

Q4

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2019

Retail Ireland Monitor

Online shift gathers pace

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Don't believe the hype, Irish retail remains solid

Never has there been such a focus on the trials and tribulations of the retail sector as we have seen over the last number of months. Barely a day goes by without one media outlet or another decrying the imminent 'death of retail'. We consistently hear about the emerging doom precipitated by a changing consumer and the emergence of online as the grim reaper on the Irish retail landscape. This scrutiny intensified during 2018 as our nearest neighbour hit a speed wobble, driven by an increasingly unsteady economy, a number of high-profile retail failures and a market correction, which was probably overdue. Unfortunately, the view of Irish retail has been largely coloured by the darkening mood in the UK retail sector. This is only natural given the proliferation of shared high street brands and our similar consumer culture and behaviours. It's not the full story, however. The lazy narrative is what is happening in the UK must reflect the reality of Irish retail. While this is partially correct in terms of the macro global retail trends, when you delve a little deeper a different picture emerges.

Irish retail has performed admirably over recent years. Buoyed by strong economic growth and a consumer who while cautious, was primed to spend a little more, the sector has grown in value terms by between two and four per cent per annum for the last five years. Not spectacular, but steady, and when compared with our counterparts in the UK, a strong performance. This is not to say that the sector doesn't face many challenges. Towards the back end of 2018 we have seen a softening of Irish consumer sentiment and a growing sense amongst the Irish public that geopolitical events will have an impact upon their personal finances in the year ahead. We are facing a dramatic technology led shift in how retail operates. Our customer has changed and changed forever. Shopping patterns have altered, and number of store visits is falling. They are more demanding than ever and need a little more coaxing into that discretionary purchase than in years past. All of this increases the challenge for Irish retailers.

They are, however, increasingly rising to this challenge. Innovation has become the key focus for the sector in recent years. Retailers are increasingly consumer focused and have placed a greater emphasis on technology, not just from a consumer facing perspective, but more importantly from a back-office viewpoint. Smart stock management, supply chain and fulfilment systems have improved productivity and are now essential to meeting those growing consumer demands referenced earlier. There is still a long way to go, but Christmas 2018 marked an important watershed from a digital retail perspective. Across the board retailers have reported strong growth in online sales. For most it was by some margin their strongest performing channel. It seems Irish consumers have been awakened to the high-quality offer from Irish

retailers in the digital space. While it will take some time to wrestle back a significant portion of that online spend that currently leaves the country, a start has been made and there is a growing sense within the industry that we have reached a point of inflection.

There is no getting away from the ferocious level of competition in the sector at present, however. The Christmas period brought deep discounting and heavy promotional activity in a range of retail categories carrying through from mid-November, beyond Christmas Day and into January. The reasons for such activity are multiple, a slightly softer than anticipated consumer spend in some categories, weather conditions not in keeping with norms for end of year and declining footfall levels owing to shifts in consumer behaviour. The smaller pie was being carved up and no one wanted to end the year with an empty plate.

This behaviour does place pressure on already tight margins and impacts the bottom line. This brings its own attention and probably reinforces the prevailing narrative that retail is a sector in retreat, a high street powerhouse in decline. But at a macro level Christmas 2018 was reasonably positive. The pre-Christmas target of 3% year on year growth in sales values was surpassed. Volume growth of pushing 6% was a reminder of the level of discounting prevalent in the market. By and large Irish retailers can be reasonably satisfied with their lot and most are.

The coming year will present further challenges. The outcome of ongoing Brexit negotiations in the coming weeks may force major changes to retail operations and will without doubt add further to that growing cost base. Any macroeconomic impact of the UK's departure from the EU will hit the retail sector first. Retailers will have to brace themselves for that impact. But the sector is ready in so far as it can be for what 2019 will bring. If the last ten years have shown anything, it is the resilience of this industry. Its ability to survive, adapt and grow can not be questioned. It takes the hit, gets up and goes again. That staying power will be required once more if we are to sustain the growth of the last 5 years into the next decade.



Thomas Burke
Director

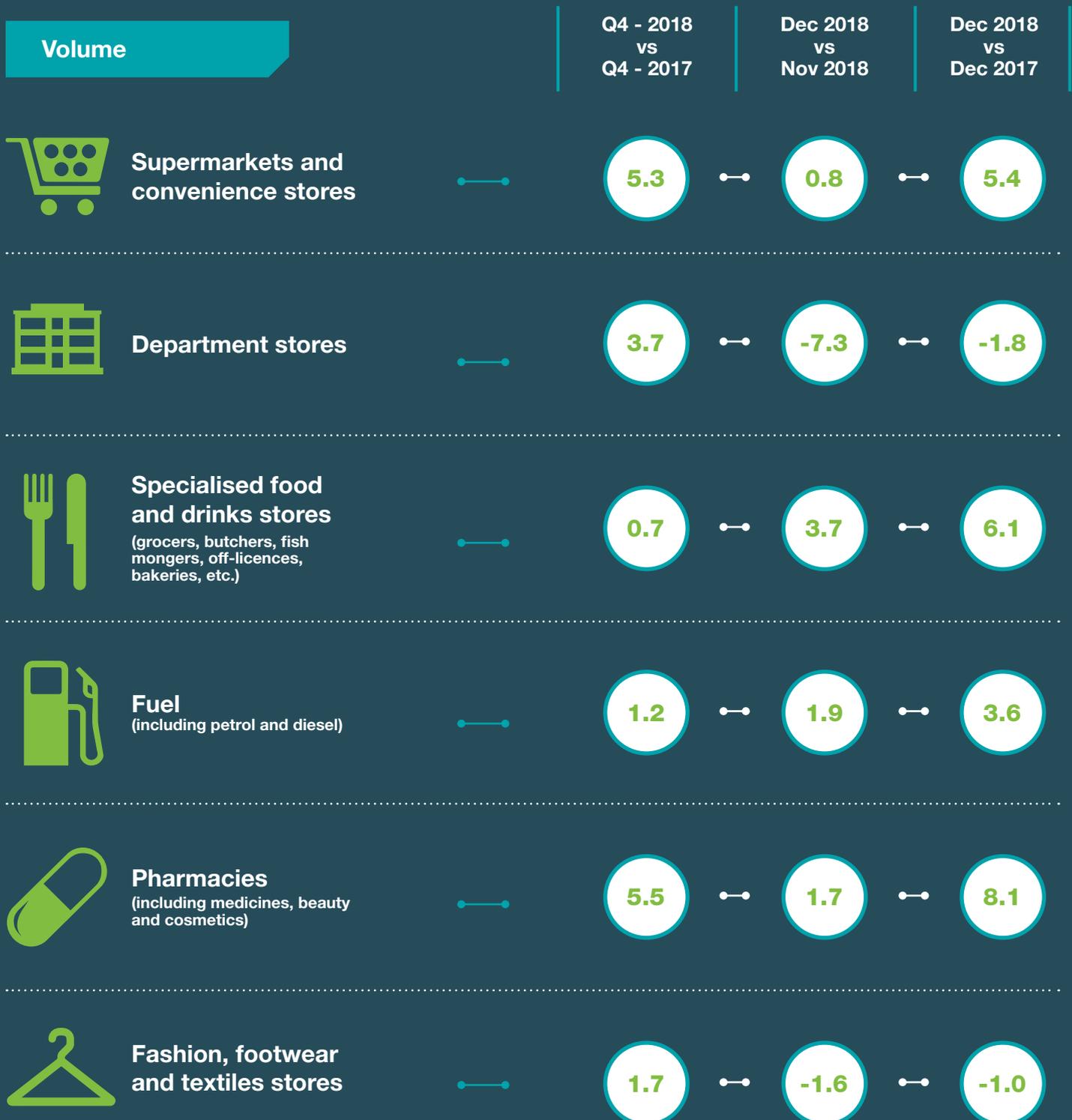
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Value of Irish retail sales – as at December 2018

Value		Q4 - 2018 vs Q4 - 2017	Dec 2018 vs Nov 2018	Dec 2018 vs Dec 2017
 Supermarkets and convenience stores	—	4.2	0.6	4.2
 Department stores	—	0.7	-7.9	-3.9
 Specialised food and drinks stores (grocers, butchers, fish mongers, off-licences, bakeries, etc.)	—	0.2	1.2	3.4
 Fuel (including petrol and diesel)	—	6.5	1.6	9.5
 Pharmacies (including medicines, beauty and cosmetics)	—	1.5	1.3	3.8
 Fashion, footwear and textiles stores	—	0.5	-1.6	-0.9

		Q4 - 2018 vs Q4 - 2017	Dec 2018 vs Nov 2018	Dec 2018 vs Dec 2017
	Furniture, lighting and homewares stores	5.0	-0.6	3.2
	DIY and hardware stores	7.3	4.0	5.0
	Computers, electrical and electronics stores	4.6	-4.6	9.6
	Books, newspapers and stationery stores	5.1	-1.2	2.7
	Other non-food specialised stores (music, toys, garden centres, sports, jewellers, etc.)	-1.4	9.8	5.7
	All retail sales (excluding motor sales and bars)	2.7	0.4	3.8

Volume of Irish retail sales – as at December 2018



		Q4 - 2018 vs Q4 - 2017	Dec 2018 vs Nov 2018	Dec 2018 vs Dec 2017
	Furniture, lighting and homewares stores	9.5	-1.9	8.8
	DIY and hardware stores	8.7	3.9	5.3
	Computers, electrical and electronics stores	17.8	-2.2	22.1
	Books, newspapers and stationery stores	3.9	-3.3	1.5
	Other non-food specialised stores (music, toys, garden centres, sports, jewellers, etc.)	-4.8	-1.5	6.1
	All retail sales (excluding motor sales and bars)	4.3	0.5	5.6

Category analysis

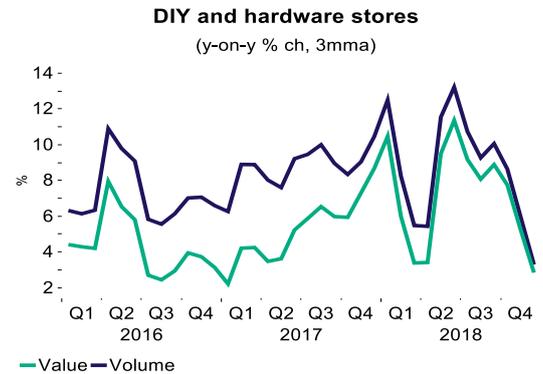
Supermarkets continue to show robust growth

Once again, the retail sales stats for the supermarkets and convenience sector confirm there is no evidence of inflation, either real or synthetic, as caused by consumers trading up in quality or reducing the promotion mix of sales. Volume continues to marginally lead value in a relatively healthy statistical set. Full year growth of 5.3% by volume and 4.2% by value represents the strongest year for this sector since the economic downturn of 2007/8.



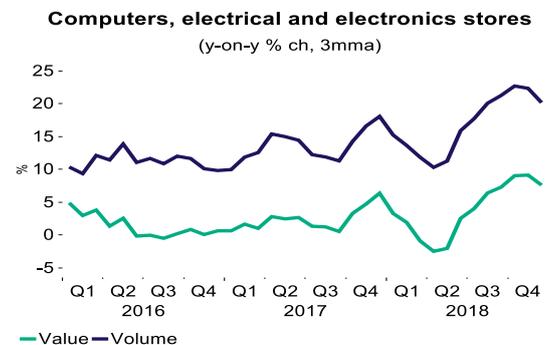
Mixed bag for DIY

Q4 proved overall to be something of a mixed bag for the DIY sector. Mild conditions did little for the heating, fuel and insulation sectors, an important component of category sales in the quarter. This was compensated for by solid if unspectacular demand in the non-seasonal DIY and homewares areas. The sector gets a boost in the final quarter through Christmas decoration, tree and lights sales. Sell through was positive with consumers in the mood to invest in upgrading their Christmas offer. Retailers offering a good online end to end customer experience saw high growth and a good return on their investment.



Discounting continues to inflate sales

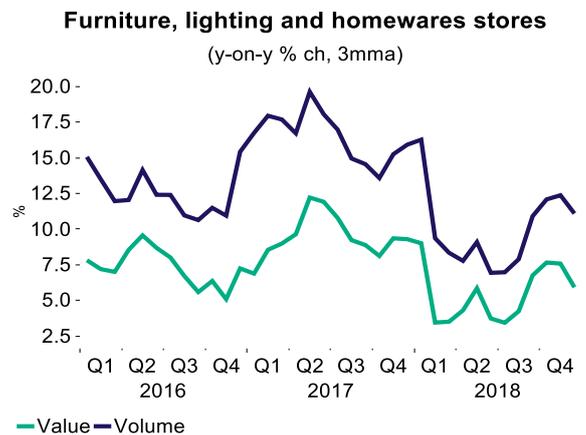
Q4 was another strong period in terms of real sales for electrical goods, as the hangover from discounting continues. In December 2018 there was a slight dip of 2.2% in terms of sales, but this must be compared to a 22.2% increase on this time last year as deep discounting continues well into the Christmas season. This can be seen with a significant drop in prices where home entertainment systems dropped by 13.7% and computer products fell by 27.5%. There is now an expectation by the consumer that discounting will continue well past the now traditional periods of Black Friday and Cyber Monday.



Category analysis

Demand for Homewares remain strong

December was a relatively strong one for Furniture, lighting and homeware stores even though there was a decline of 1.9% in volume terms from the previous month with a nominal decline of 0.6% value in comparison to November. Overall on the same period last year there was a volume growth of 8.8% and a growth in value of 3.2%. Again, volume growth remains markedly stronger than value growth, suggesting promotional activity was a prominent feature of the quarter.



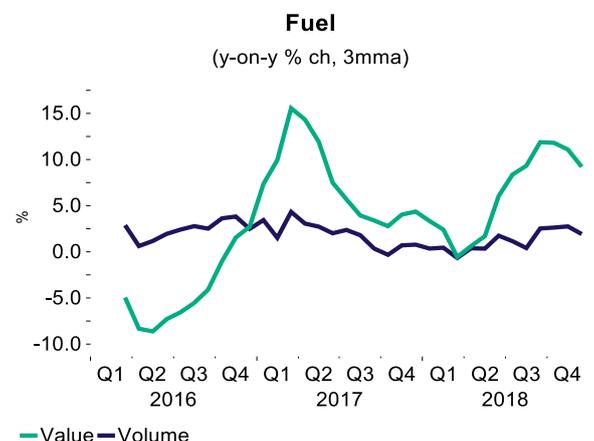
Department Stores have a sluggish end to 2018

There was a drop in the value of sales in Department Stores of 7.9% compared to the same time in November while there was a 7.3% drop in the same period. There is evidence here of the continuation of discounting over the pre-Christmas period, which is now becoming the norm along with the traditional post-Christmas sales. Cosmetics, skincare and beauty had a drop-in price of 4.4% while footwear dropped by 4%. Online sales in this category were strong, particularly over the Christmas period.



Fuel prices end the year on a low

The price of both petrol and diesel at the pumps took a tumble in December from a high of 136.9c and 131.9c respectively to 132.9c for petrol and 127.9c for diesel*. There was a modest increase in volume of sale for fuel of 3.6% in comparison to the same period last year while sales value increased by 9.5%. 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 December 2018 when compared to 2017*.



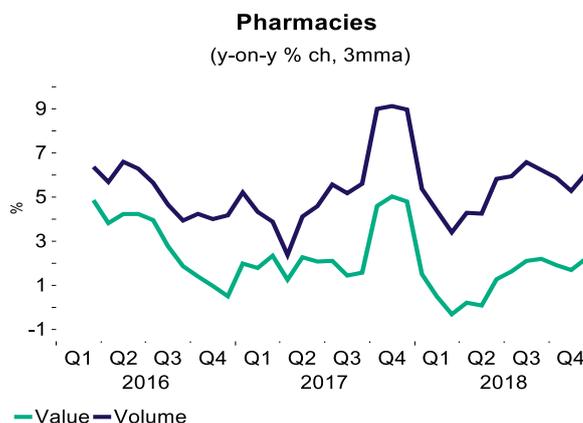
*Source – AA

*Source - SIMI

Category analysis

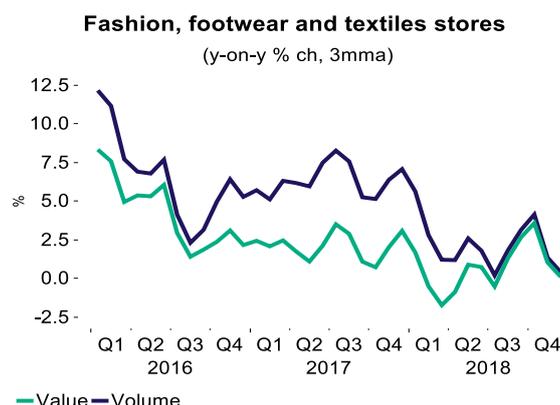
Pharmacies see slight Christmas growth

Pharmacies ended 2018 on a slightly better footing than most sectors with the value of sales increasing by 3.8% when compared with December 2017 and sales volumes increasing by an impressive 8.1% in the same period. This differential in increases between value and volume can be attributed to discounting and promotional offers on beauty products and perfumes over the Christmas period. The same cannot be said for prescribed medicines and other medical products which saw a fall of 3.7% and 1.2% respectively; this is largely as a result of the unseasonably mild early winter period which led to a lower rate of flu and cold outbreaks.



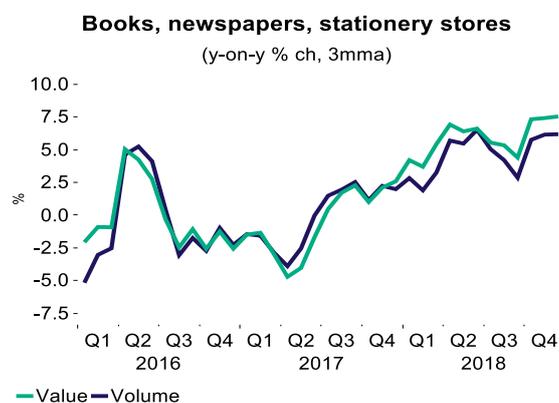
A challenging Christmas for fashion and footwear sales

A combination of online pressure and an unseasonably warm early winter period led to significant discounting and promotional activity in the fashion category. The early Christmas sales period in November was tough, with sales particularly soft during the week of Black Friday with some commentators suggesting online sales growth in this period was strong. Several storms in the early part of December disrupted that sales rhythm also. There was, however, a pickup in trade in the latter part of December, which allied to the extra trading day during Christmas week, compensated somewhat.



Complex end to the year for Books, Newspapers and stationery

Christmas 2018, was a complex Retail season, which can be split into two halves, with the first half dominated by Black Friday activity, with the second half being very back ended to the last ten days. Online had a significant impact on footfall over the entire season, but impacted most during the November period, where significant revenue growth was delivered online, albeit at the expense of margin driven by the increased discounting in the market place. This impact lessened as December progressed, as the last minute nature of consumer profile increased, and increasingly returned to stores, particularly shopping centres. Overall the book market was up 4% during this period, year on year.



Macro trends

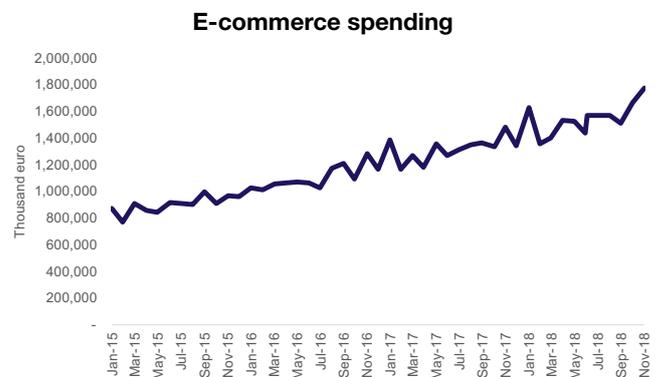
UK sees first stall in sales for 28 months

There has been a marked slowdown in retail sales in the United Kingdom throughout 2018. In the three months to December 2018, estimates in the volumes decreased by 0.2% with declines across all main sectors except fuel. When compared with the previous month, in December 2018 volumes decreased by 0.9%, as all sectors except food stores and fuel stores declined on the month. Looking at annual growth rates, sales volumes in 2018 increased by 2.7%; an annual slowdown in comparison with the peak of 4.7% experienced in 2016. Non-food stores was the largest contributor towards the decline seen in December 2018 for both volume and value at -1.1%, suggesting that UK consumers are curtailing discretionary spend at present. There is little optimism in the retail sector in the UK as the worry over a no deal Brexit looms large in the first quarter of 2019.



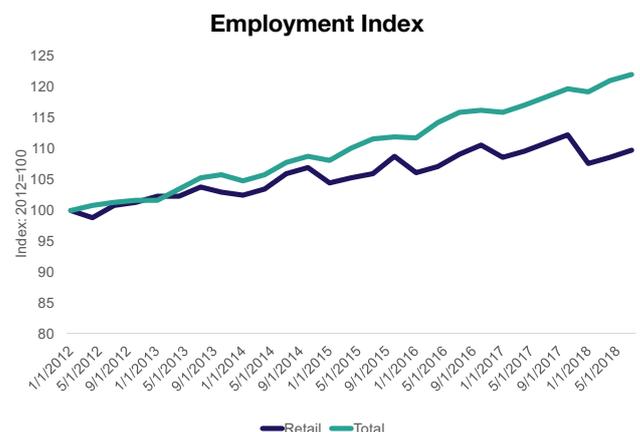
Online shopping continues to grow

In the 11 months to the end of November 2018 ecommerce transactions topped €15.2 billion. While not all direct retail sales, this is consistent with the long-term upward trend of online shopping with now over 50% of Irish consumers shopping online. This has increased from 19% a decade ago. One of the main contributing factors to the increase in online retail is the convenience it brings at a time when consumers are time poor. Consumers are increasingly happy to make their purchases online from the comfort of their living rooms rather than travelling to a store. There is also evidence from KPMG's Retail and Consumers Report 2018 that reinforces this view of convenience being a major driver as it highlights that the majority of people are now using their smart phones to shop online rather than via a desktop computer.



Unemployment Continues to fall

Ireland has seen a relative boom in jobs in all sectors including retail in recent years and is now almost reaching full employment. The total number employed now tops 2.27 million, a record high in the history of the State. As of December 2018, the rate of unemployment stands at 5.3% or 127,100 persons. This, while welcome, has led to increased reports of labour shortages in certain sectors. As we reach full employment, the high cost of housing and childcare, allied to high marginal tax rates on second earners and long commutes, is impacting retail's ability to adequately resource our stores. It is becoming increasingly difficult to fill a variety of roles in other sectors also, with the construction sector reporting particular challenges. This is likely to have a knock-on effect on housing supply.





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