Dunelm enjoys shoppers' spending spree – as inflation hits 2.5%

Shoppers went on a spending spree in Dunelm stores as the most recent lockdown measures started to ease, new trading figures show.

The chain said pent-up demand saw customers spend more than £380 million on its homeware products in the last three months – almost 44 per cent up on the same period in 2019, before the pandemic struck.

It said digital sales continued to support growth, buoyed by the April reopening of stores.

Total sales for the year are expected to be around £1.34 billion, up around 26 per cent on a year earlier.

The chain, which is based in Syston, just outside Leicester, recently committed to two additional distribution facilities, at a cost of £12 million, to create extra capacity for future growth.

It said profits for the past year were on track to be "slightly ahead" of analyst predictions.

Bedding, curtains, bathroom textiles and cushions all saw positive sales over the quarter as shoppers continued to spruce up their homes.

Dunelm said it had seen stocks return to normal levels after the surge in demand but had continued to experience disruption in its global supply chain due to the pandemic.

The chain is a major player in the £14 billion UK homewares and £12 billion UK furniture markets, with 175 stores and a workforce of around 10,000 people.

It comes as new figures showed UK inflation hit its highest for almost three years in June on the back of increases in the prices of food and motor fuel.

The Office for National Statistics said the Consumer Prices Index rose to 2.5 per cent from a figure of 2.1 per cent the previous month, moving further away from the Bank of England’s 2 per cent target.

The official figure again overshot the expectations of analysts, who had predicted that it would rise to 2.2 per cent for the month.

It is also the highest inflation rate since the UK saw a 2.7 per cent rise in August 2018.

The Bank of England has warned that inflation could hit 3 per cent by the end of the year.

Nick Wilkinson, Dunelm’s chief executive, said: “Although our stores were closed for more than a third of the year, our strategy of investing in our digital capabilities allowed us to adapt to the changing environment and deliver strong growth.

“From what we have learned during the pandemic about our customers, colleagues, suppliers and our other stakeholders, we are more confident than ever about the opportunity to increase our market leadership and we will invest further in our proposition to support our growth ambitions.

“With many exciting developments in the pipeline to make us the first choice for home, and grow our customer base and frequency, there is a lot to look forward to.”

Dunelm shares dipped 3 per cent to £13.96 in early trading which Danni Hewson, a financial analyst at stockbroker AJ Bell, said was due to the business having to spend more to stay competitive.

Ms Hewson said: “Success with online sales has warranted investing in more warehousing and distribution infrastructure.

“That means a cash outlay now, but the potential to support much higher levels of the business in the future, so a wise investment.

“The market doesn’t always see it that way. Investors are often too short-term in their thinking. Indeed, that seems to be the case with other points in Dunelm’s trading update.

“Delaying its summer sale into the new financial year means the recent fourth quarter period had better margins than expected as it didn’t have the dilution effect of offloading products at lower prices.

“But that means the 2022 financial year will have three sales instead of the traditional two, thus a hit to margins. This is only a one-off impact and nothing to really worry about.

“Concerns about ongoing disruption to the supply chain means inventories will rise to ensure that it has enough stock to meet demand.

“That will push up storage costs and no doubt gobble up working capital, but fortunately that can be partially balanced by working capital benefits in the financial year just ended.

“The key takeaway from Dunelm’s latest update is that sales have remained strong beyond the initial reopening spending splurge that we saw as consumers were allowed back into shops, and they had cash ready to spend.”