

Q3

November
2019

Retail Ireland Monitor

Retail holds
firm despite
Brexit
uncertainty

Brought to you by



Retail
Ireland
Ibec

Consumer nervousness limits retail growth

As we move steadily through the autumn season and dark wintery nights start to become the norm, the retail sector readies itself for the pinnacle of the trading season. It is an opportunity to look back at the year thus far and to take stock and evaluate what the third quarter of the year delivered for the retail sector in Ireland. Many in the retail sector were hoping that the back to school period would provide cause for optimism ahead of the key final quarter of the year, after what could only be described as a lacklustre summer trading period. Since 2016, the issue of Brexit has been a constant concern for business and consumers alike and with the recent extension of planned exit of the United Kingdom from the EU agreed for the 31st of January 2020, it seems that this issue will remain in the forefronts of people's minds for a little while longer. The extension to January 2020 has given some respite to the retail sector as it prepares to enter the biggest shopping season of the year, but this is only a momentary one as all eyes will once again be trained on the UK as the country goes to the polls on December 12th. This election in the UK will be a seminal one as it will define what type of Brexit; if any will be agreed by the January deadline. Added to this we now have the prospect of Brexit uncertainty continuing over the most important trading period of the year, Christmas.

On reflection, while the spectre of a Brexit deadline of October 31st loomed large in the minds of many consumers on this side of the Irish Sea in recent weeks; official retail sales data would suggest that it hasn't hugely impacted sales in the period. While consumer sentiment indicators have tumbled in the third quarter of 2019, CSO data would suggest that consumer spending habits have remained consistent across many categories of retail, with both sales values and volumes posting increase in all but one retail category. However, while these top line figures are robust, digging a little deeper does give a slightly more nuanced picture of trading patterns in the sector. One constant in the Irish retail landscape for some time now has been the trend of deep discounting. Regardless of the category it does appear that Irish consumers and by default Irish retailers, are now addicted to price promotion as a sales driver and generator. The ultra-competitive nature of the sector is in evidence once again in this quarter's CSO data, with retail sales volume growth still running significantly ahead of that of sales values. This continues to pose a challenge for the retail sector, one which is likely to be exacerbated in the coming weeks as we approach the landmark discounting periods of Cyber

Monday and Black Friday. Consumers are ever increasingly seeking discounting and sales throughout the year not just confined to these two periods which have become a main stay of the retail calendar in Ireland.

The recently announced Budget 2020 package was largely uneventful from a retail perspective, doing little to help or hinder the sector in the main. One area of note was the further increase in carbon taxes and other revenue raising measures, which will have an effect on the competitiveness of the retail sector and the availability of disposable income for consumers in the next calendar year. The vast majority of consumers got very little in the way of tax relief to assist their day to day spending needs in budget 2020. A further measure of note arising in the immediate aftermath of the announcement of Budget 2020 was the decision by Government to suspend the proposed 3% increase in the National Minimum Wage until after Brexit has been settled. Presumably we are now looking at February 2020 at the earliest for any change in the base rate. The retail sector has consistently been one of the best paying sectors of the economy, but an increase in the National Minimum wage rate over and above and the rate of inflation will inevitably put pressure on an already finely balanced industry.

It must be said that the retail sector in Ireland is not facing structural crisis that the sector is facing in the United Kingdom. Irish consumers are increasingly discerning and will shop around for value for their money and while nervousness in relation to Brexit remains a challenge that we must overcome; on the whole consumers are willing to spend their money in the domestic economy, albeit cautiously. That is not to say, however, that the sector does not face many challenges in 2020, but it is creating employment for over 300,000 people in Ireland and it is in relatively good health. This is largely in spite of the current economic and political atmosphere, not because of it.



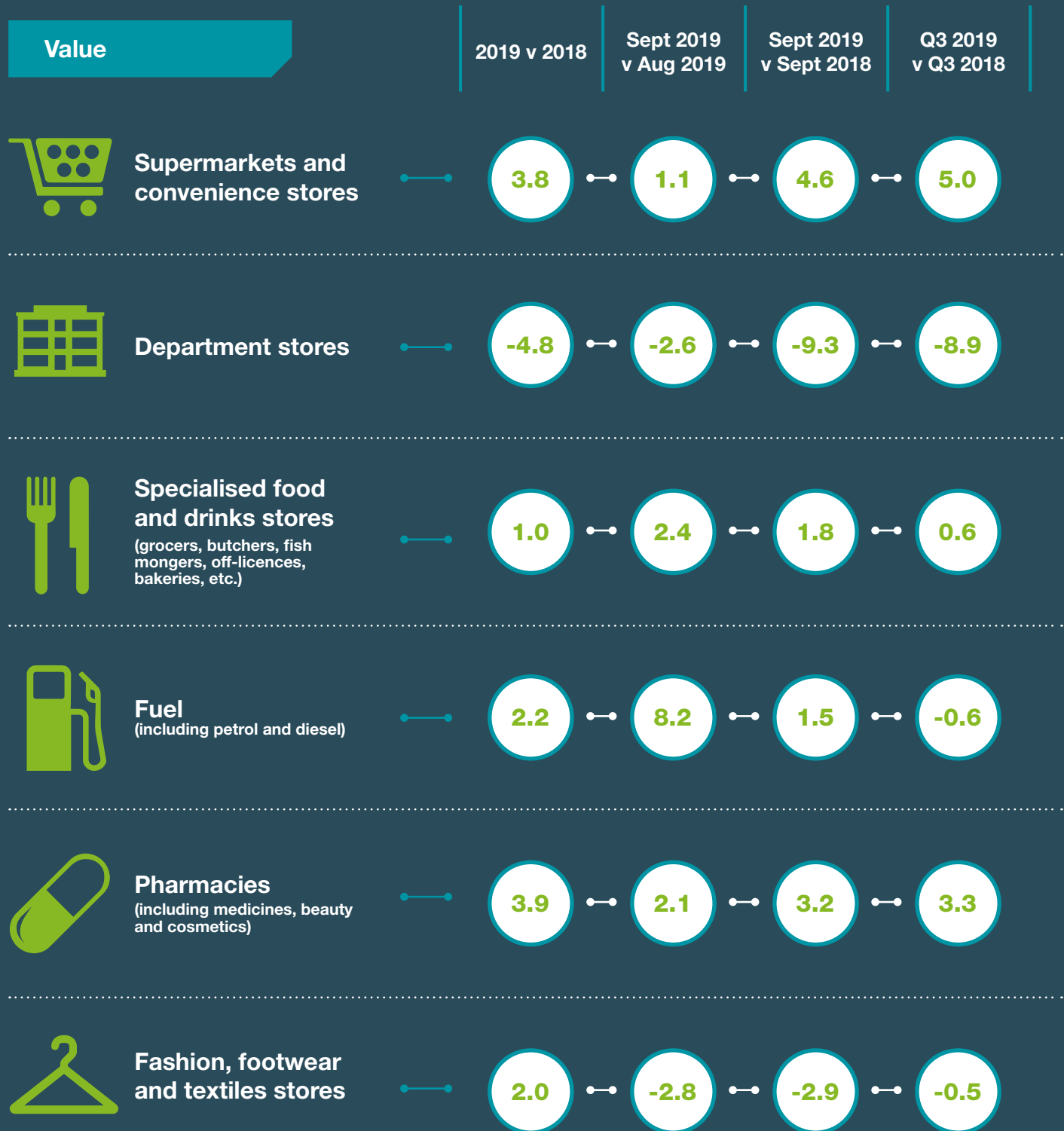
Thomas Burke

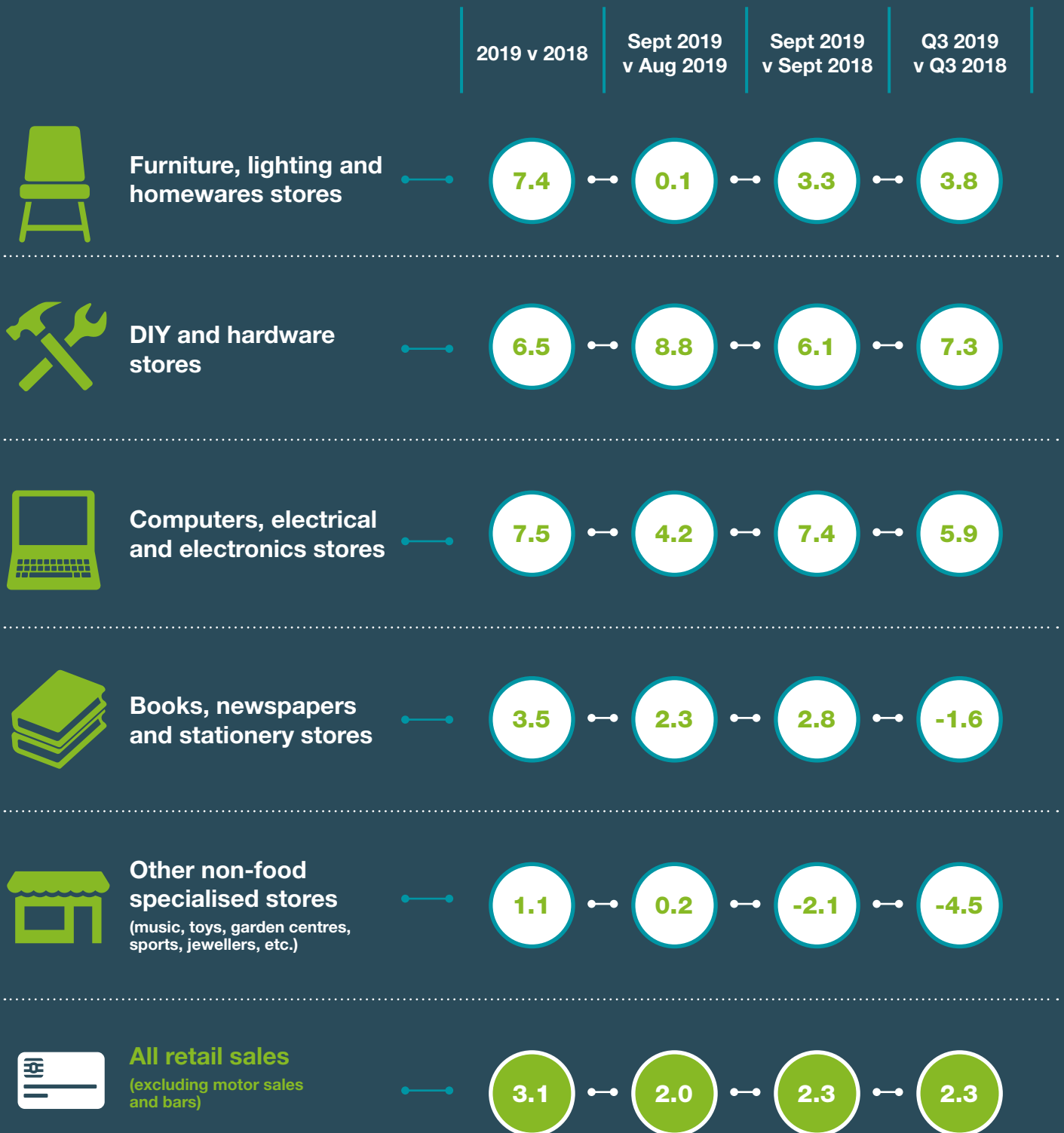
Director

thomas.burke@ibec.ie

01 605 1558

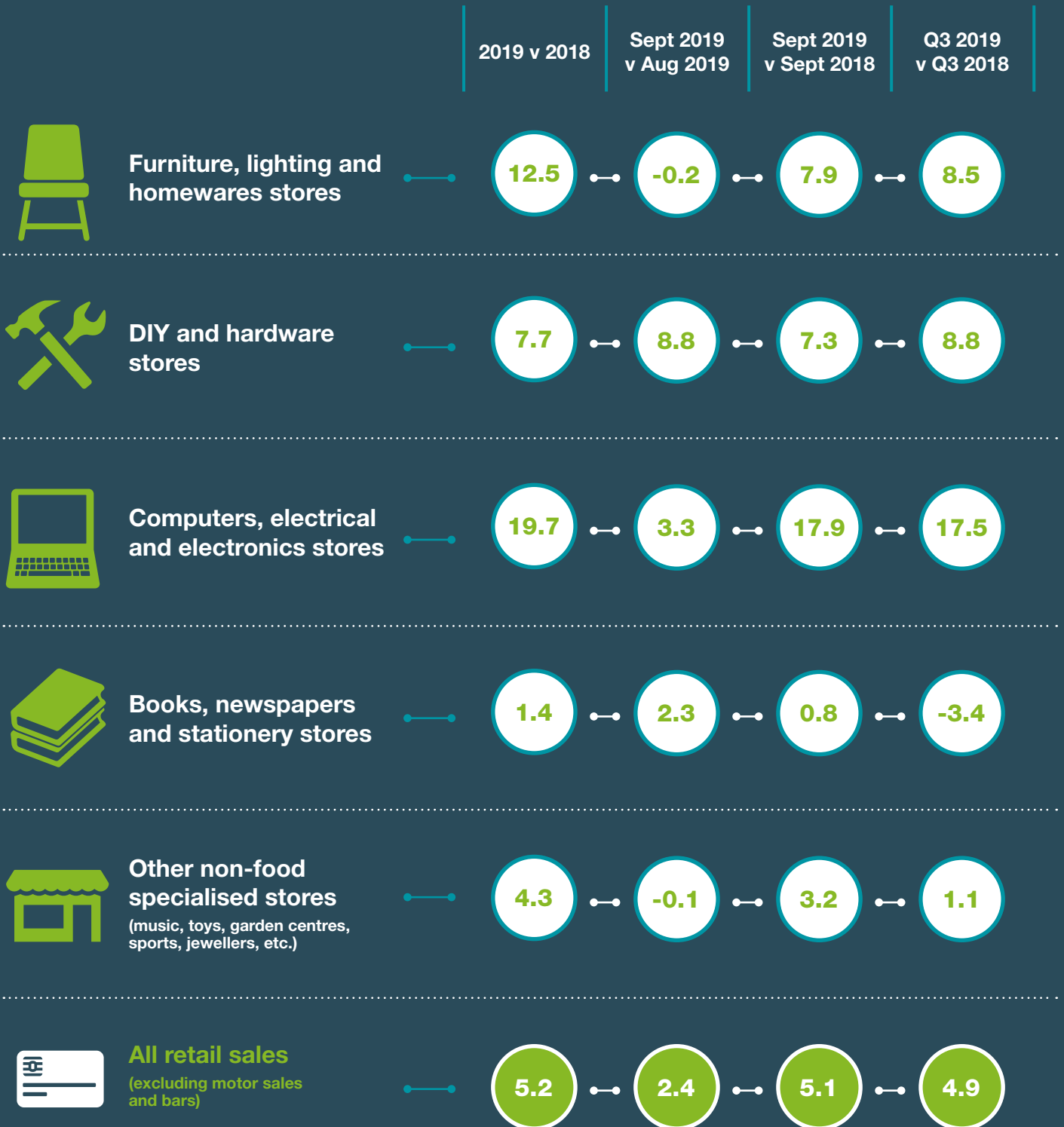
Value of Irish retail sales – as at September 2019





Volume of Irish retail sales – as at September 2019

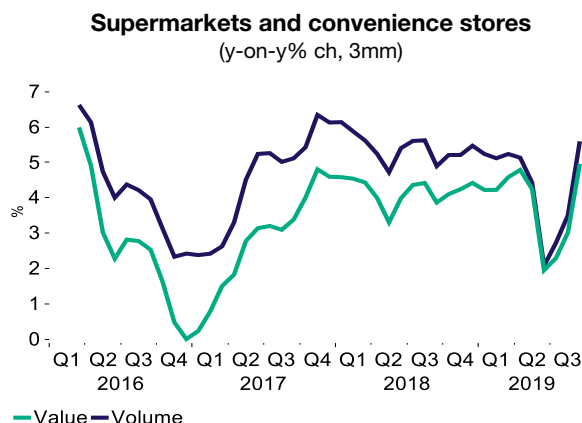




Category analysis

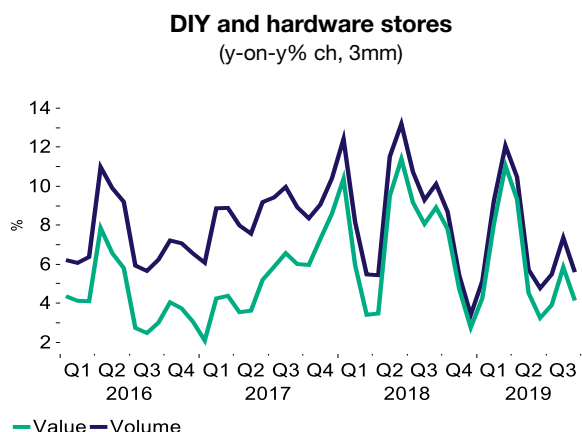
Convenience remains the bedrock of growth

The performance of Supermarkets & Convenience Stores in Q3 has been strong. At the end of September, this category grew by +4.6% by value and +5.3% by volume year on year. This growth is not evenly spread however, with convenience stores faring better than supermarkets and within the supermarket sector, hard discounters faring better than traditional supermarkets. The gap between volume and value growth continues to narrow, but with volume leading value there are no signs of inflation in food retailing yet.



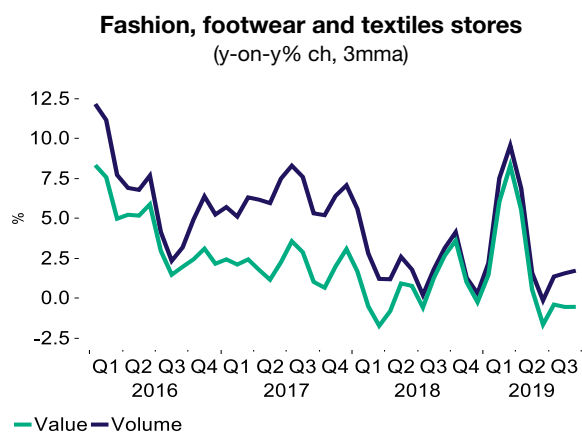
Home improvements remain the order of the day for the sector

Q3 was a quarter of mixed performance for DIY and hardware stores. July and August saw a continuation of the positive trend in the sector, built very much on the back of consumer confidence to undertake the small home improvement projects, that are the mainstay of demand. Tools demand remained strong with the decorative category performing at a trend level. September saw the situation alter with political developments in the UK, with a noticeable change in sentiment seeing consumers rein in their commitment to spend until the situation becomes clearer. This is hopefully only a short-term trend.



Fashion and footwear on the rebound

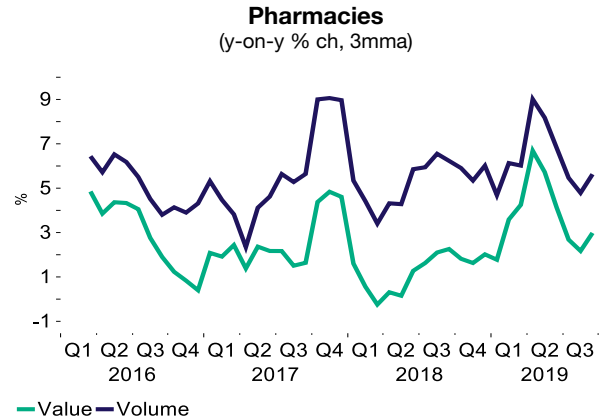
After a soft second quarter of the year, sales values and volumes in the fashion, footwear and textiles category received a much needed boost in Q3 with a modest rise at the start of the quarter due to an uptick in sales related to back to school lines, before levelling off at the end of the quarter. Again, it can be clearly seen in the data that seasonality and events are the major driver of sales in this space. As the Christmas period comes into view, this category will be hoping for a robust season to make up some ground.



Category analysis

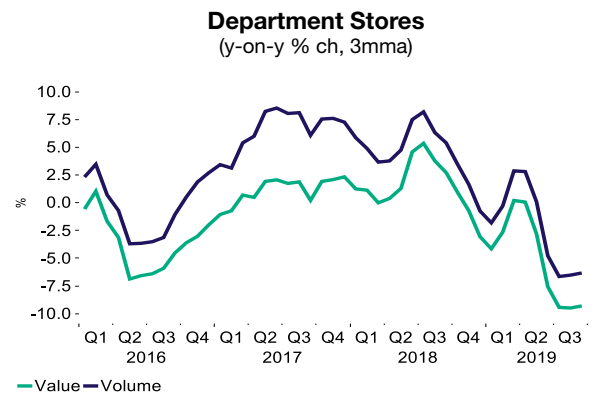
Summer breaks keep Pharmacy strong

Q3 delivered good growth, particularly in July and August which grew despite annualising a strong performance last year. At a category level, Seasonal healthcare continued to grow in Q3, with pain relief and summer medicines both performing well. Personal care also delivered a strong performance, driven by winter sun. Beauty struggled due to a decrease in volumes year on year, particularly within self-selection and fragrance



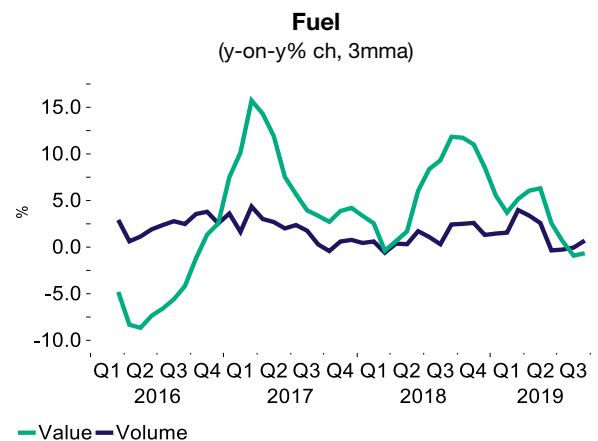
Downward trend continues for Department Stores

This quarter follows the trend reported in Q2 for this category, as sales values and volumes continue to track downwards. According to the CSO, the value of retail sales in September when compared to the same month last year fell by 9.3%, with sales volumes falling by 6.1%. This category continues to be dominated by premiumisation, seasonality and the shift to online shopping. The hangover from sluggish sales in the summer period has not abated for department stores this quarter, but it is hoped that a strong showing over the Black Friday and Christmas period will give the sector that much needed lift.



Fuel sales grow despite budget hit

Retail fuel prices dipped slightly in September prior to an increase of 0.2c due to Budget 2020. This was prior to steady increases over the summer months before falling back in July. From the CSO figures we can see a significant increase of 7.2% in the volume of sales in September, this has been largely caused by the much-flagged increase in fuel prices in this year's budget, along with increases in the Carbon Tax of €6 per tonne. These trends are borne out in statistics published by the National Oil Reserves Agency (NORA), which recorded an increase of 0.8% from August to September.

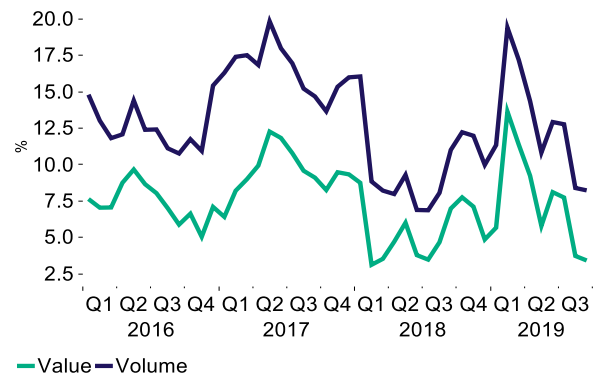


Category analysis

Soft furnishing sales grow

Irish consumers have shown a continued desire to invest in in-home renovations over recent months, however, Q3 saw a slowing of that momentum, with sales values posting a very modest increase of 0.1% and volumes posting a decline of 0.2% in September. The annual trend remains positive however, with sales in the year to the end of September growing by 3.3%. This quarterly decline in growth rates could be interpreted as a natural slow down as people are nearing the Christmas period, but it remains to be seen if this will pick up as major discounting starts to take hold in the Black Friday period.

Furniture, lighting and homeware stores
(y-on-y % ch, 3mma)



Growth continues for books and magazines

Building on from a strong quarter in Q2, this category continues to record good growth, related largely to a positive back to school season. Compared with the same month last year, sales values grew by 2.8%, while volumes posted growth of 0.8%. In comparison to other categories of the retail, books, news and stationery has performed consistently strongly over recent months. One of the driving forces in this category is magazines and periodicals, which recorded a price increase of 7.2% in October of this year.

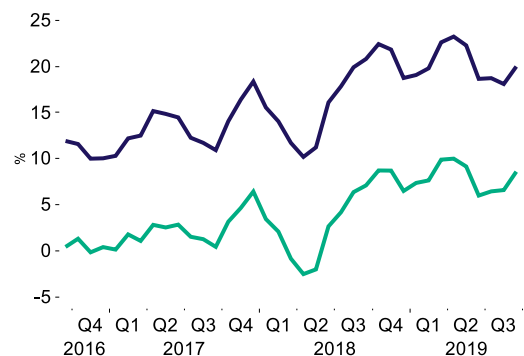
Books, newspapers, stationery stores
(y-on-y % ch, 3mma)



Electrical goods get a bounce, but prices remain low

Electrical goods and home computers continue to perform strongly this quarter, with value of sales showing growth of 7.4% when compared with the same period last year. While this is one of the strongest returns this quarter there is still a large gap in sales and that of sales volumes, with volumes posting an increase of 17.9% in the same period. This is again evidence of deep discounting in this sector that we would expect to see some further increases in sales as we enter the Cyber Monday and Black Friday discounting period.

Computers, electrical and electronics stores
(y-on-y % ch, 3mma)

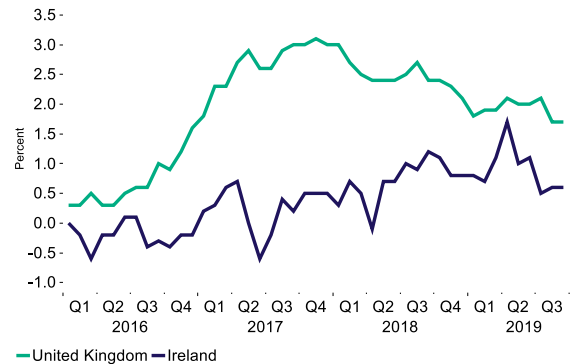


Macro trends

Goods prices continue to fall as inflation remains steady

The rate of inflation in Ireland has remained steady in recent times, fluctuating from 0.7% in August and rising to 0.9% in September. This is largely due to higher prices in the areas relating to housing and rent. Services inflation continues to drive the headline number at 2.6% over the last 12 months, while notably good prices continue to decline at a rate of -1.6% in the same period. This is in direct contrast to the UK where prices are rising at close to 2% per annum. This softness in good prices will be tested in 2020 as continued wage increases drive disposable income levels higher.

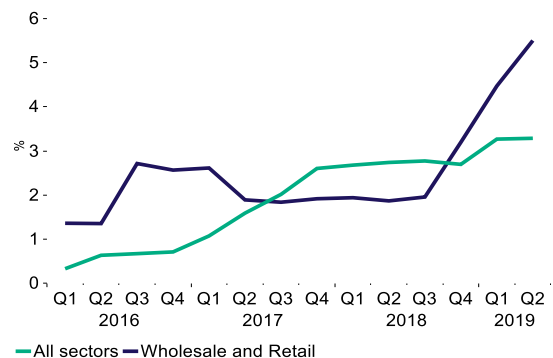
Inflation (annual %)



Retail wages on the rise

There has been a misconception for many years that the retail sector is one where jobs are poor pay, part time and usually filled by students or young people. While many young people make up a valuable part of the work force, the majority in the sector work full time and make lifelong careers in the sector. With unemployment currently standing at 5.3%, retailers are finding it increasingly difficult to fill roles and retain talent. Retail wages have continued to grow as the search for talent becomes ever more competitive. Year on year growth in wage levels in the sector was running at close to twice the rate of all sectors in Q2 2019.

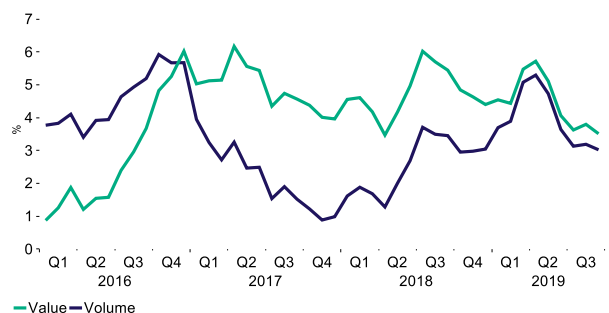
Hourly Wages



UK consumers remain cautious

In a country that has in recent years been consumed by the vote to leave the European Union and the ensuing negotiations; it stands to reason that the UK consumer remains down beat when it comes to spending their hard-earned money in an era of such uncertainty. Since the start of 2019 retail sales in the UK have grown by over 4%, this is despite Brexit nervousness that is being felt and articulated by consumers across the UK. The knock on effect of this can also be seen here in Ireland, while the Irish retail sector has been relatively robust in the period there has been ripple effects to Irish consumer sentiment.

UK Retail Sales





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