.5 billion



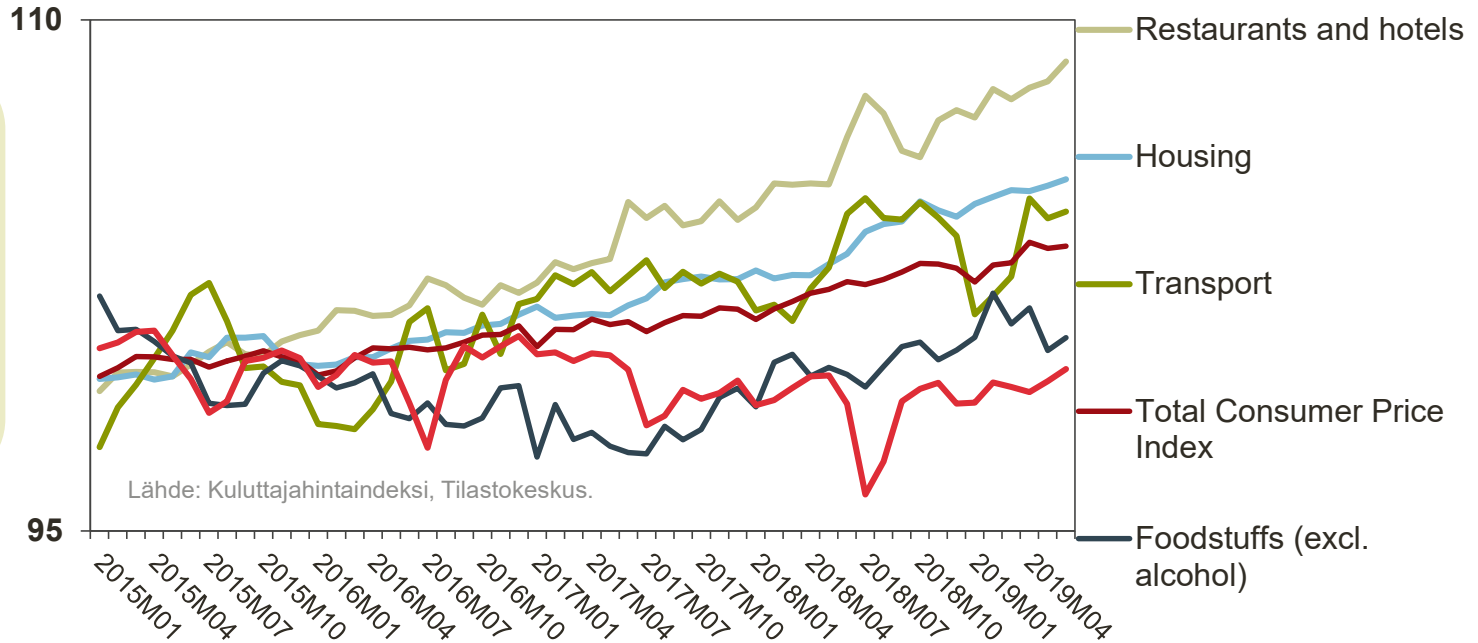
- Wholesale of agricultural primary products and live animals
- Wholesale of ICT equipment
- Other wholesale (non-specialised wholesale trade, general wholesale trade)
- Wholesale of household goods
- Wholesale of other machines, equipment and materials

Source: Economic trends in trade, Statistics Finland.

Price increases in other sectors have reduced growth in the retail sector

Consumer Price Index 2015 = 100

Higher prices especially in housing and transport, the largest categories in the consumer basket, and the fifth-largest category, restaurants and hotels, have taken up space from retail growth.



Although prices in wholesale have increased more slowly this year than in the previous year, growth in wholesale trade is still based on price increases – in specialty goods trade, prices are going down instead.

- The euro-denominated turnover of the retail sector grew by 2.2 per cent in January–May, while the amount of turnover* increased by 2.1 per cent.
 - Intense domestic and international competition is continuing in the retail sector, and prices are not rising. This is especially visible in specialty goods trade, where turnover volume has grown faster than its value in euro, i.e. the prices have fallen.
 - Price reduction is especially clear in the fields of home electronics (including entertainment, IT and communications devices) and sporting goods.
 - Unlike in the specialty goods trade, the turnover growth in the trade of daily consumer goods (2.3 per cent) is almost solely due to price increase, as the annual turnover growth in January–May has been just 0.3 per cent. The increase of food prices is also visible as the annual growth rate of nearly two per cent of the food Wholesale Price Index in the Jan–May period.
- Euro-denominated wholesale turnover grew by 1.8 per cent from January to May, largely due to the increase in wholesale prices of raw materials, capital goods and energy and the wholesale prices of individual consumer goods, such as food. Over the same period of time, the amount of turnover* decreased by 0.7 per cent.
 - The growth of industrial production and new orders from the industrial sector have not increased the volume of wholesale turnover this year.

* Turnover adjusted for price fluctuations.

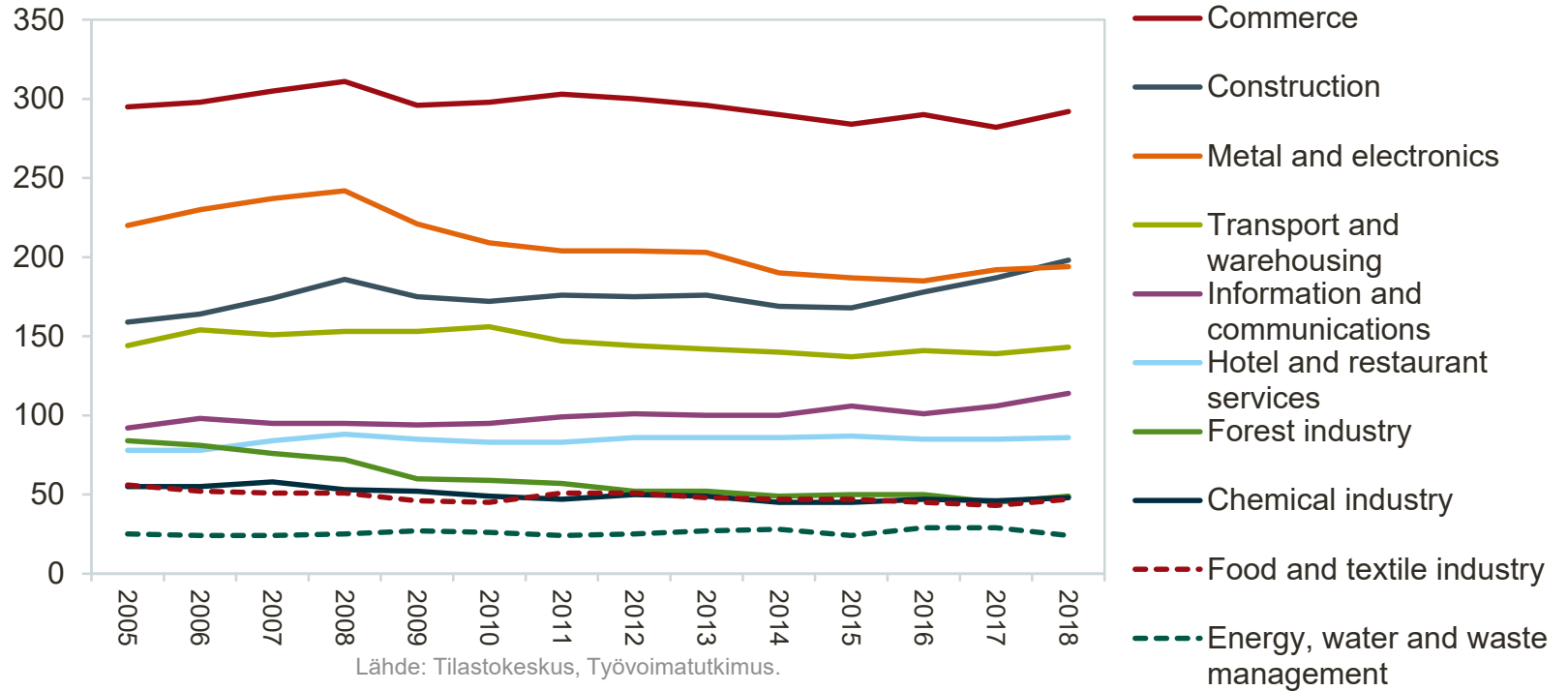
Retail sector employment is on the declining trend again



Excerpts from the forecast.

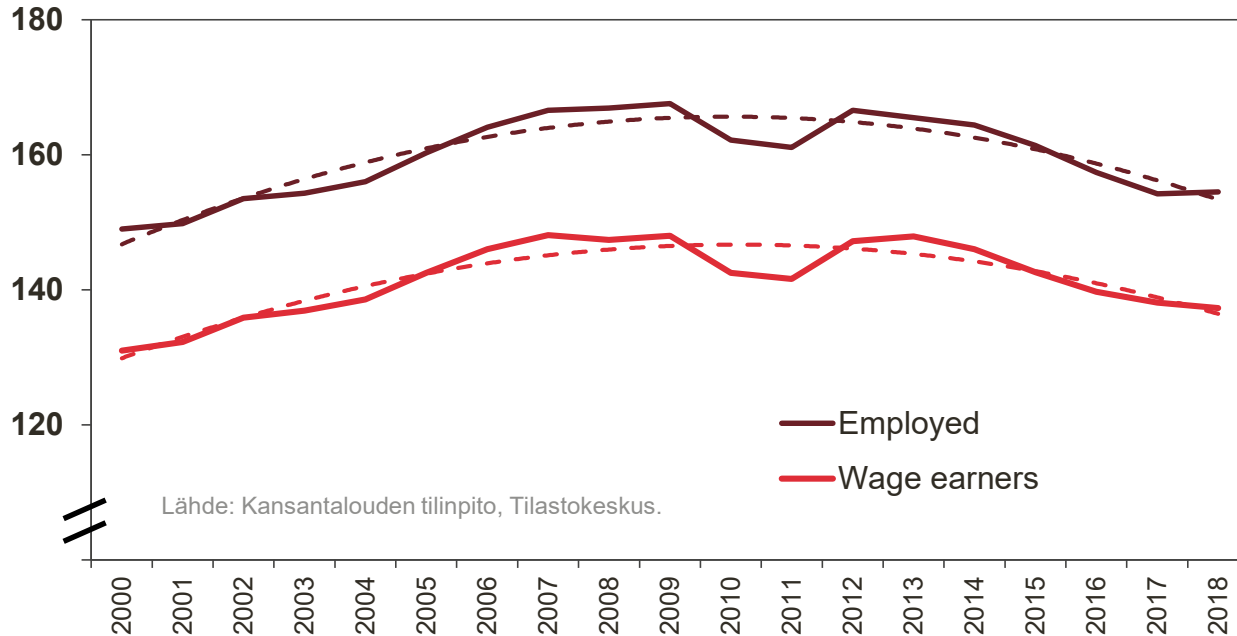
The full text is available to members of the Finnish Commerce Federation on the members' pages at [Kauppa.fi](https://www.kauppa.fi), in the Research section.

Commerce is the largest employer in the economy in thousands



The declining trend of employment in the retail sector continues

The number of employees and wage-earners in the retail sector according to the Annual National Accounts by Statistics Finland, in thousands



Tighter domestic and international competition in both the brick-and-mortar and online channels, along with the need to increase cost-efficiency, are reducing the demand for labour in the long run.

According to the Annual National Accounts by Statistics Finland, employment was at its lowest in the last quarter of 2018 and the first quarter of 2019 compared to the corresponding quarters since 2005, and second-lowest in the second quarter of 2019.

What has happened in the labour market in the commerce sector in the 2000s?

- The long-term trend in the labour market has begun to change: the link between the development of turnover and the demand for labour is not as strong as it used to be.
 - Internationally, companies are trying to more effectively manage supply chains in commerce and make them shorter. Economies of scale are being sought through chain formation, large central warehouses and cooperative purchasing, among other things.
 - The competition for customers is taking place in all channels, across boundaries.
 - International and domestic competition in both wholesale and retail has increased the need for increasing the efficiency of operations and cutting costs, including in Finland.
 - Automation and digital development enable increased efficiency and productivity, and the number of personnel does not always need to be increased to maintain or improve services.

Was that it? – Economic growth will slow down before commerce has time to properly join in

Commerce sector turnover and employment 2019–2021

Excerpts from the forecast.

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



Commerce sector outlook – background

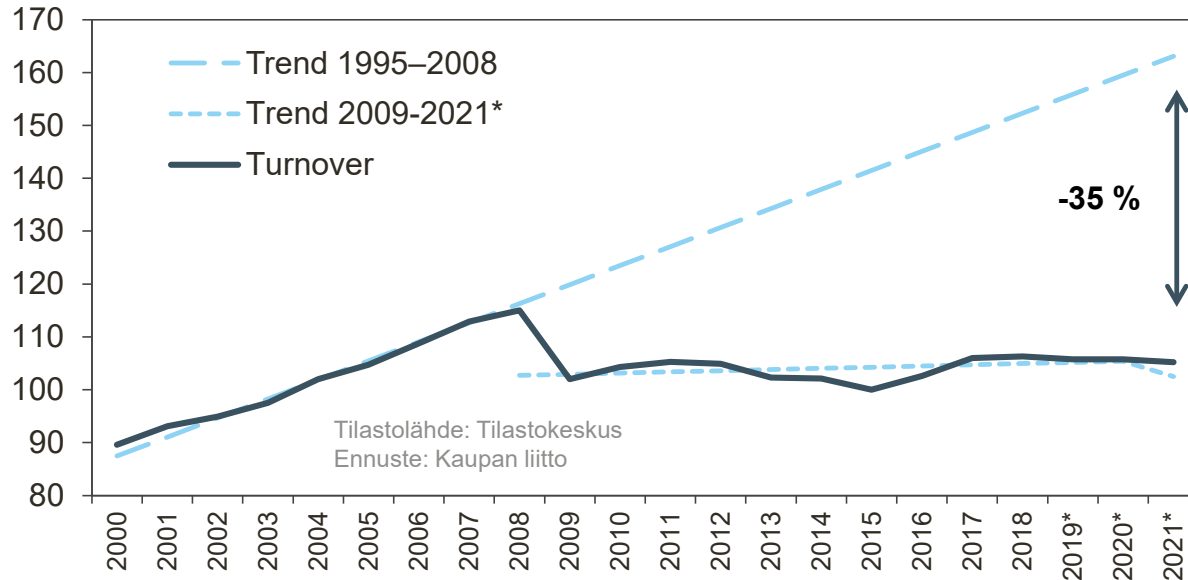
- The economy will grow by approximately 1.5 per cent this year and by approximately one per cent next year. Revised economic statistics may later show figures lower than those in the most recent publications, meaning that expected growth will be slower, too. This is typical in times of recession and after business cycle fluctuations.
- 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.
- Growth of the global economy is largely based on private spending. As industrial production and export in Finland primarily deal with intermediate goods, capital goods and investment goods, Finland will likely lose some global markets.
- With new building slowing down, rebuilding will grow. In addition to rebuilding, the wholesale trade is helped by new orders from the industry, especially the chemical industry.
- During this year and the next, the income level will rise faster than last year, accelerating inflation. On the other hand, the prices of goods will not rise much this year, which will keep inflation at nearly last year's level, just slightly over one per cent. Next year, inflation will be slightly accelerated to around 1.5 per cent.
- Employment will continue to grow, albeit slower than in 2018. Its impact on the purchasing power trends in the economy will be reduced. Real earnings will continue to increase also this year, especially via wage shifts, and the holiday compensation returning to the public sector will further increase them next year. The real sum of wages and salaries as well as purchasing power will continue to grow across the economic spectrum, but 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.

Commerce sector outlook – background

- This forecast contains no assumptions regarding taxation apart from the tax and payment decisions already issued.
- Primarily, growth this year and in the next few years involves downward risks.
 - *Downward risks include, among others, Brexit, problems in the Eurozone banking sector, protectionist financial policy spreading and escalating into trade wars, the euro weakening and export slowing down.*
 - *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.*

Under digitalisation, the global competitive environment of the wholesale trade will become stricter and growth will slow down

Wholesale turnover volume index*



Turnover volume will not grow over the next two years.

* Turnover adjusted for price fluctuations.



KAUPAN LIITTO

Corporate structure developments in commerce – Outlook to 2030 Jaana Kurjenoja

Excerpts from the forecast.

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



Statistics used in the review: Growth review and the Enterprises statistics

- Enterprises statistics used here include Enterprise openings and closures, Regional statistics on entrepreneurial activity and Structural business and financial statement statistics.
 - There's a break in the statistics on Enterprise openings and closures at the year 2013, but there is no great jump in the number of companies in the commerce sector from the period 2005–2013 to 2013 onwards. Therefore, the data from the Enterprise openings and closures statistics is presented here from 2005 on.
 - The Regional statistics on entrepreneurial activity and Structural business and financial statement statistics show a clear jump in the number of wholesale and retail sector companies between the years 2012 and 2013 when the break took place, so the time series 2007–2012 has been deemed as unsuitable for comparison with the time series 2013–2017.
- The primary source used for analysing the corporate structure in the commerce sector is the Growth review by Statistics Finland.
 - According to Statistics Finland's Enterprises statistics, in the period 2013–2017, the number of companies in wholesale decreased by 11 per cent, with a reduction of 10 per cent in retail trade. At the same time, the number of establishments decreased by 8 per cent in both wholesale and retail.
 - According to Statistics Finland's Growth review, from 2013 to 2017, the number of companies in wholesale trade decreased by 6 per cent and the number in retail trade decreased by 4 per cent, which is less than in the Enterprises statistics. In the Growth review, the number of both wholesale and retail companies decreased by 11 per cent from 2010 to 2018.
 - Even though the Enterprises statistics specify the official number of companies per industry, here we have chosen to review the development of the number of companies in the commerce sector based on the Growth review because the time series in the Growth review (2010 Q1–2019 Q1) is longer than the one in the Enterprises statistics (2013–2017). In addition, the Growth review also categorises enterprises based on other factors, such as their age. Both statistics show a clear drop in the number of wholesale and retail enterprises in the 2010s.

How have trade markets changes in slightly over a decade?

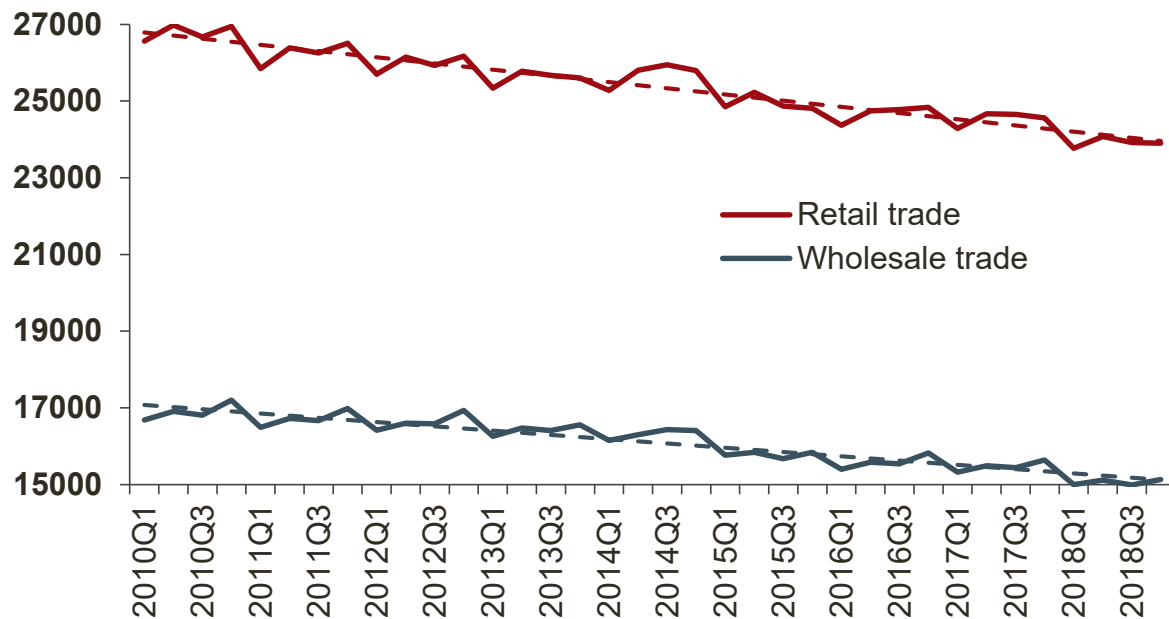
- The financial crisis and the related economic recession hit the Finnish wholesale trade in late 2008 and began to permanently change the business environment and operating conditions.
 - Some traditional wholesalers lost as much as 70 per cent of their turnover in late 2008. Competition for the few customers was international and intense, and the efficiency of operations had to be improved.
 - As the recession eased off, there was no going back to the way things had been. Wholesale customers in Finland and abroad had increased the efficiency of their supply chains and other functions, and they were also faced with international cost competition.
 - Digitalisation and automation make it possible to increase operational efficiency, compete internationally and achieve business growth without having to recruit more labour.
- The change in the operating environment hit the retail trade a little later than the wholesale trade.
 - The Finnish specialty goods trade was faced with more intense international competition in physical channels as well as online. Digital buying grew in popularity particularly in 2010–2012. E-commerce led to more price comparisons and increased awareness of prices, and international online stores practically set a price ceiling for many Finnish specialty goods retailers.
 - International competition was not limited to e-commerce. In physical retail, large international specialty goods chains in categories ranging from gardening to sporting goods competed on substantial economies of scale that gave them an advantage in purchasing power and made it possible for them to engage in intense price competition.
 - During this period of slow economic growth, the increase in purchasing power was sluggish throughout Europe, and competition on costs and prices really intensified in the European daily consumer goods trade in 2013, and later in Finland as well.

What has happened to corporate structure in the commerce sector in the 2010s?

- The number of companies in the commerce sector has decreased in the 2010s.
 - As domestic and international competition intensify, it is clear that some companies will leave the market. Customers, both consumers and businesses, will benefit from a market with only the most competitive companies.
 - The decrease in the number of companies has been greatest in the field of specialty goods trade, where e-commerce and large specialty goods chains have made the cost and price competition more intense. The developments have been more moderate in daily consumer goods and department store trade.
- The number of new enterprises established in the commerce sector is lower than before; entrepreneurship in commerce is declining.
 - New enterprises and entrepreneurs bring new ideas and new competition, increasing the sector's vitality.
 - Traditionally, setting up a new business and employing oneself have been easy in the commerce sector.
 - The number of young companies with a history of under five years has dropped especially in specialty goods trade. Young companies are a significant growth factor in the commerce sector.
- What are the possible consequences of the changes affecting corporate structure in commerce?
 - New ideas and experiments that develop the sector will become rarer as fewer new companies are started.
 - Brick-and-mortar stores (including shopping centres) may become less diverse and turn into a distribution channel for major foreign chains, which may result in the stagnation of domestic commercial innovations.
 - Changes in the corporate structure of brick-and-mortar commerce are also visible in the urban landscape.
 - Foreign online trade will become stronger.
 - More and more wholesale companies that serve small and medium-sized enterprises are located abroad, and purchasing chains are moved out of Finland.

Number of companies in the commerce sector has fallen – despite economic growth

The number of retail and wholesale companies per quarter



Lähde: Kasvukatsaus, Tilastokeskus.

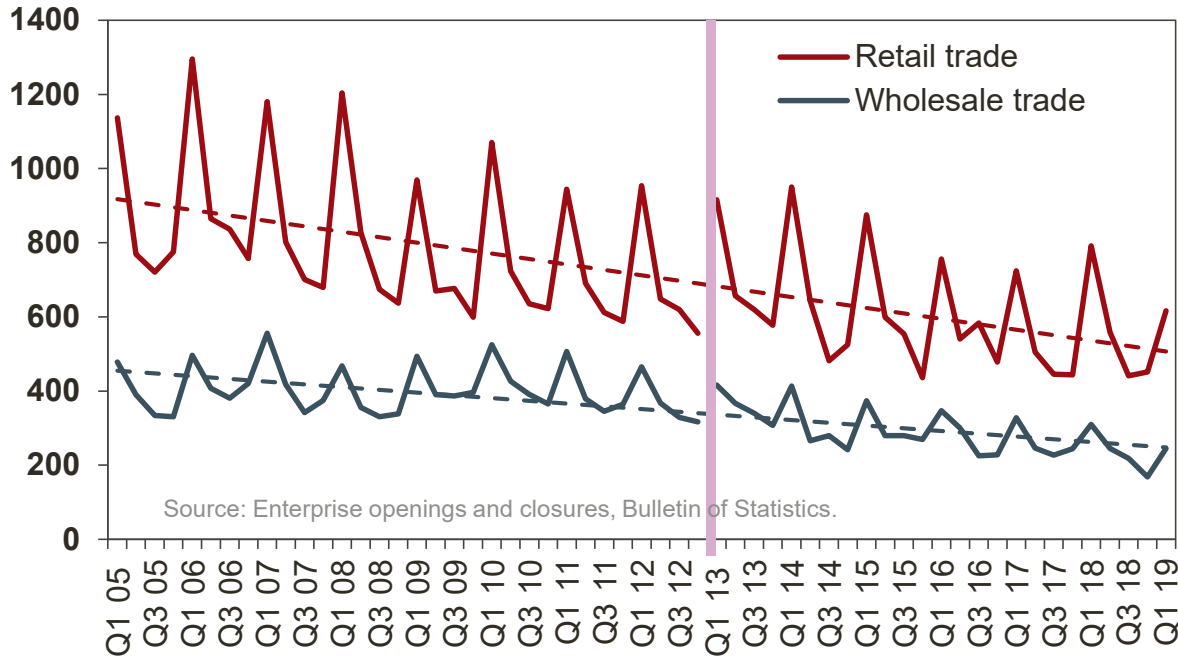
The number of both wholesale and retail companies decreased by 11 per cent from 2010 to 2018.

(Note: The numbers in the Structural business statistics are only comparable in the period 2013–2017. According to the Structural business statistics, the number of companies in wholesale and retail trade decreased more from 2013 to 2017 than indicated by the Growth review data used here.

Please note! The number enterprises varies between the Growth review and the Structural business statistics. Because the time series of the Growth review is longer than that of the Structural business statistics, the data used here is from the Growth review. The definition of an enterprise was changed in 2017 (enterprise unit). The effect on the commerce sector is marginal.

The trend of fewer new companies started in the commerce sector has been going on for a long time – unlike in the rest of the economy

New enterprises by quarter



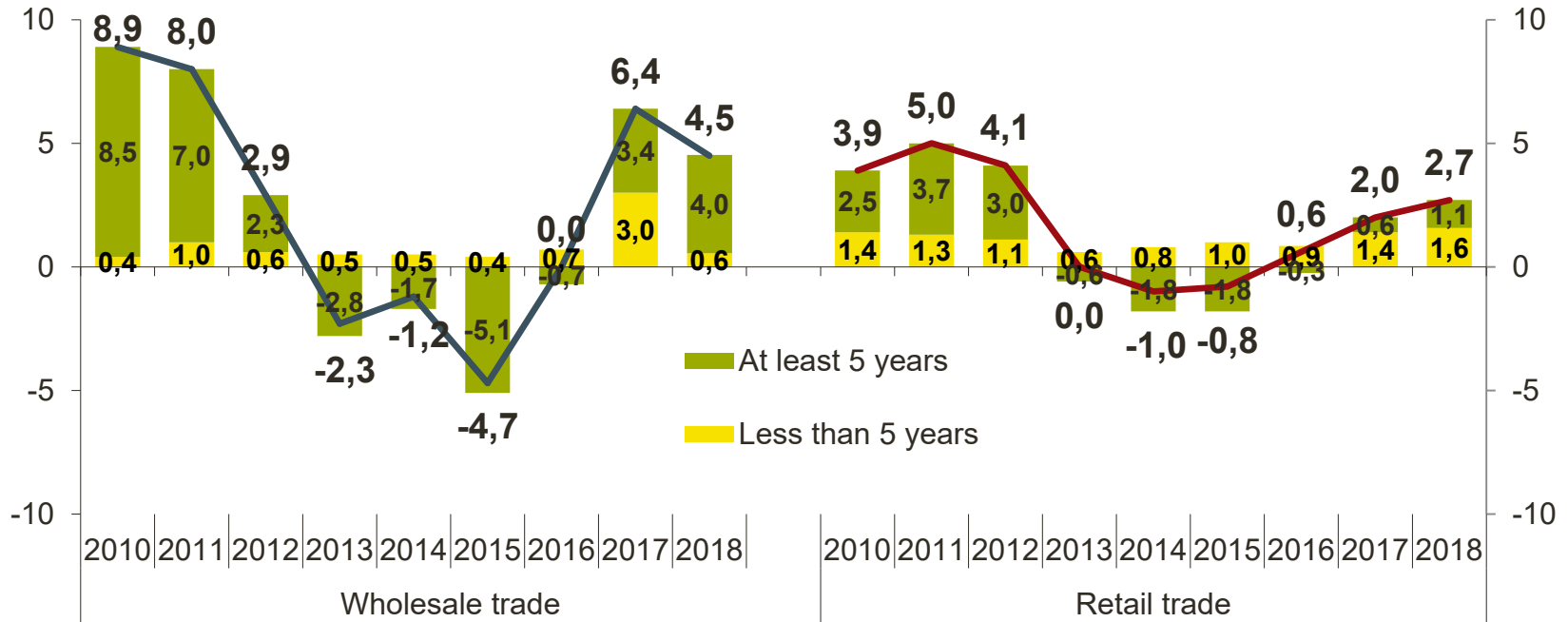
Compared to 2013, the number of new enterprises established in 2018 fell by 19 per cent in retail trade and by 34 per cent in wholesale trade. At the same time, the number of new enterprises in the economy as a whole increased by 16 per cent from 2013.

The first quarter of 2019 saw the lowest number of new retail trade enterprises established compared to corresponding quarters since 2013, and the number fell by more than 20 per cent compared to the first quarter of 2018.

Please note! There is a break in the statistics at 2013. Direct comparisons cannot be drawn on data from before 2013.

...still, the new enterprises have greatly contributed to growth in the sector

Enterprises established less than five years and more than five years ago, impact on growth in the sector, change in percentage points



Factors contributing to the changes in retail trade corporate structure in Finland up to 2030

- Urbanisation
 - As a result of urbanisation, the disappearance of specialty goods stores in population centres and smaller cities will continue and intensify. However, e-commerce will serve consumers everywhere.
 - The centres of smaller cities and population centres will wither and their services will become less diverse.
 - Smaller cities may not have sufficient purchasing power for a diverse range of services and specialty goods.
- Population ageing
 - Even though groups such as baby boomers have plenty of purchasing power, it is not necessarily targeted at retail trade services and will not contribute to retail trade growth.
 - The consumer needs of the older segment of the population may be targeted at health and well-being or travel rather than on food or clothing.
- Digitalisation and internationalisation of commerce
 - As a result of digitalisation and automatisisation, more jobs will disappear than be created in the commerce sector.
 - The competition for consumers will be come more international and increasingly intense. European and Finnish companies may have a hard time competing with global technology giants, especially if their operating conditions are not equal.
 - Compared to smaller companies, large companies – both domestic and foreign – have more resources for developing ways to utilise customer data, digital services, payment options and logistics.
- Economic growth
 - The Bank of Finland predicts Finland's potential long-term economic growth at 1.5 per cent. If the prediction is realised, the growth will be too slow to create conditions for the fast growth of domestic trade.

What about Sweden?

- In Sweden, the corporate structure of retail trade is affected by very similar factors as in Finland. It is no wonder that the predictions on the developments of enterprise numbers are also very similar to Finland.
 - The greatest difference between Finland and Sweden is that the retail trade market in Finland is still adjusting to unregulated opening hours and the resulting changes in the competition. In Finland, the old opening hours legislation regulated, for example, construction near service stations or in similar environments outside population centres, and provided shops in some areas with a competitive advantage.
 - The other significant difference is that the population is ageing at a slower rate in Sweden. In Sweden, the potential for the growth of private consumption is greater than in Finland.
 - The third major difference is that in urbanisation in Sweden has progressed further than in Finland.
- Svensk Handel predicts that over the 2017–2030 period, the number of retail stores will decrease by around 20–35 per cent and the number of specialty goods stores by as much as 30–50 per cent. The number of daily consumer goods shops might even rise slightly.
 - According to the Svensk Handel forecast, the biggest causes for the decrease of specialty goods shops are the digitalisation of commerce and foreign e-commerce.
 - The wide range in the forecast is due to different expectations concerning the volume of purchases that households make abroad.
- According to Svensk Handel's forecast, specialty goods trade will lose 15–30 per cent of its jobs from 2017 to 2030. At the same time, the number of people employed by daily consumer goods trade might even grow, so overall, retail trade will lose 6–16 per cent of its employees.

Factors affecting wholesale trade in Sweden and Finland

- According to Svensk Handel, wholesale trade in Sweden is already efficient, highly digitalised and internationally competitive. The growth of wholesale trade is also supported by the growing economy, consumption and investments. Therefore, wholesale employment in Sweden is expected to grow by 13,000 employees from 2017 to 2030.
- Automatisations will continue and become more integrated in the wholesale trade in both Sweden and Finland, resulting in, for example, a decrease in the number of warehouse workers. In the future, automation will change the entire logistics chain (e.g., self-driving cars), but it is still unclear how and when this will happen.
- Retail trade, industry and other sectors will trim their supply chain and acquire goods and services from outside the traditional wholesale trade. Small, unspecialised wholesale companies in particular may have a hard time offering a cost-efficient alternative to short supply chains and the economies of scale of large wholesale companies.
- For now, Sweden's geographic location has attracted large central warehouses and logistics centres in areas like Southern Sweden, offering deliveries to other Nordic countries as well.
 - The economies of scale and fast deliveries to the Nordic countries and elsewhere in Northern Europe offered by large operators create a competitive edge for wholesale trade in Sweden in comparison to Finland.

Assumptions related to the Finnish forecast

- The forecast is based on the developments that are described in the earlier slides. The developments have already affected the trade markets since 2009, after the financial crisis.
 - *Annual economic growth at 1.5 per cent until 2030 (long-term economic forecast by the Bank of Finland).*
 - *Household consumption will grow at an annual rate of 1.4 per cent until 2030. Slightly over 40 per cent of the growth will be directed at the consumption of retail goods.*
 - *Consumers' digital purchases will grow at an annual rate of around 10 per cent.*
 - *The forecast does not anticipate any sudden economic or technological shocks, financial crises, trade wars or similar events; rather, it is based on the continuity of the steady development experienced since the financial crisis.*
 - *Therefore, the forecast describes a possible trend if the economy keeps growing along its track of potential growth and no large structural changes, business cycle fluctuations or other shocks take place.*
- PLEASE NOTE! The percentual change in employment in the forecast's basic track is very similar to the prediction made by Ahokas et al. on the developments of employment in the commerce sector from 2013 to 2030 (Ahokas et al., 2015: Työvoiman tarve Suomen taloudessa vuosina 2015–2030, VATT Research Reports 181).
- If economic growth and private consumption grow at a lower rate than expected, or, for instance, foreign e-commerce takes over a bigger share of the market than anticipated (e.g., Amazon arriving in the Nordic countries), the development track will likely be more negative. This is represented in the alternative retail trade calculation 2030 B.
 - *The annual growth of household consumption expenditure is one per cent.*
 - *The consumption of household goods will only grow via digital channels.*



Further information:

Jaana Kurjenoja

Chief Economist

Finnish Commerce Federation

jaana.kurjenoja@kauppa.fi

tel. +358 40 820 5378

