

Q2

Retail Ireland Monitor

August
2018

Sun shines on retail sales in Q2

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Hot spell brings mixed results for retailers

While the Irish public have been basking in the recent extended spell of fine weather, retailers have been pondering what impact the “best summer since 1976” has been having on their businesses. As proven during recent severe weather events such as Storm Ophelia and Storm Emma, weather can either decimate or significantly bolster the bottom line for a retailer. While there was very little upside for anyone arising from these previous weather events, the recent spell of good weather has certainly been a good news story for certain parts of the trade.

More consumers on the move and a generally more positive mood has served to boost sales across a variety of retail categories, including supermarkets and convenience, fuel, pharmacies and DIY and hardware stores. As the Irish public went in search of summer essentials such as sun care, fans, patio furniture and BBQs, retailers found it difficult at times to keep up with demand for what are usually more niche products. For many consumers the sustained spell of warm weather highlighted gaps in their preparedness to deal with such temperatures and retailers scrambled to meet the unprecedented levels of demand for certain products. Media reports of runs on paddling pools, fans, ice cream and sun lotion all served to reinforce the usual hysteria that surrounds such weather events in Ireland.

But below the superficial and whimsical nature of such newspaper headlines and novelty stories, retailers must address the more serious question of how this activity impacted bottom lines. What we can say is that the view from retailers will very much depend on which category of retail they are trading within. As mentioned previously, those serving ‘on the go’ food or weather-related products will have experienced a significant uplift in trade, a fact reflected in the strong performance of such categories in the recently published CSO retail sales data for the second quarter of 2018. What also should be acknowledged is the impact of events such as the football World Cup, which took place during June. Such events give consumers a reason to increase their spend, and while not as lucrative as it might have been if Ireland had qualified, the World Cup certainly played its part in driving the sales performance in certain categories. Grocery was one of the big winners here with strong alcohol, soft drinks and party food sales recorded during the 4-week period of the World Cup. Even categories such as books, news and stationery received a bounce in this period from the sale of World Cup themed magazines and publications. This category also saw a bounce from other recent one-off events such as the royal wedding in the UK, when consumers interest in news publications spiked. Such event led retail activity is increasingly important in meeting targets in the modern retail environment. Predicting and preparing for such events is now a central part of modern retail operations.

What maybe isn't as well appreciated is the impact the recent long spell of fine dry weather had on other retail categories. Many members have reported a significant fall in footfall in recent weeks as consumers preferred to sit in the park or visit the beach rather head for the shops. This is evident from the performance of categories such as department stores, fashion and footwear and computers and electrical products who posted data for the second quarter, well below the wider industry average. Other non-core retail categories such as hairdressing and cinema have also reported a notable dip in trade during the recent fine weather. For that reason, it's clear not everyone has enjoyed this once in a generation spell of sustained good weather.

At a broader level we must also consider the impact ongoing shifts in consumer sentiment are having on the trade more generally. Retailers are reporting a relatively positive mood amongst Irish shoppers at present, but beneath the surface other consumer sentiment indicators continue to warn of clouds on the horizon with nagging concerns around macro-economic challenges such as housing shortages and rising rents, global trade wars and the perennial Brexit concerns occupying consumers' minds. All have the potential to impact consumer spending power quite considerably over the coming months and for that reason caution must continue to be the order of the day for the sector.

Despite these salient watch outs, retailers do have cause for optimism. The sector is growing relatively strongly and the persistent gap between sales value and sales volume growth has begun to close in recent months. This would suggest that retailers are finally beginning to extract some value growth from what has been a highly competitive, price obsessed market over the last decade. As we begin the march towards the post summer return to normality, and the back to school feeling takes hold, we must be satisfied that the sector, despite ongoing challenges, is in a better place to meet these challenges than at any point since the economic crash of almost a decade ago. This is a cause for contentment, but not complacency.

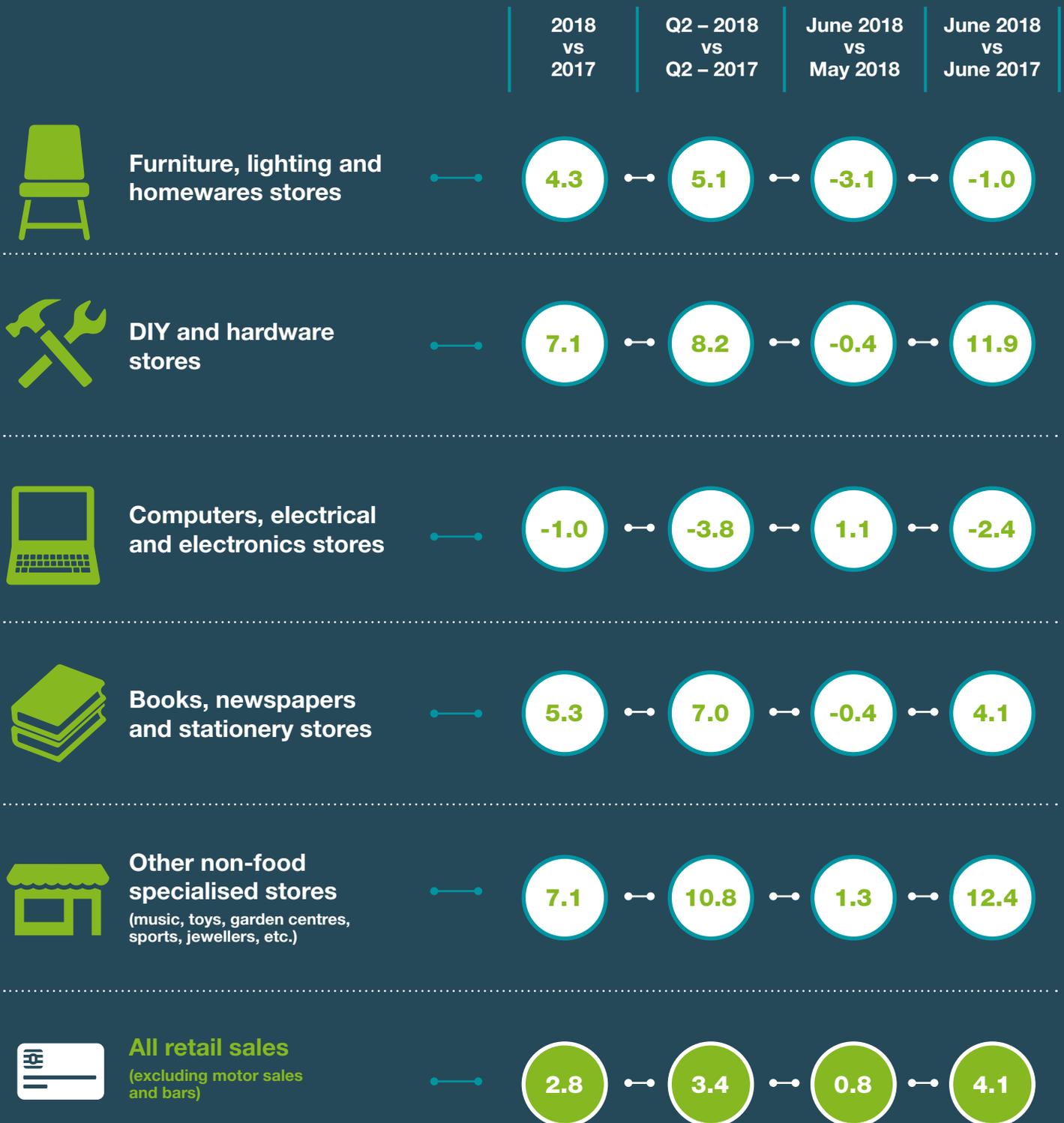


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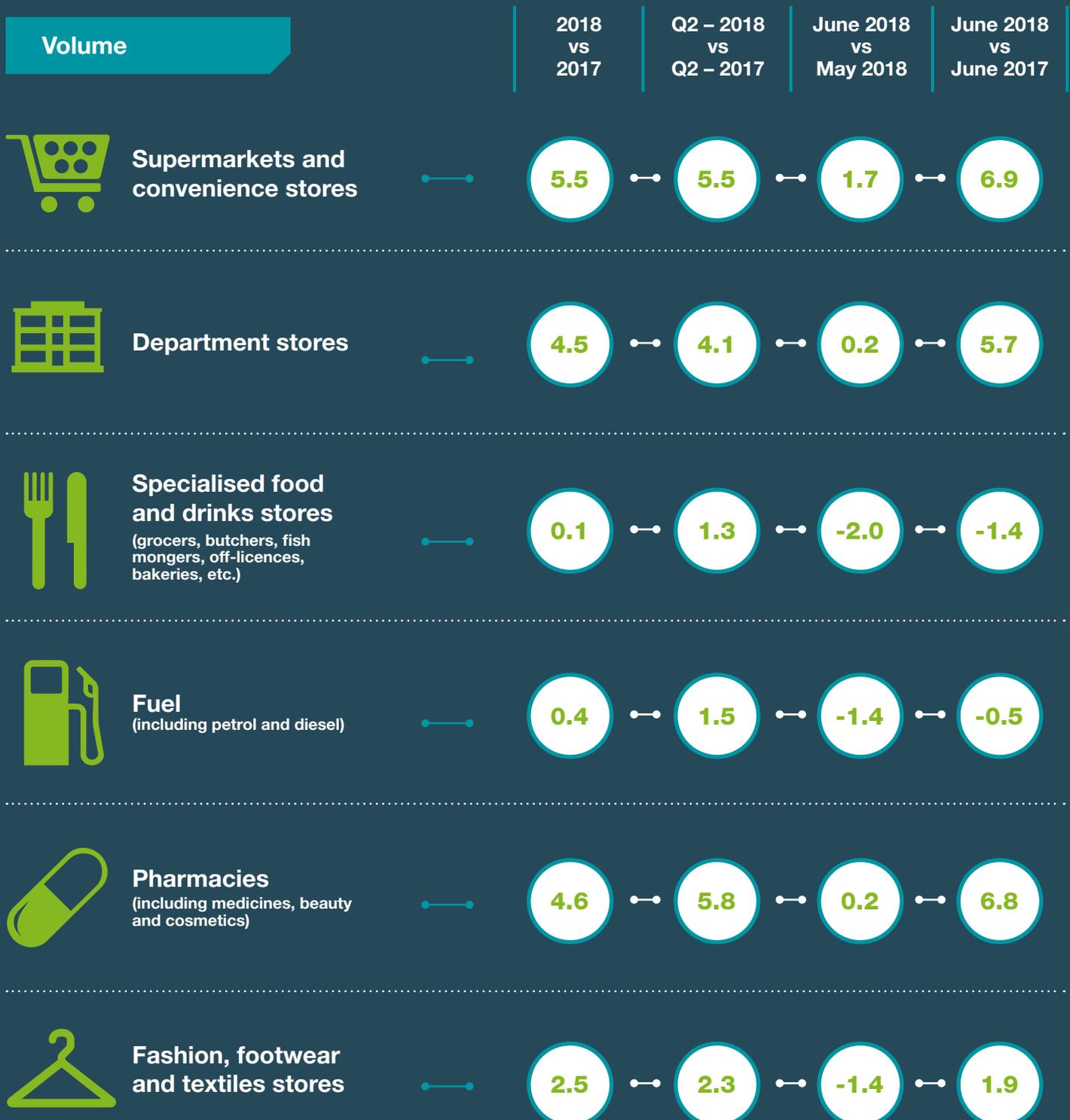
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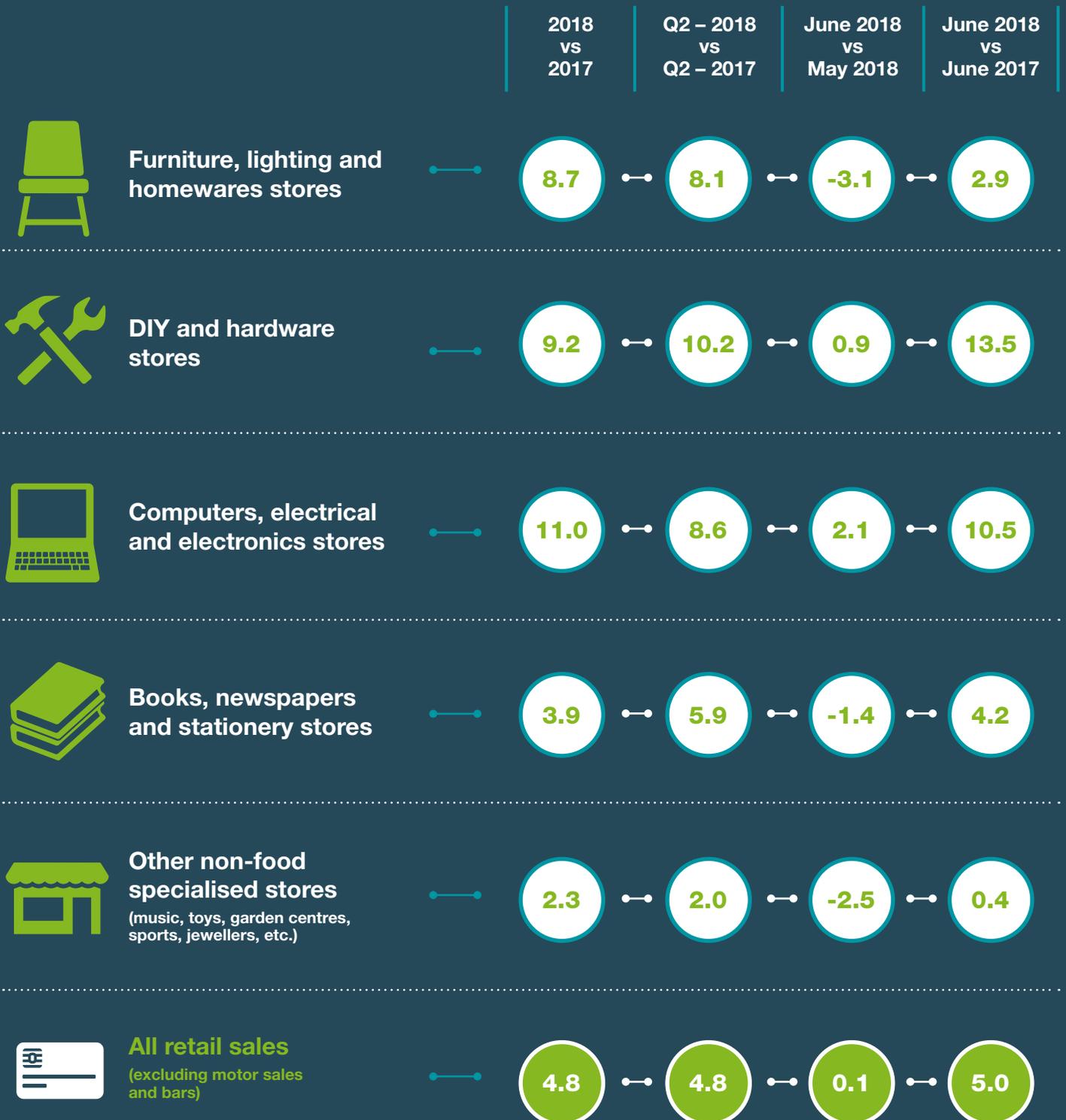
Value of Irish retail sales – as at June 2018

Value	2018 vs 2017	Q2 – 2018 vs Q2 – 2017	June 2018 vs May 2018	June 2018 vs June 2017
 Supermarkets and convenience stores	4.1	3.9	1.5	5.4
 Department stores	0.8	0.7	0.1	2.5
 Specialised food and drinks stores <small>(grocers, butchers, fish mongers, off-licences, bakeries, etc.)</small>	-2.1	-1.1	-1.8	-4.0
 Fuel <small>(including petrol and diesel)</small>	2.7	5.9	-0.7	7.2
 Pharmacies <small>(including medicines, beauty and cosmetics)</small>	0.4	1.2	0.5	1.9
 Fashion, footwear and textiles stores	0.0	0.5	-1.4	0.4



Volume of Irish retail sales – as at June 2018

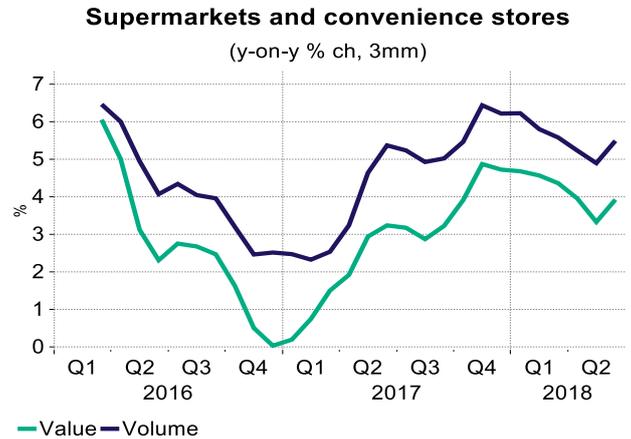




Category analysis

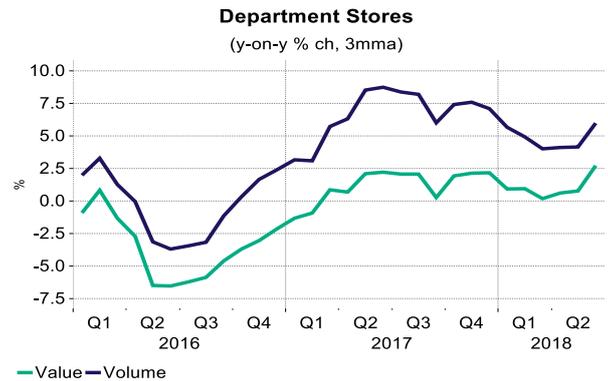
Good weather and the World Cup drive sales in grocery

Strong figures in June for supermarkets and convenience stores shows that retail sales in this area are finally establishing a sustained pattern of growth. Volume and value are moving together in recent months and the positive impact of June's good weather on treats and 'little and often' shopping is also coming through. These figures include off trade alcohol and soft drinks consumption helped by weather and the keen interest in the World Cup.



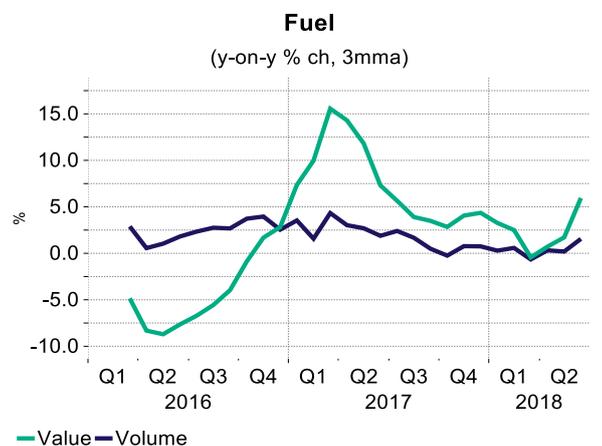
Hot weather impacts footfall for department stores in Q2

Overall it was a mixed performance for Department stores in quarter two. The busy pre-Easter week fell into Q1 this year, making comparatives with the same quarter last year difficult. Nevertheless, total sales values increased by 0.7% compared to Q2-2017, and total sales volumes increased by 4.1%, when compared to the same period last year. Consistently cold weather during April and May weighed on women's summer clothing sales, whilst record high temperatures at the end of the quarter adversely impacted footfall. Despite these challenges online continues to deliver strong growth within this category of retail.



Consumer's defy conservation measures and head straight to the car wash

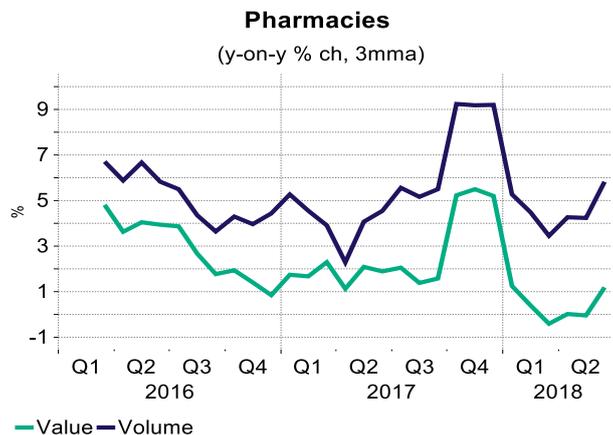
Consumption remained strong in quarter two despite the sharp increases in oil prices from late March 2018. Total sales values grew by 5.9% in Q2-2018, with sales volumes increasing by 1.5% versus Q2-2017. In the non-fuel business, Q2-2018 was very positive. Favourable weather conditions disrupted normal consumer buying patterns in fuel stations. Convenience and 'food-to-go' offerings performed well in May and June, with a slight impact on anticipated hot beverage sales. The most significant year-on-year increase was in car wash sales, as improvements in weather conditions drove strong demand for car wash services.



Category analysis

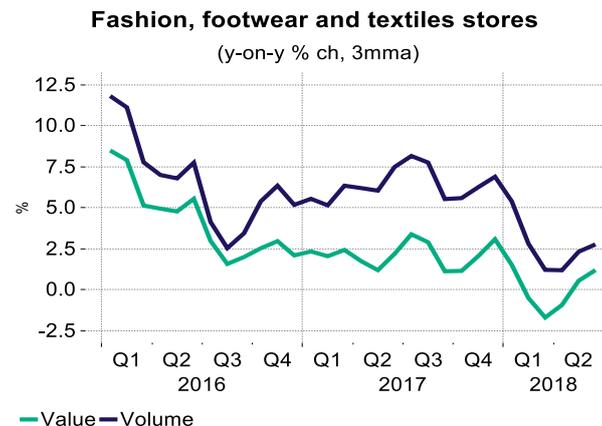
Beauty sales cool while demand for suncare hots up in Q2

Quarter two was a solid quarter for Irish pharmacies, with warm weather driving strong seasonal healthcare (hay fever) and suncare performance, coupled with a healthy performance on core toiletries. Total sales values increased by 1.2% and total sales volumes grew by 5.8% compared to the same quarter in 2017. Beauty related categories performance slowed during the quarter due to the exceptional hot weather in June. On an annualised basis, total sales values increased by 1.9% and total sales volumes grew by 6.8% compared to June 2017.



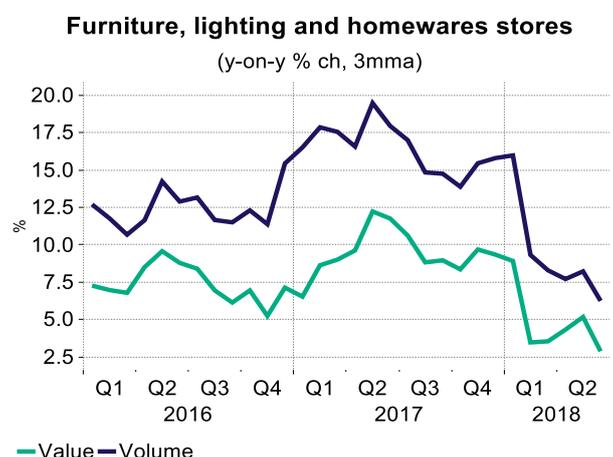
Growth in fashion sales remains sluggish

Fashion and Footwear and textiles stores continue to struggle in 2018. There was no growth in total sales values in the first six months of 2018, while total sales volumes posted growth of 2.5% during the same period. Fashion retailers report that accessories and menswear were the strongest performers during the quarter. Regardless of the bad start to 2018, in the past 18 months there has been an increased focus on retail development across Dublin and the regions. Larger retail units, redevelopments and extensions have attracted new quality fashion brands to the country's well known shopping streets and centres.



Demand for furniture and homewares hit by heatwave

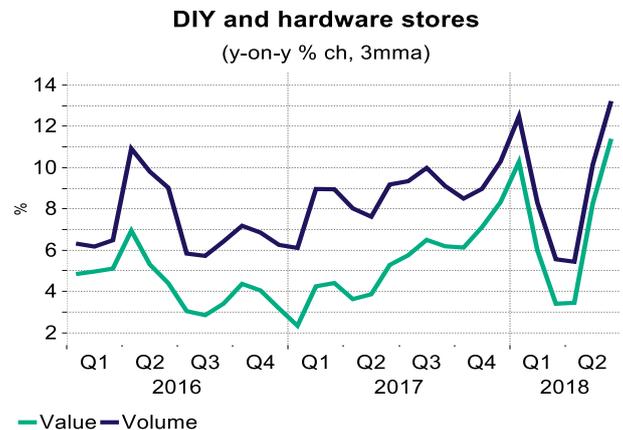
Sales in the countries furniture, lighting and homeware stores grew by 5.1% in value terms, and by 8.1% in volume when compared to Q2-2017. Within the first six months of the year, furniture, lighting and homewares, has been one of the best performing retail categories. Despite this strong performance, the fall in total sales values of 3.1% and total sales volume also by 3.1% in June compared to the same last year demonstrates how the recent heatwave seriously impacted sales and footfall in furniture, lighting and homeware stores in June.



Category analysis

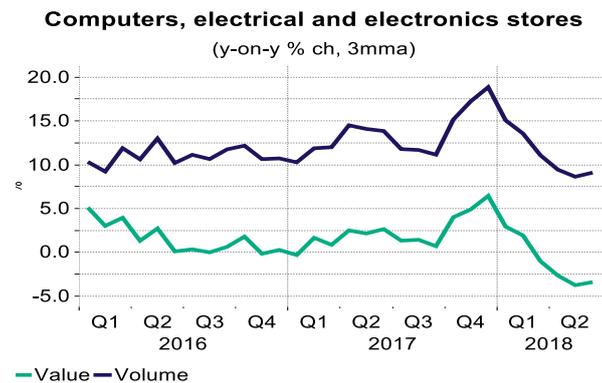
Gardening and outdoor categories dominate DIY and hardware sales in Q2

Performance in the DIY and hardware category was dominated by the fine weather conditions with a significant increase in demand for gardening and outdoor categories reported. Initial strong demand for garden furniture, wood care and BBQ products were further augmented in the quarter by a surge in watering related categories, as it became clear that the fine weather would persist. Outside of gardening, the sector saw steady growth in interior, DIY and home products categories, reflective of ongoing positive consumer sentiment and a willingness to invest in home projects.



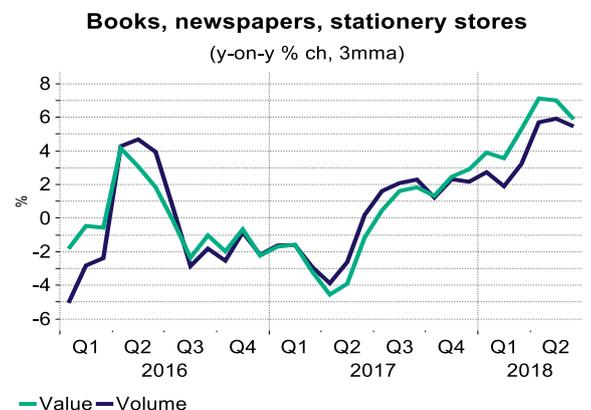
Shoppers continue to benefit from fierce competition

Despite a spike in the sale of fans during May and June, total sales values in this category fell by 3.8% in quarter two 2018, while total sales volumes grew by 8.6% compared to the same quarter last year. Comparing sales in the first half of 2018 to the same period in 2017, total sales values fell by 1% and total sales volumes were 11% higher, reflecting the fierce competition and continued heavy discounting and promotional activity taking place within this category of retail. This ongoing deep discounting shows little sign of abating in the second half of 2018.



Book sales remain solid, while magazines enjoy temporary relief

Books, newspapers and stationery reported positive year-on-year volume and value performances throughout the quarter. Overall, the category was up 7.0% in value terms and up 5.9% in volume terms, versus Q2 last year. April's sales were boosted by an initial clawback from the widespread weather disruption in March. Throughout the quarter, the book market continued its positive performance trend year-to-date, while the British royal wedding and the FIFA World Cup provided a temporary relief to the long-term decline in magazine sales performance. Stationery sales were more challenged, particularly in June, with a slow start to the key back to school season, due to the hot weather.



Macro trends

Housing crisis continues to impact consumer sentiment

The KBC Bank/ESRI Irish consumer sentiment index fell to 102.1 points in June from 106.7 points in May. This recording was the second largest monthly decline in the past twenty months. Despite the strong recovery in the economy and an unemployment rate of 5.1%, Irish consumers remain sensitive to uncertainty in the global economic outlook. The housing crisis and escalating fuel costs are also contributing to a more cautious consumer. While the Index points to a weakening consumer sentiment in June, our members report of ongoing positivity amongst consumers and a willingness to spend on food to go, healthcare and invest in home projects.

Consumer Sentiment Index



Mixed signals from British high street

Overall, UK retail sales in the second quarter of the year were strong with total sales values increasing by 4.6% and total sales volumes rising by 2.9% compared to the same quarter in 2017. In the six months to June 2018, specialised food stores and electrical stores were the only two categories of the 11 major retail categories not to experience value growth. The main drivers of this growth would appear to have been the sustained period of good weather and the celebrations associated with the football World Cup. Despite this positive data, it has been a difficult few months for British retail with a string of major household names announcing store closures and rationalisation plans across the country.

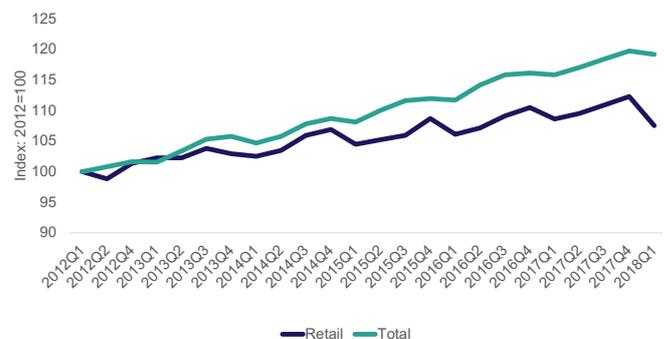
Retail Sales (Ireland v UK)



Full employment welcome, but emerging labour shortages must be addressed

July's labour market figures saw unemployment unchanged at 5.1%. This is the lowest jobless rate recorded since October of 2007. While the rising rate of employment across all sector of the economy, including retail, is to be welcomed, labour shortages are becoming increasingly apparent across industry. As we reach full employment, the high cost of housing and childcare, allied to high marginal tax rates on second earners and long commutes, are impacting retail's ability to adequately resource our stores and supply chains. In addition, these are the main obstacles to getting more workers into the labour force or indeed to continue living and working in urban areas where cost pressures are most acute.

Employment Index: 2012=100





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