

Retail giants face food price hikes dilemma after budget

Two of Britain's biggest food retailers will this week face pressure to publicly disclose whether they expect a fresh spike in prices next year as the industry grapples with huge tax hikes imposed in last week's budget.

Sky News understands that Marks & Spencer (M&S), which will unveil half-year earnings on Wednesday, and J Sainsbury, which reports interim results the following day, are collectively facing an additional bill of close to £200m as a result of changes to employers' national insurance contributions (NICs) announced by Rachel Reeves, the chancellor.

Industry sources said the pressure on pricing would be "intense" given the thin margins on which the big supermarkets already operate.

"Food price increases from next April are inevitable," said one.

The warning comes a day after Ms Reeves told Sky News that "businesses will now have to make a choice, whether they will absorb that through efficiency and productivity gains, whether it will be through lower profits or perhaps through lower wage growth".

Pointedly, she did not highlight the prospect of higher prices at the tills, with some retailers now weighing whether to explicitly blame the government for impending price increases – a move which will trigger renewed inflation in the UK economy.

The grocery industry is expected to be among the hardest-hit by the changes to employer NICs, particularly after the chancellor slashed the threshold at which businesses become

liable for it to just £5,000.

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Tens of thousands of people employed part-time in the sector earn between that sum and the current threshold of £9,100.

The first major retailer to report financial results since the budget will be Primark's parent, Associated British Foods (ABF), on Tuesday.

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Insiders downplayed the risks of price hikes from Primark given its track record of absorbing inflationary pressures without passing them on to consumers.

ABF's additional employer NICs bill is expected to be in the region of £25m, according to one analyst.

Overall, the retail sector could end up paying billions of pounds of additional tax given the scale of its workforce.

Ms Reeves has vowed to raise £25bn extra annually from the changes to employer NICs.

In addition to that, the rise in the national living wage will add a further burden to the financial pressures facing the retail industry.

Prior to the budget, Stuart Machin, the M&S chief executive, urged the chancellor not to increase taxes on it, calling them "a short-term, easy fix".

"When I hear about plans to increase national insurance, a tax with no link to profit which hits bigger employers like us and our smaller suppliers, I'm concerned.

"The chancellor was right in the past to call national insurance a tax on workers."

Jonathan Reynolds, the business secretary, will hold talks with British business leaders later on Monday about the impact of the budget.

A number of executives will be given the opportunity to ask questions on a call in which more than 100 companies are expected to be represented, although one boss who is critical of many of the budget measures said they were likely to be prevented from voicing their concerns publicly on the call.

ABF, M&S and Sainsbury's all declined to comment.