

Q1

May
2019

Retail Ireland Monitor

Mild spring gives retail a bounce

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Improving sentiment leads to strong start to 2019

By now Christmas is a dim and distant memory for everyone, not least those working in the retail trade. While the obsession in the trade with the season remains as great as ever, and its importance to the end of year trading position is undiminished, come mid-January everyone is drained and ready to start discussing Easter prospects and ambitions.

After a rocky fourth quarter of 2018, in which trade ebbed and flow almost by the day, retailers will be hoping that a level of consistency to trade can be found in 2019. We often hear about life imitating art, but what was clear from retail sales patterns in the second half of 2018 was that retail sales patterns increasingly imitate geopolitical trends. While that statement might seem a bit of a reach, when you investigate further it becomes clear that you can draw a direct correlation between political uncertainty attached to global events such as the US/ EU/China trade war and Brexit in the second half of 2018, and a growing cautiousness amongst Irish consumers. It would appear in this age of information and instantaneous news delivery; such events are now more than ever impacting purchasing decisions of Irish consumers at the shop floor level.

For now, a ceasefire on Brexit related hostilities has been called. An extension to the negotiating period until October seems to have calmed nerves somewhat. The daily game of brinkmanship is no longer leading news bulletins, and for hard-pressed Irish retailers this can only be good news. On the back of this we have seen an uptick in consumer sentiment, people's worst fears of a crash out Brexit, have been allayed, at least for the moment.

We have also seen an immediate bounce in retail sales on the back of this news in what has been a strong start to the year for the sector. All major retail categories bar one returned strong single digit, and in some cases double digit, growth rates in the year to the end of the first quarter. Also noteworthy is the fact that the persistent gap between sales value growth and that of sales volumes has continued to close in the first quarter of 2019, albeit slowly. There is no doubt that Irish consumers continue to survive on a diet of discounted prices and widescale promotional activity, and against that backdrop retail prices have continued to fall. However, many in the trade have in recent times begun to ask the question, how long can this be sustained. All the while input costs in areas such as labour, insurance, rents and rates continue to rise. While this is a concern that we here in Retail Ireland have been flagging for 12 months or so, the time will come where something has to give. That time is undoubtedly getting closer.

So, what of the prospects for the remainder of 2019? Initial indications would suggest Easter trade was strong. For those categories that over index on sales during the period feedback has been broadly positive. As we begin to lap the snowstorms of March/April 2018 and face into comparisons with the heat wave of Summer 2018, there is no doubt that challenges remain. Many businesses will have budgeted against the performance of Summer 2018. For those categories that are particularly reliant on good weather to drive footfall and sales, clearly this will prove challenging. With no guarantee of a similar prolonged spell of fine weather, retailers will have to be creative if they are to achieve such heights once more. Event led promotional initiatives may offer the route of least resistance in this regard.

Consumer behaviour continues to shift and evolve, but one pattern which has emerged in recent years is the extent to which events are now driving consumer spending patterns. It seems consumers want to be convinced to part with their hard-earned cash and view the decision to spend mainly through the prism of experience. Does this purchase tie back to an event or occasion of interest? A sense of allowing themselves to spend that little bit more because it is a certain time of year, a special occasion is now crucial in the consumer decision making tree. It almost appears an unspoken permission to spend is now required. Creating those events or tying up with existing events will now be a crucial part of any retailers marketing plan over the coming years. We can look to other sectors who have been down this path in recent years. The rise of the night time economy over the last 5 years has largely been on the back of creating that event. This sector has experienced a phoenix from the flames type renaissance in that period. We in the retail sector must look to their experience, adopt their learnings and be prepared to change. As a sector which has a long track record of continually changing and adapting to suit the particular circumstances of the time, I have no doubt that this shift is already underway.



Thomas Burke

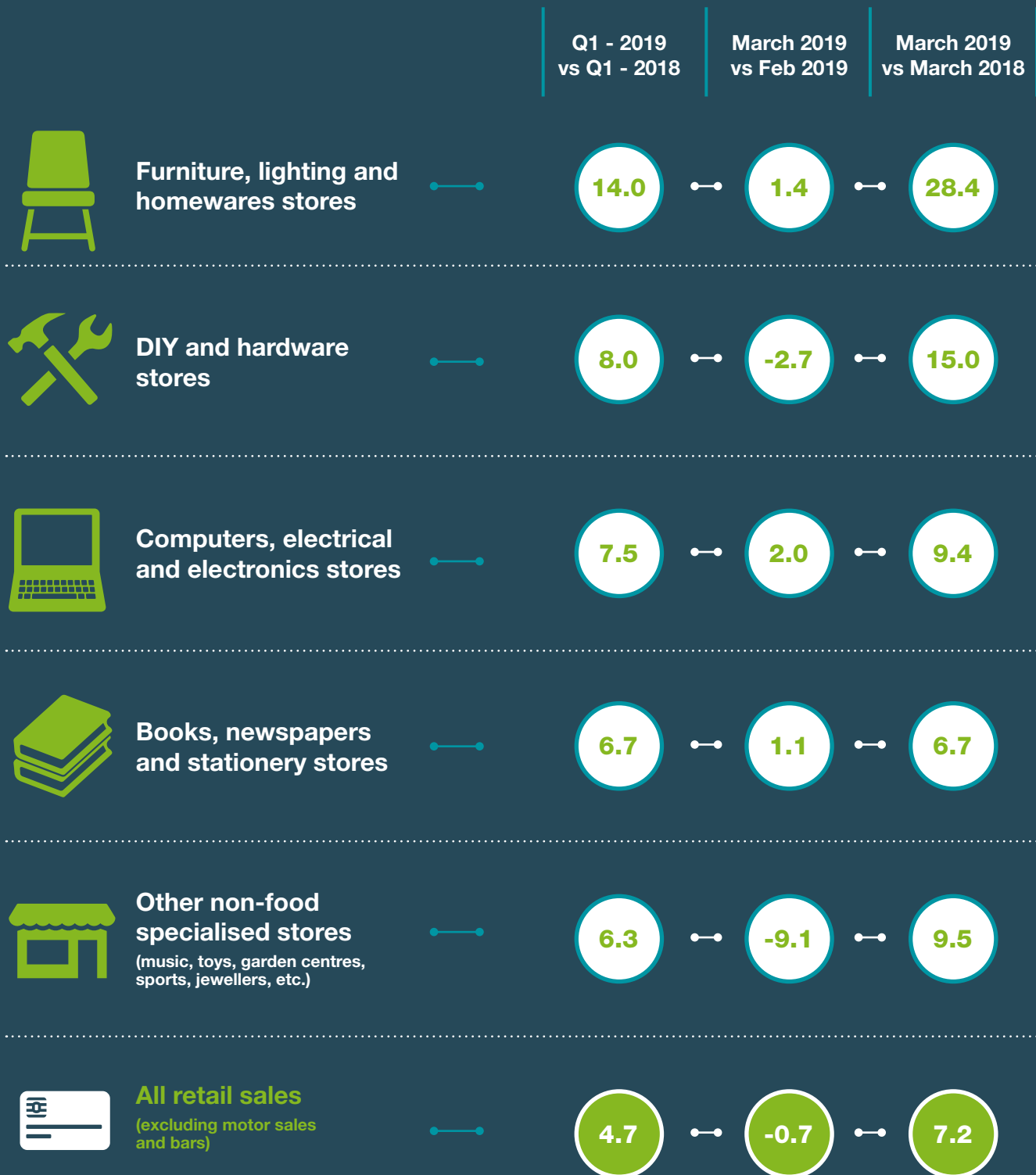
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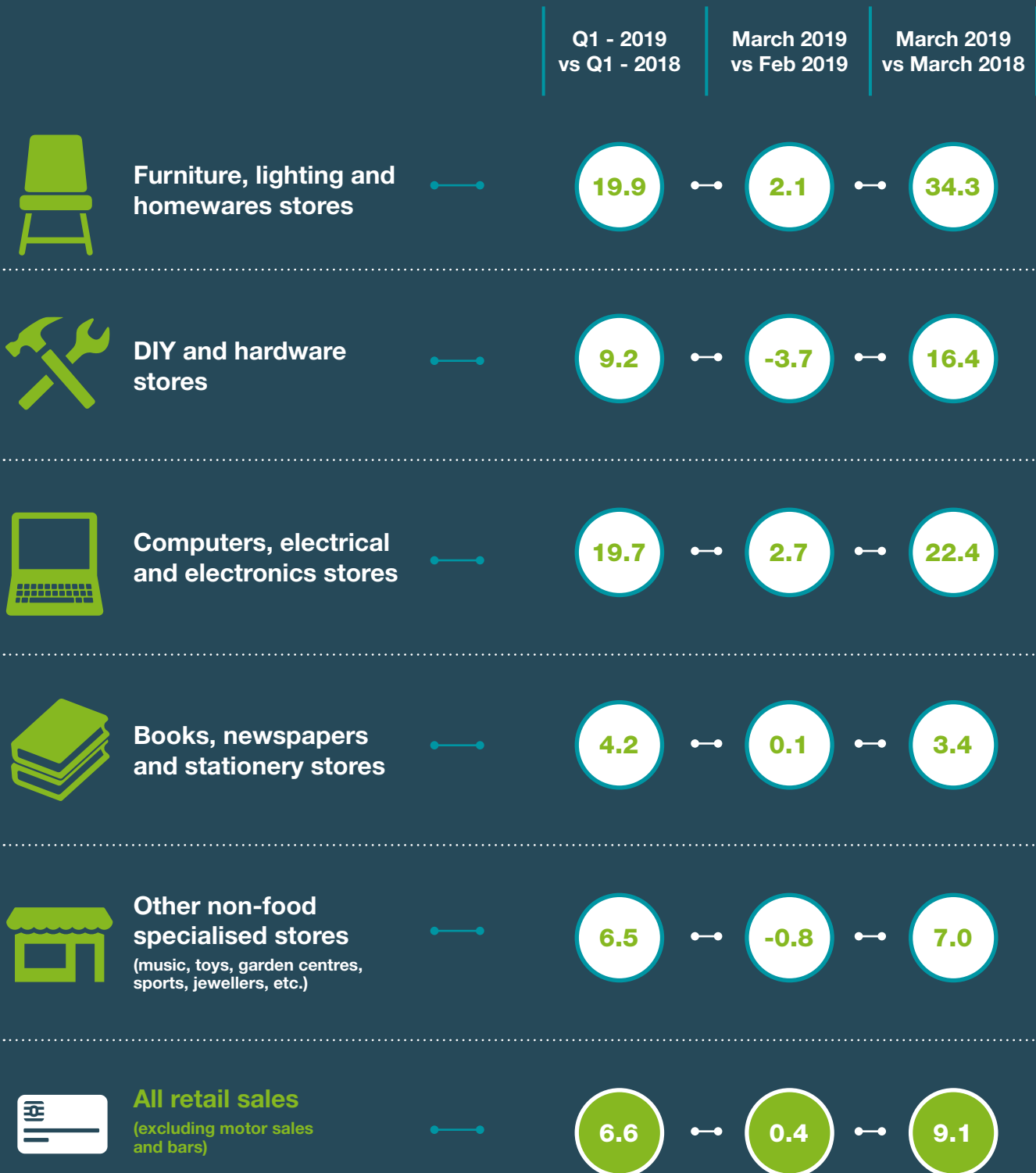
Value of Irish retail sales – as at March 2019

Value		Q1 - 2019 vs Q1 - 2018	March 2019 vs Feb 2019	March 2019 vs March 2018
	Supermarkets and convenience stores	4.6	0.3	5.8
	Department stores	-2.8	-0.4	-0.7
	Specialised food and drinks stores (grocers, butchers, fish mongers, off-licences, bakeries, etc.)	2.0	-3.0	1.7
	Fuel (including petrol and diesel)	4.5	1.9	10.5
	Pharmacies (including medicines, beauty and cosmetics)	5.1	1.8	8.1
	Fashion, footwear and textiles stores	6.0	2.1	12.8



Volume of Irish retail sales – as at March 2019

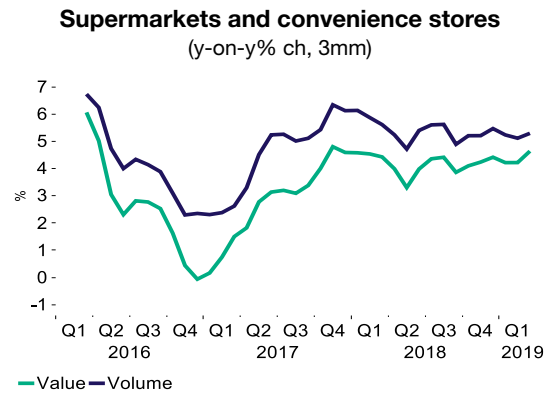




Category analysis

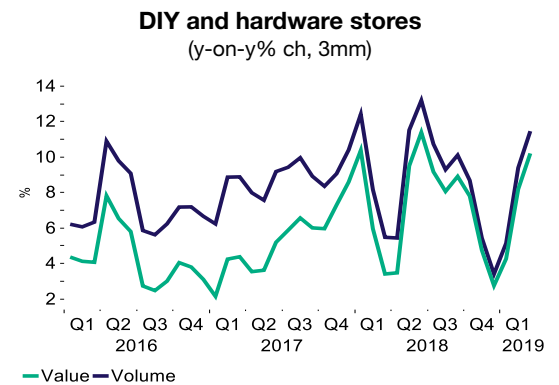
Supermarkets and convenience stores hold strong

March saw strong volume and value growth of 6.1% and 5.8% respectively. Despite approaching each other, volume growth continues to outstrip value growth re-enforcing CPI statistics which have yet to show food price inflation after years of deflation. The primary driver for volume over value growth continues to be competitive action with the battle for market share between multiples very intense and the slower but inexorable continuing growth of discounters also contributing to downward pressures. A buoyant economy has been good for the convenience sector which is also in growth.



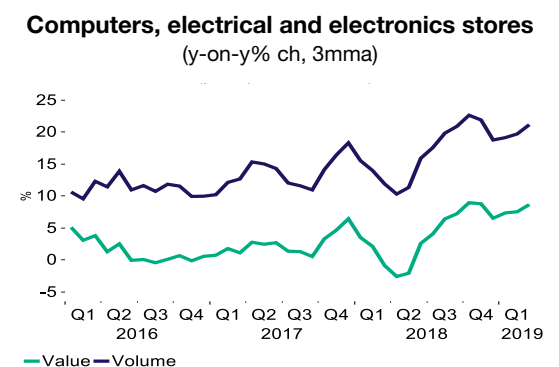
Settled weather helps DIY to grow

The quarter saw positive growth momentum for the DIY, Home & Garden sector, helped in no small measure by the early kick off of the gardening season and this year's non-appearance of Beasts from the East or anywhere else. Consumers are clearly more confident to engage in small DIY projects, as evidenced by a marked uptick in both interior and exterior DIY categories. Encouragingly, growth is spread evenly across the country with stores outside the main urban centres matching, if not exceeding major urban growth



Electrical goods on the rise

The first quarter of 2019 has seen a marked increase in the sales of personal computers and electrical goods in comparison to the same time period last year, with sales volumes posting growth of 22.4% and sales value rising by 9.4%. This significant increase in sales volumes can largely be attributed to the fact that there was no weather events such as Storm Emma this year that caused such disruption to the retail sector in Q1 2018. As can be seen from the data there is significant disparity between the rate of growth of sales volumes and value, this is due in part to the deep discounting that has become something of a mainstay in the electronics category.

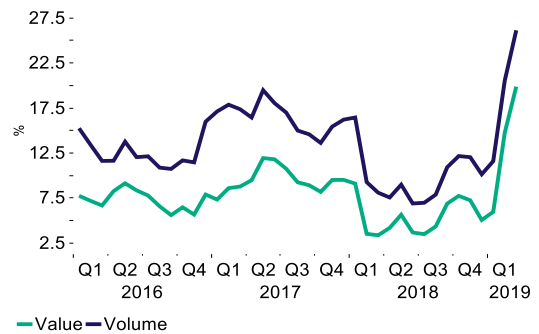


Category analysis

Home improvements keep sales strong

The demand for homeware and soft furnishings showed no sign of a let up in Quarter 1. This comes off the back of a relatively strong Christmas period. There was a 20% increase in terms of the volume of sales in this quarter, with values rising by 14%. This is a significant rise as it sees the difference in value to volume in sales beginning to converge. This would lend credence to the notion that consumers are happy to spend money on home improvements even if there are less promotional offers available.

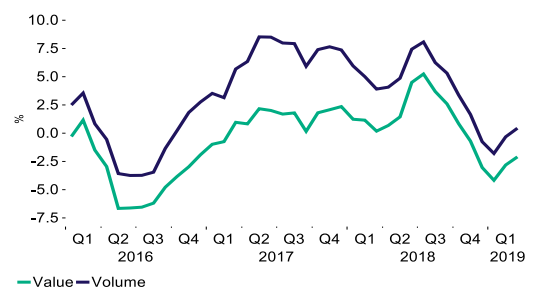
Furniture, lighting and homewares stores
(y-on-y% ch, 3mma)



Sales remain soft in department stores

Prices in the Department Store sector continued to see a decline while sales values falling by 2.8% in the year to date as post Christmas discounting continues. The value of sales to April of this year have fallen by 2.4% while volumes posted a modest increase. Cosmetics, skincare and beauty had a drop-in price of 2.9% while Jewellery, clocks and watches dropped by 3.5%. In comparison with Quarter 1 2018, there was a 1.6% increase in the volume of sales in Q1 2019. This would suggest that continually falling prices in the category has not been enough to boost sales.

Department stores
(y-on-y% ch, 3mma)

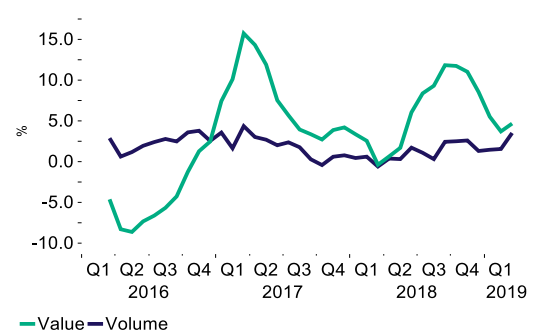


Fuel prices on the rise while new car registration continue to fall

The price of both petrol and diesel at the pumps increased on the same period last year from 137.6c and 127.1c in April 2018 respectively to 142.3c for petrol and 137c for diesel*. There was also an increase in sales volumes of 8% in comparison to the same period last year while sales value increased by 10.5%. While the fuel mix continues to favour petrol and hybrid models in new car sales as consumers move away from diesel, it should be noted that there was a 10% drop in vehicle sales in the first the first quarter of this year in comparison to 2018.

*AA fuel price index

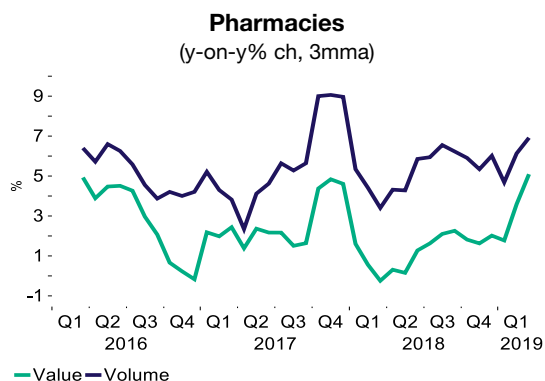
Fuel
(y-on-y% ch, 3mma)



Category analysis

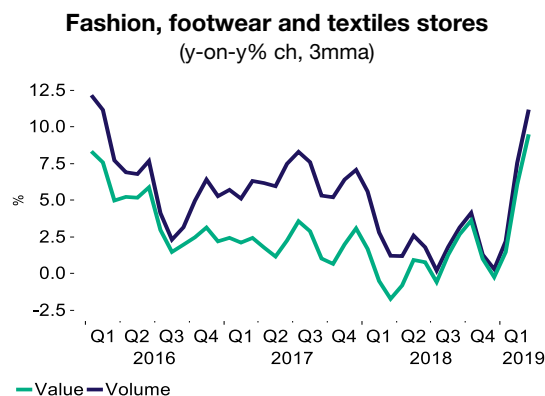
Hallmark days drive sales

Q1 was a solid quarter with strong January sales, Beauty categories were strong across Valentine’s day, with gifts and fragrance performing particularly well. Seasonal healthcare was soft with the exception of hayfever which saw an early boost due to milder weather. The non like for like timing of Easter & Mother’s day was challenging in March but the quarter remained moderately positive year on year.



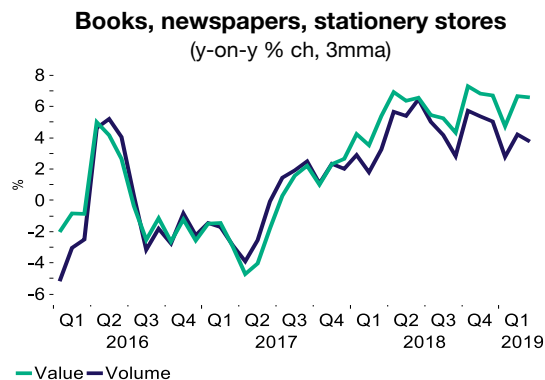
Fashion and footwear shows some recovery

Sales of fashion and footwear continue to fluctuate, affected by issues such as weather, increased competition from online UK shopping platforms and changes in the value of sterling. This quarter saw some good news as the value of sales in this quarter have increased by 6% and volumes have also shown growth of 7.4%. Following a modest Christmas period performance this is some good news to a sector that is highly exposed to external shocks most particularly from Brexit disruption and the ever growing online fashion movement.



Books and newspaper growth remains steady, while magazines see decline

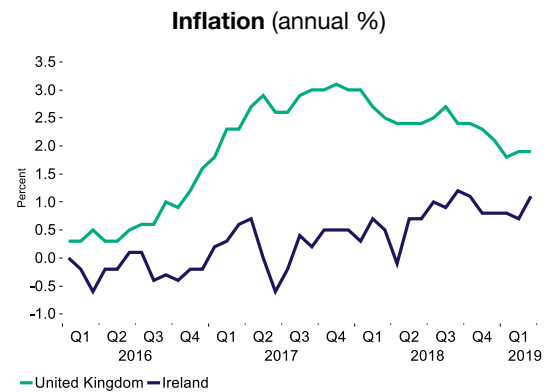
The books, news and stationery market has shown low single digit growth over the first quarter primarily driven by growth in sales volume and price inflation driven by less discounting and strengthening of sterling year on year. Newspaper sales are stable with growth over the period primarily driven by the recovery of sales against the period impacted by snow last year. Similarly stationery sales also showed some growth arising from a recovery in revenue over the same period. Increasing paper prices are also driving inflation in the sector. Magazine sales continue to decline at mid-single digit percentage levels.



Macro trends

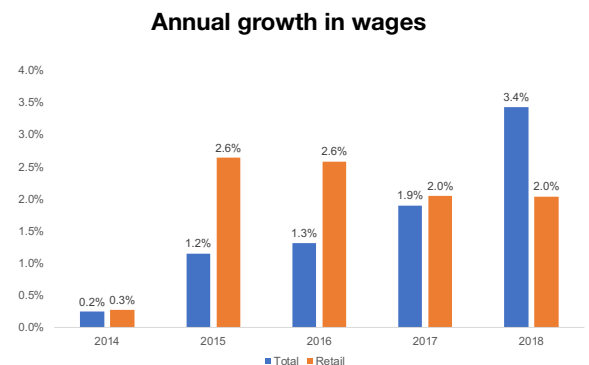
Inflation sees a modest uptick in Q1

In the first quarter of 2019 the rate of Irish inflation stood at 1%, up modestly from 0.5% in 2018. The low rate of inflation in 2018 can be explained by the sustained fall in prices in domestic goods and fuel globally. While the rate of inflation remains low, there have been significant increases in real wages over the quarter, which will impact prices in the months ahead. It is envisioned that should this growth in wages continue we will see a significant increase in inflation as the year progresses. In the event of a no-deal Brexit, rising trade and tariff costs could significantly lift prices of key items in 2020 and beyond.



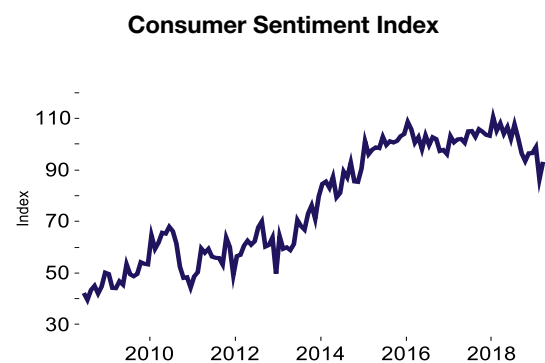
Wages on the up for Irish workers

Wages grew by 3.5% for workers across the Irish economy in 2018, this represents the largest inflation adjusted increase in real wages since the early 2000's. This offer a clear indication of the strain that business is now finding itself under as we reach full employment and the competition for firms to attract and retain talent gathers pace. The rate of this increase in real wages will ultimately lead to a squeeze in margins. In a sector such a retail which already works to margins that are tighter than most other sectors, this will be likely to pose some difficulty as the year continues.



Consumer sentiment rebounds from a low base

The first quarter of this year saw a relative bounce in consumer sentiment in comparison to previous years. Consumer spending has remained buoyant as core retail sales grew by 4.7% in the first quarter of 2019. The main reason for the fluctuation in the rate of consumer spending over the two periods largely related to the ongoing Brexit process. In the first quarter of this year there was a real fear that the United Kingdom could crash out of the EU without a deal. Concerns around the impact this would have had an acute effect on consumers here in Ireland, with many of them feeling uncertain and nervous about the future of their personal finances. Now with a longer extension in place until October, these fears have been placed; for the time being at the back of consumers minds and people are feeling more confident to spend.





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