

Q2

AUGUST
2019

Retail Ireland Monitor

Soft
Summer
dampens
sales

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Retail sales steady, but lacking in sparkle

As summer begins to slip into the rear view mirror and thoughts of holidays and summer camps fade, back to school season comes into view and with it a chance to take stock of what has been a mixed year thus far for the retail sector. While, fortunately, there were no major weather events so far this year, it was the nonappearance of any meaningful warm spell of weather that has been the major influencer of retail sales so far this year. A relatively wet and below par summer in comparison to last year's balmy weather has kept sales in the sector muted, but steady. Retailers will still hope that an Indian summer can bring a late bounce to sales in early September.

The other major influencer of retail sales in the first half of 2019 has been Brexit, and most particularly the influence of Brexit related coverage on consumer sentiment. While there was some respite for consumers from the almost daily news reports on Brexit over the summer following an extension to the Article 50 process that was agreed in April, the general consensus is that we are now facing into another period of Brexit fever over the coming weeks. Many will have found the recent respite from Brexit coverage to be a relief; as media reports on impending Brexit difficulties reached saturation point during February and March. It is very clear that this sense of Brexit related anxiety was also influencing consumer behaviour in the lead up to the April deadline, with consumer sentiment softening significantly as the deadline approached. It is also clear from the CSO retail sales data that the industry received a bit of a bounce in the immediate aftermath of the extension as consumer sentiment rebounded somewhat .

Big ticket items such as DIY and home furnishings and furniture categories saw significant growth in Q2 as consumers, who were holding off on bigger purchases prior to the April extension of the Article 50 process, decided to make those previously postponed purchases. The fear now however is that we will face into another period of slow sales over the coming weeks as Brexit related clouds are gathering on the horizon once more. They say timing is everything in business, and coming as it does in the run up to peak, the timing of this particular Brexit cliff could not be much worse.

It is fair to say that since Boris Johnson was appointed Prime Minister of the United Kingdom in June, there has been heightened awareness that a more intransigent position will be adopted by the UK Government in relation to the Withdrawal Agreement and more generally with regard to UK negotiations with the European Union. The EU has always said that the agreement that is on the table now is the only option and there will be no new negotiations. Boris Johnson, who was one of the leading lights of the Vote Leave Campaign, has said that he is prepared to embrace a no deal Brexit on the deadline of October 31 and has ruled out the notion of any extension to that date. This ramping up of rhetoric around the possibility of a no deal outcome in the media in recent weeks, has again led to a softening of consumer sentiment with the index dropping from 93.1 in April 2019 to 87.7 in June. This softening consumer sentiment, along with the continued slide in the value of Sterling will make it a challenging environment for the retail sector in the months ahead.

But it is not all bad news for the retail sector. Domestically we have seen some good progress made in the areas of concern for the sector in recent months. The requirement for reform of the personal injury awards regime has been discussed at lengths in recent years. In June we saw the long-awaited passage of the Judicial Council Act, which it is hoped will curb some the inflated awards for personal injury claims into the future and help bring awards back into line with international norms. Now that this act has been passed it is vital a Judicial Council is established as soon as possible. Retail Ireland will continue to press the requirement for urgency in this area over the coming months.

Retail is always a sector that has adapted to challenges in the past and will do so again in the months ahead, we face into an uncertain period which will likely determine the industry fortunes in 2020 and beyond.



Thomas Burke

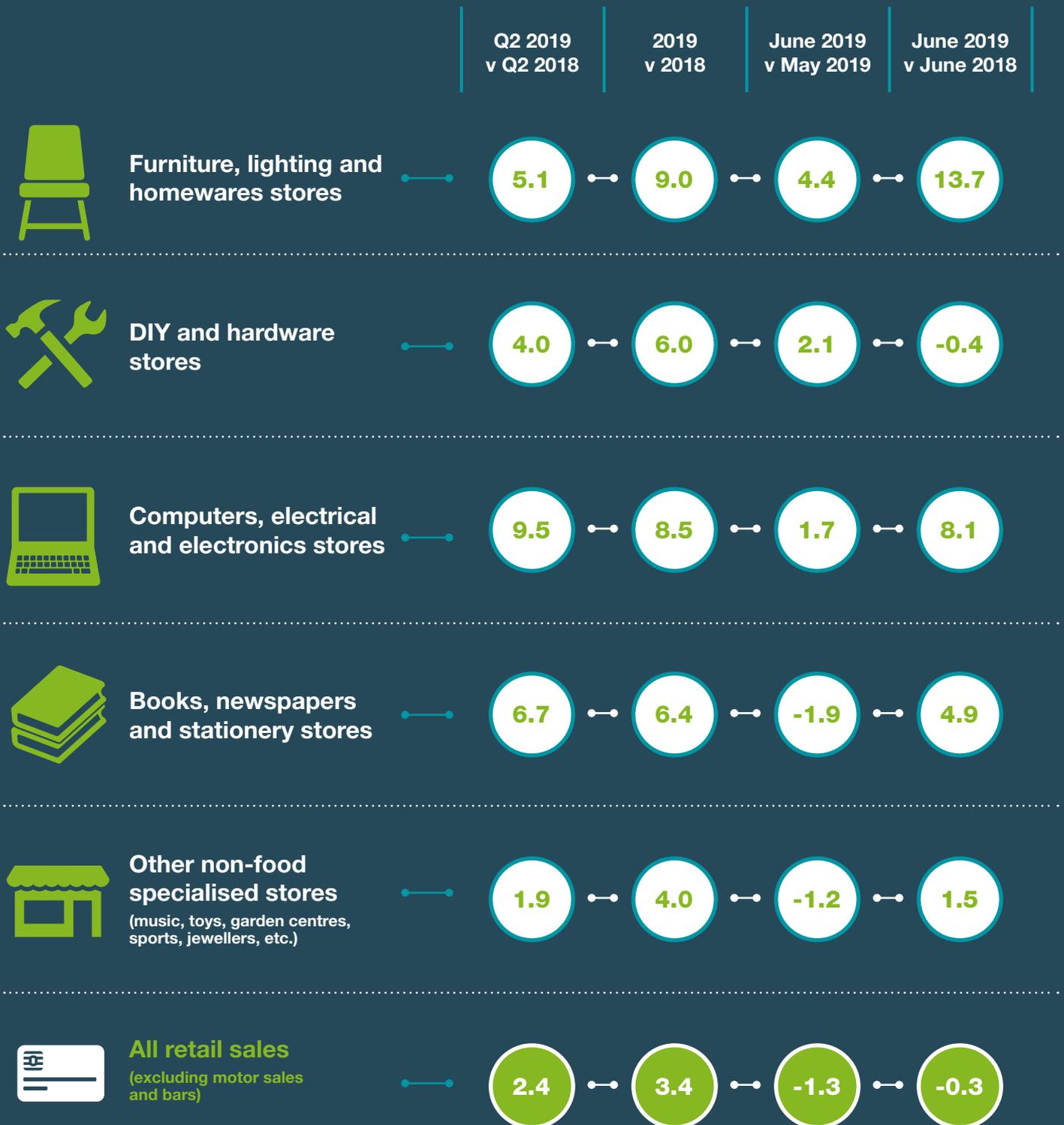
Director

thomas.burke@ibec.ie

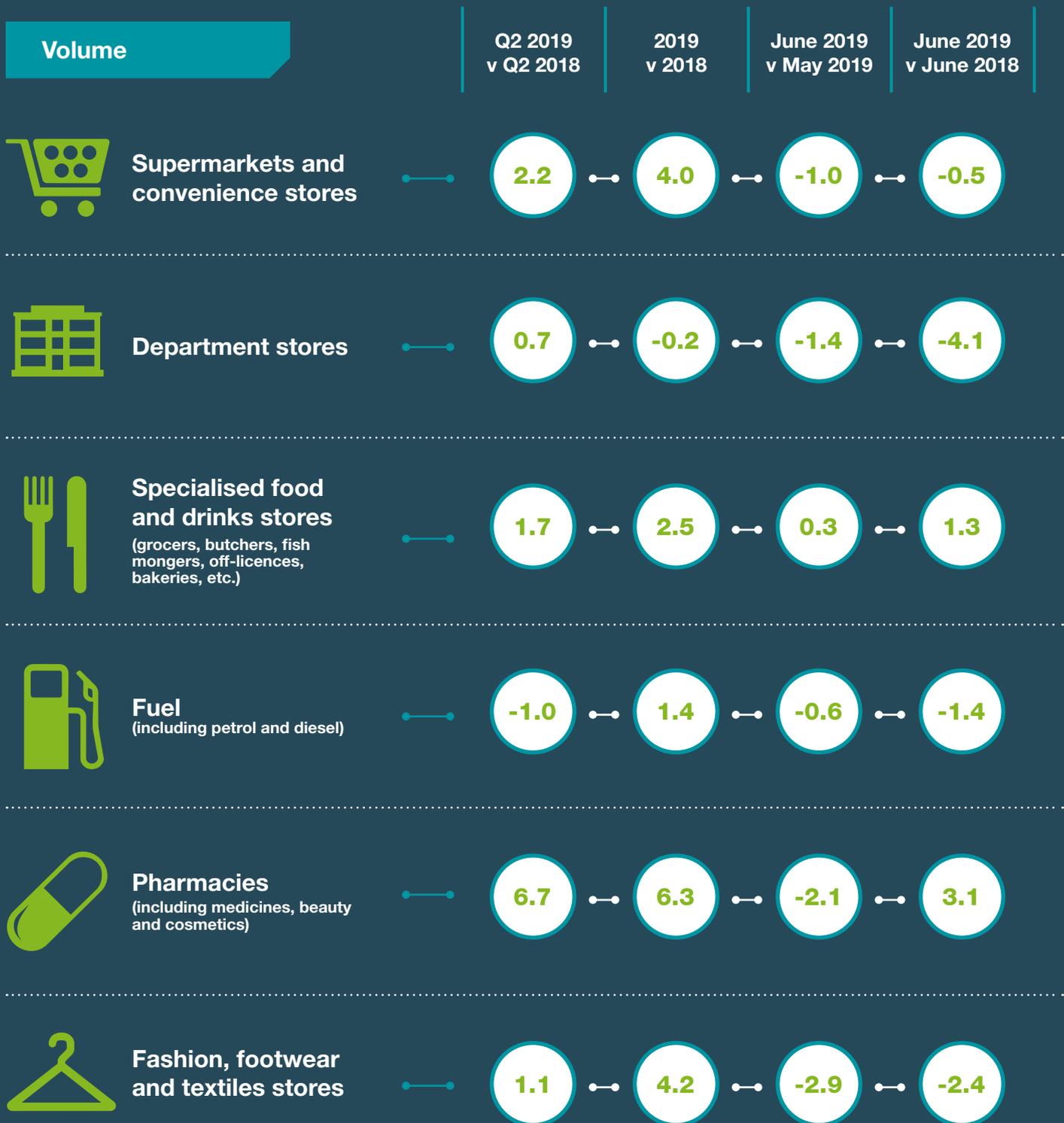
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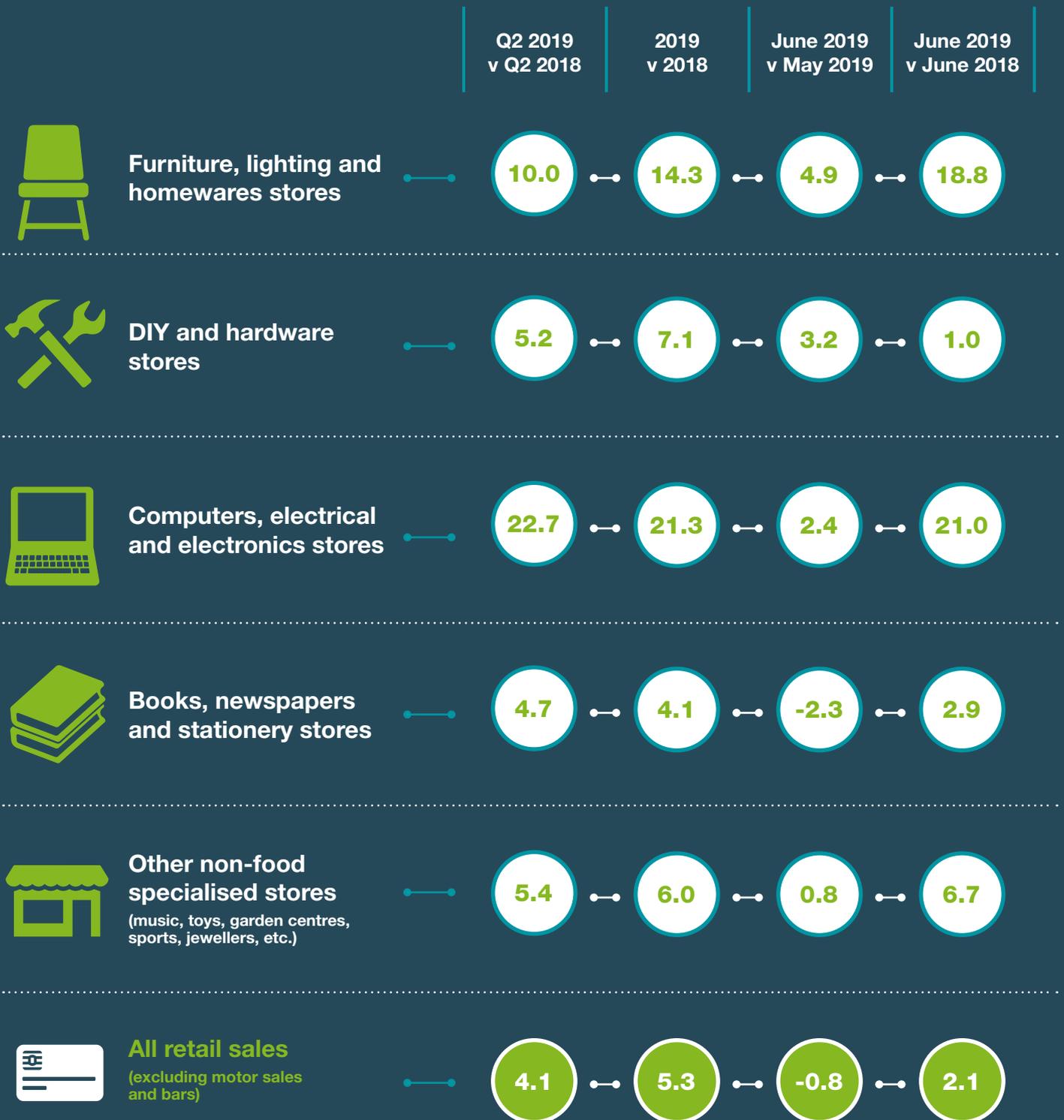
Value of Irish retail sales – as at June 2019





Volume of Irish retail sales – as at June 2019

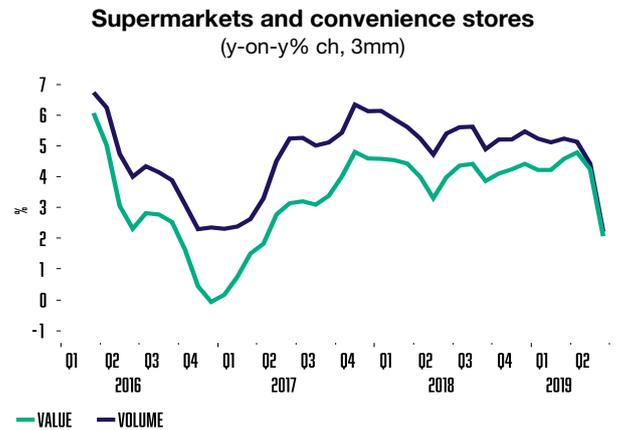




Category analysis

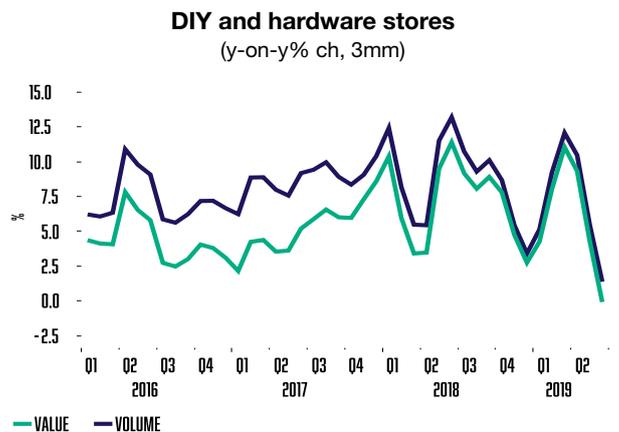
Consistency and convenience dominates Supermarket trade

Supermarkets and convenience stores show strong value and volume growth for the 6 months to June 2019 when compared to the same period last year. However month on month the sector is showing a fall between May and June 2019, and between June 2019 and June 2018. While weather and events are contributory factors the falling levels of consumer confidence levels in advance of Brexit could also be starting to bite



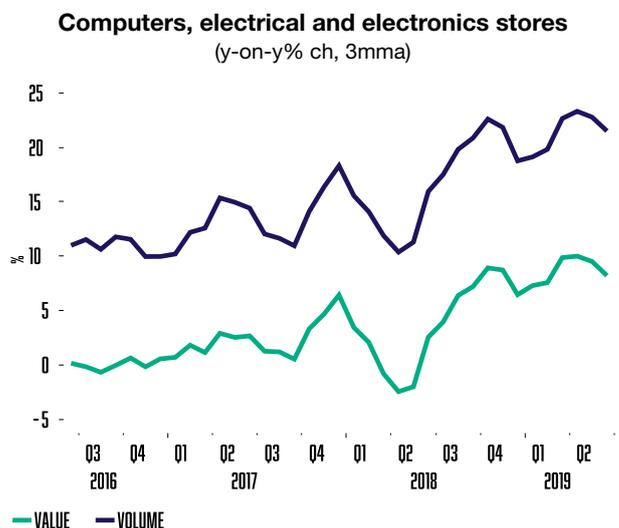
Subdued quarter for DIY and Hardware

After a robust Q1, the second quarter was a little more subdued in the DIY and Hardware sector. With gardening related categories so dominant in the April to June period, it was always unlikely that the weather conditions, which turbo charged 2018 demand, would be repeated. And so it proved, with growth struggling to materialise in the period. However, half year growth remains solid, with underlying demand in non seasonal categories continuing to point to a consumer that is confident to invest in home related categories.



Electrical Goods continue robust trend

The Electrical and Home Computer category continued to post a strong performance in this quarter, with sales values in the three months to July posting growth of 8.5% with volumes growing at 21.3%. As is obvious from these figures, there remains a significant gap between sales value growth rates and that of sales volumes, further highlighting the entrenched discounting trend, which has dominated this category for a considerable period.



Category analysis

Book prices on the up

The Books, News & Stationery category has shown improvement on Q2 last year due to a mix of price inflation and stable volumes. Price inflation is driven by increases in cover prices in both books and newspapers. Stationery price inflation has been largely driven by commodity price increases over the period. The later timing of Easter moved volumes from Q1 to Q2, delivering a strong April performance year on year in this sector.

Books, newspapers, stationery stores
(y-on-y % ch, 3mma)



Mixed quarter for beauty products

Despite a mixed performance across the quarter, the April to June period saw moderate growth in the Pharmacy category. Following a strong performance in May June sales were significantly softer, largely due to the annualising of sales against good weather last year. Seasonal healthcare performed well in Q2 with hayfever and cough/colds delivering strong sales. Beauty performance in May was strong benefitting from new product development, whilst personal care, particularly sun care, has been impacted by lower temperatures this year.

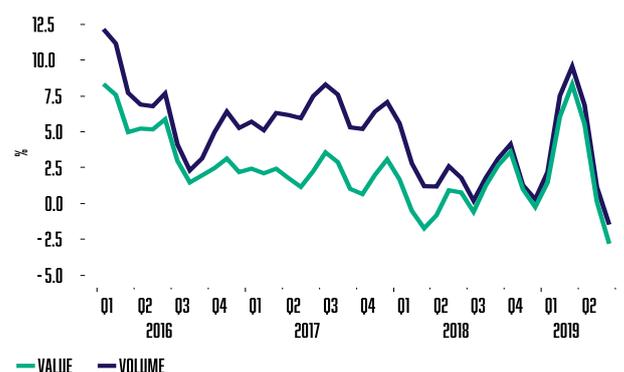
Pharmacies
(y-on-y % ch, 3mma)



Fashion sales soft on poor summer weather

Sales values and volumes in the fashion, footwear and textiles category fell back in the second quarter of 2019, posting declines of 3.6% and 2.4% respectively when compared to the same period a year earlier. Poor summer weather when compared to the same quarter last year has clearly taken its toll. These figures underline the important role weather plays in driving sales in these categories and the delicate seasonality of the trade.

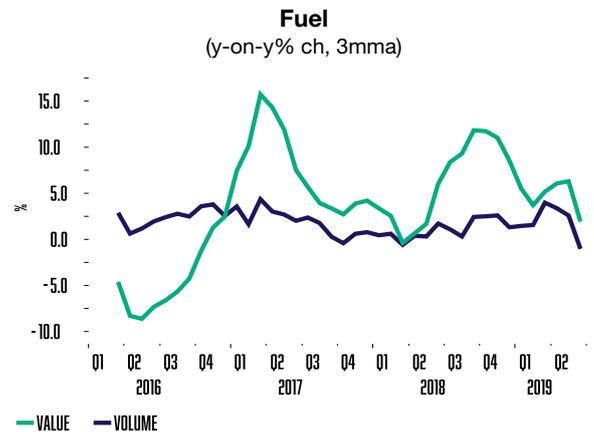
Fashion, footwear and textiles stores
(y-on-y % ch, 3mma)



Category analysis

Fuel prices rise as consumption remains steady

Retail fuel prices increased significantly during April and May 2019, before reducing slightly in June. Overall, average retail prices for the full quarter were roughly 8c higher for unleaded and 0.5c higher for diesel than the averages for Q2 2018. Consumption increased slightly year-on-year despite the increase in retail prices, with a year on year increase of 2.69% reflected in the National Oil Reserves Agency (NORA) statistics to the end of June 2018. It should be noted that the NORA statistics are based on volumes from all sectors rather than just retail fuel sales, but are still considered a reasonable measure of year on year trends at forecourts.



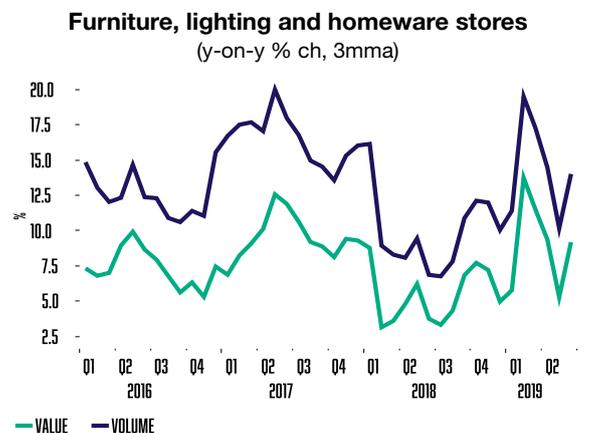
Subdued quarter for Department Stores

After a relatively robust first quarter of the year; sales in department stores dipped in the second quarter of the year with sales values posting a decrease of 6.7% when compared to the same period last year, with volumes decreasing by 4.1%. Tourism and luxury purchases are a major factor in this sector and we can see that seasonality of trade dominates. This sector continues to be challenged by growing online sales. There is no doubt that poor weather has also had a detrimental impact in Q2.



Consumers continue to invest in their homes

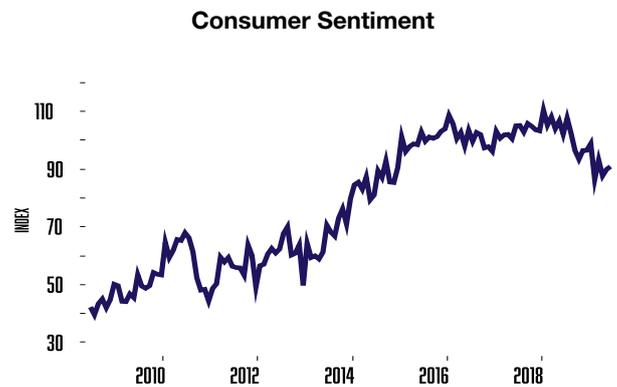
For the second quarter in a row there has been a marked increase in the value and volume of sales in this category, with the value of sales increasing by 13.7% and sales volumes increasing by 18.8% on the same period last year. While this category is a little more insulated from the impact of weather and seasonality than others, it is clear that the poorer weather this summer may in fact have driven sales upwards as consumers were more inclined to embark on shopping trips this Summer. Furthermore there appears to have been a move by consumers to purchase big ticket items in Q2, purchases were postponed in Q1 due to Brexit related fears.



Macro trends

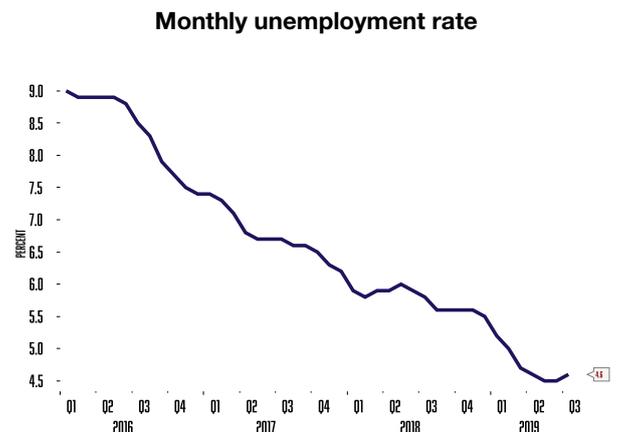
Consumer sentiment showing weakness

In the first quarter of this year there was a slight uptick followed by a plateauing of consumer sentiment as Brexit related news took a backseat in the media following the extension to the Article 50 process agreed in April. With a new Prime Minister now in place in the UK concern is growing once more that a 'no deal Brexit' is once more a very real prospect. It would appear that consumers are responding to that with consumer sentiment taking a tumble from 93.1 in April 2019 to 87.7 in June. As rhetoric around a no deal scenario continues to ramp up in the coming weeks and months, we can expect to see further falls in consumer sentiment as the public become nervous about what a 'no deal Brexit' might mean for them.



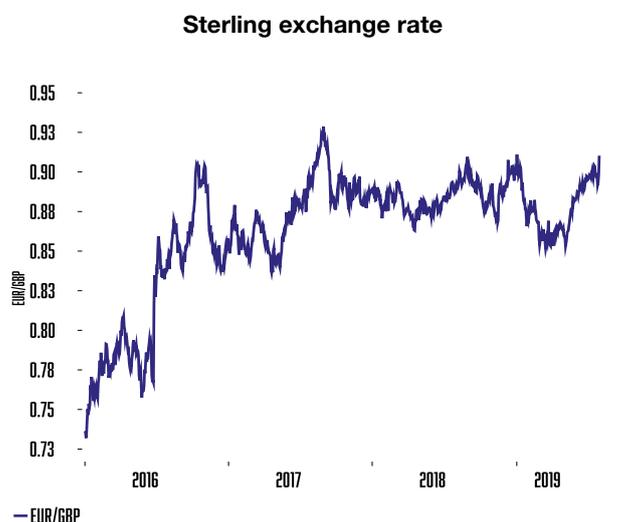
Unemployment continues to fall

Standing at 4.6%, the Irish unemployment rate is at its lowest point in over 10 years. The Irish economy has now statistically reached full employment, and while this development is to be welcomed, full employment does bring with it its own challenges for business, such as growing wage demands. Employee retention can also be a challenge in this environment and many retailers are continuing to invest in their workforces by increasing spending on training and upskilling and providing new learning opportunities as a direct response to this challenge. Youth unemployment continues to be a concern however, with the rate remaining stubbornly above 10%.



Sterling slides as Brexit bites

Pound Sterling versus the Euro has dropped to a two year low of 92.9p to 1 euro, this drop is believed by many leading economists to be directly due to the increased speculation of a "no deal" Brexit. As the value of sterling drops against the euro this will also have a significant effect on retail business in Ireland. Online shopping has become a mainstay of the Irish retail economy with the vast majority of purchases being made from the UK. Many Irish consumers will now be able to take advantage of a favourable exchange rate when purchasing from websites based in the United Kingdom. Speculation on the international currency markets; that with further Brexit uncertainty the Pound could drop to near parity or even parity with the euro. This will have profound effects on the Irish retail sector.





retail@ibec.ie
www.retailireland.ie
www.ibec.ie