Q3 Retail Ireland Monitor

November
2018

Late summer surge sees sales growth sustained

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Little in the way of budget buzz for Irish retail

Following an impressive performance by certain retail categories over the early months of Summer 2018, there was some scepticism in the trade as to whether that strong performance could be carried into the third quarter of the year. Other retail categories didn't see the strong uplift in sales in Q2, but hoped that a generally more positive consumer and strong macroeconomic fundamentals could provide a dividend over late summer and early spring. Now that the ink has dried on Q3 results, it is clear that this optimism was not without foundation. Despite continuing concerns from the sector over the patchy nature of sales and the difficulties that this is posing in terms of business planning and from a store operations perspective, the overall trend remains positive. Across almost all retail categories we saw a continuation of the steady growth in the year to date. Some categories are undoubtedly outperforming others, but a general air of 'steady as she goes' is taking hold in the sector at present.

Much like the swan on the river however, the strong numbers mask real efforts beneath the surface to maintain this growth trajectory and an air of ongoing uncertainty and concern continues to prevail in the industry regarding what the coming year might bring. In the midst of a strong macroeconomic performance, the industry has been able to carve out some value growth and expansion in the top line, which has generally allowed retailers to hold the bottom line steady, if not marginally grow it, despite the rapidly increasing cost base with which retailers are working. The concern now is what happens if we experience a slowdown in that strong economic performance or in the event of an external shock so great that it rocks the Irish consumer back on their heels and their wallet's back into their pockets. The chances of such a shock remain strong given the growing geopolitical uncertainty and continued softening in global economic growth, and all that is before we even mention March 29th, 2019, and what life will bring post Brexit day.

But the mantra for Irish retailers in recent years has been to plan for the worst and hope for the best. Never has this approach been more appropriate than it will be in the months ahead. What we do know is that there will be a very limited stimulus arising from the recent Budget 2019 announcement. Minister for Finance Pascal Donohoe TD was at pains to highlight the importance of a prudent and cautionary approach to fiscal planning over the next 12 months. This left what many felt was a paltry sum to divide amongst the masses. It should be acknowledged that consumers will have more money in their pockets post January 1st, 2019. Limited tax reductions and increases in social welfare will ensure that the average Irish consumer will be €4 better off each week. The concern for many consumers however, is that much of this benefit will be eroded by a growing cost of living, particularly in urban centres where growing housing, childcare and utility costs continue to put pressure on personal finances.

There is a similar sentiment amongst retailers about the likely impact of the recent Government Budget. Most welcomed the commitment to continue to reduce the burden of taxation on Irish consumers and the further investment in in-work training initiatives, which should assist with crucial upskilling in the sector in the years ahead. The major issue for the sector however, was the failure to address the growing cost base under which retailers continue to struggle. The confirmation of plans to increase the National Minimum Wage to €9.80 from January 2019, a cumulative increase of over 13% since 2015, was the single greatest blow to the sector's competitive position within the provisions. At a time when inflation continues to hover close to 1%, a further increase in this wage floor will only serve to drive rates at levels well in excess of this rate, even higher. Given the growing impact current labour shortages are having on labour costs and the competitive nature of the labour market at present, there was little requirement for the legislature to further underpin the statutory wage floor.

There was also widespread disappointment about the failure to maintain the lower 9% VAT rate, particularly for sectors who continue to face challenging operating environments, including hairdressing and food service. It would appear that the requirement to balance the books outweighed the valid concerns of certain sectors. The noise around the larger contributing, and benefiting, sectors of the lower VAT rate ultimately meant niche categories within the mix fell foul of a one size fits all type approach by Government to the matter. It remains to be seen what impact this increase will have on consumers once imposed in the new year, but it will likely impact incremental spend in the affected categories.

These developments along with the perennial input cost concerns of recent months including growing labour costs, rising insurance premia and increasing local authority charges, all make sustaining the current strong performance of the sector even more challenging. But many retailers are now watching daily and weekly performance in order to get a read of what the year-end will bring. Year-end targets are in full view and now that Halloween is over, there is only one word on anyone's lips… Christmas is coming…

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Value of Irish retail sales – as at September 2018

Value	2018 vs 2017	Q3 – 2018 vs Q3 – 2017	Sept 2018 vs Aug 2018	Sept 2018 vs Sept 2017
Supermarkets and convenience stores	4.1	4.0	1.9	4.4
Department stores	2.0	3.7	-4.4	-0.3
Specialised food and drinks stores (grocers, butchers, fish mongers, off-licences, bakeries, etc.)	-0.3	3.2	6.6	7.5
Fuel (including petrol and diesel)	5.3	10.9	1.8	12.4
Pharmacies (including medicines, beauty and cosmetics)	1.0	2.3	0.9	2.6
Fashion, footwear and textiles stores	0.5	1.3	4.3	7.2

	2018 vs 2017	Q3 – 2018 vs Q3 – 2017	Sept 2018 vs Aug 2018	Sept 2018 vs Sept 2017
Furniture, lighting and homewares stores	4.5	4.1	0.2	3.4
DIY and hardware stores	7.9	8.3	6.6	13.1
Computers, electrical and electronics stores	2.1	6.3	7.4	9.1
Books, newspapers and stationery stores	5.1	5.2	-2.1	1.8
Other non-food specialised stores (music, toys, garden centres, sports, jewellers, etc.)	-0.2	2.1	4.0	7.7
All retail sales (excluding motor sales and bars)	2.7	3.9	2.6	5.8

Source CSO

Volume of Irish retail sales – as at September 2018

Volume	2018 vs 2017	Q3 – 2018 vs Q3 – 2017	Sept 2018 vs Aug 2018	Sept 2018 vs Sept 2017
Supermarkets and convenience stores	5.3	4.9	1.7	5.2
Department stores	5.3	6.2	-4.3	2.2
Specialised food and drinks stores (grocers, butchers, fish mongers, off-licences, bakeries, etc.)	2.0	5.4	6.5	9.9
Fuel (including petrol and diesel)	0.8	1.6	1.5	3.8
Pharmacies (including medicines, beauty and cosmetics)	5.2	6.2	0.2	5.8
Fashion, footwear and textiles stores	2.4	1.8	4.0	7.8

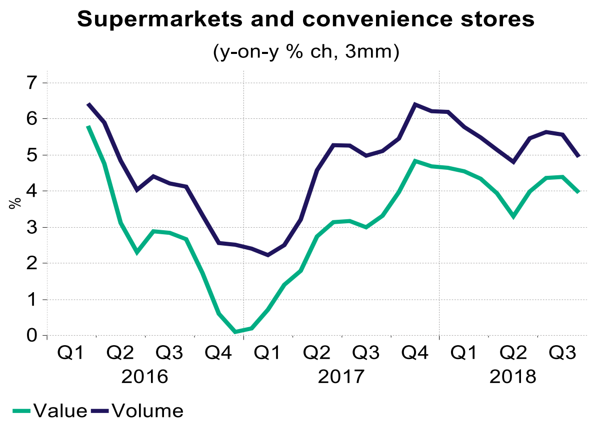
	2018 vs 2017	Q3 – 2018 vs Q3 – 2017	Sept 2018 vs Aug 2018	Sept 2018 vs Sept 2017
Furniture, lighting and homewares stores	8.7	7.7	0.1	7.8
DIY and hardware stores	9.7	9.5	7.0	13.9
Computers, electrical and electronics stores	14.7	19.7	9.2	22.8
Books, newspapers and stationery stores	3.9	4.3	-1.7	0.5
Other non-food specialised stores (music, toys, garden centres, sports, jewellers, etc.)	-4.1	-4.6	2.8	1.7
All retail sales (excluding motor sales and bars)	4.3	4.6	2.9	6.7

Source CSO

Category analysis

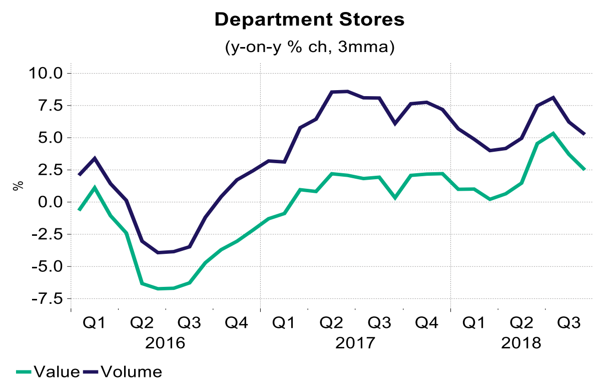
Premiumisation and treats drive grocery sales higher

Trade has been strong in recent months, driven by a number of factors. Volume and value changes are coming into line with the long-term trend of volume growth exceeding value growth not just eliminated but reversed in the month of September. The long hot summer was a major boost for convenience stores but there was evidence that the extra spend across the summer led to some belt tightening in September itself. Some evidence of premium product and treats over indexing in the sales recovery, a bellwether for the stronger economy.



Online provides a boost to department store sales

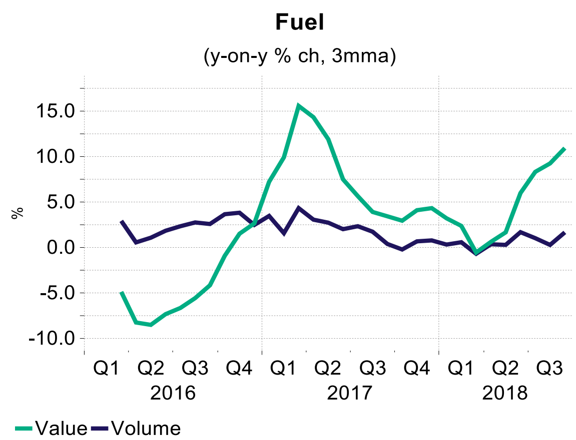
Menswear and men's shoes continue to be a key driver of growth, with contemporary brands and training shoes / sneakers performing strongly. Women's luxury accessories also performed well. Increasing dominance of athleisure trends influenced womenswear sales which were more subdued. In Beauty, new and emerging brands performed well. Overall online continues to grow strongly, with some evidence that customers outside Dublin are more attracted to the wider flagship offer available online.



Diesel remains king as unleaded sales fall

Fuel sales have shown little growth over the first 9 months of 2018. In fact, sales in unleaded fuel has declined by circa 9% year-on-year. This has been offset by growth in diesel consumption which is up 1% on the same period last year. Diesel continues to be the dominant fuel accounting for 74% of the total road transport fuels during the quarter. Meanwhile pump prices for Q3 2018 increased by an average of 3.5%*, with price increases of 9% on unleaded and 15% on diesel when compared with the same quarter in 2017.

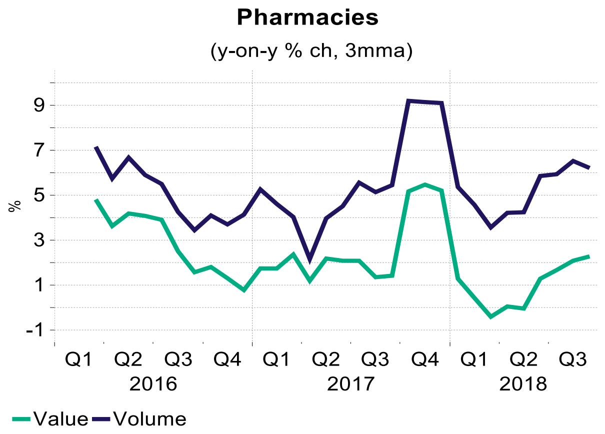
* Source AA



Category analysis

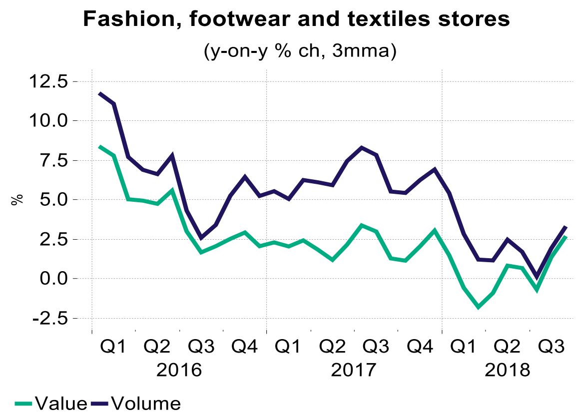
Long summer and beauty recovery drives sales upwards

With the warm Summer weather continuing well into July and August, Q3 proved a solid quarter for the pharmacy sector. Strong seasonal healthcare sales in hay fever related areas and sun care products, coupled with a healthy performance on core toiletries & baby goods were the main contributors to strong growth in this category in the period. Beauty related categories performance recovered in the quarter after a dip in the second quarter of the year.



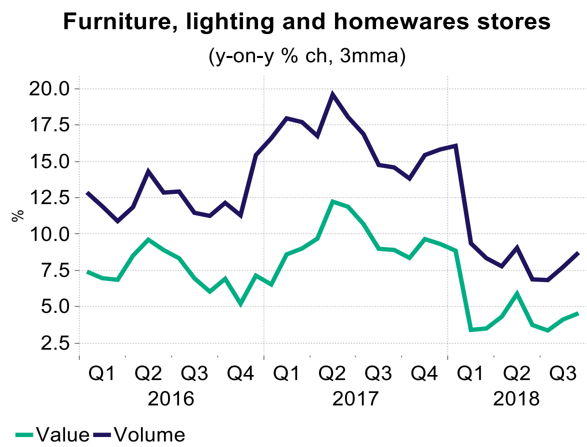
Fashion and footwear sales continue to underperform

Despite strong growth in the category in the month of September, fashion, footwear and textile sales remain almost flat in the year to date. Strong trends in the category towards athleisure and more causal clothing lines have been unable to drive sales upwards while inconsistent and erratic weather patterns over the course of the last 12 months have disputed the category's traditional seasonality. The sector continues to be one of the most challenged by online competition despite advance by local traders in this space in recent times.



Demand for furniture and homewares bounces back in Q3

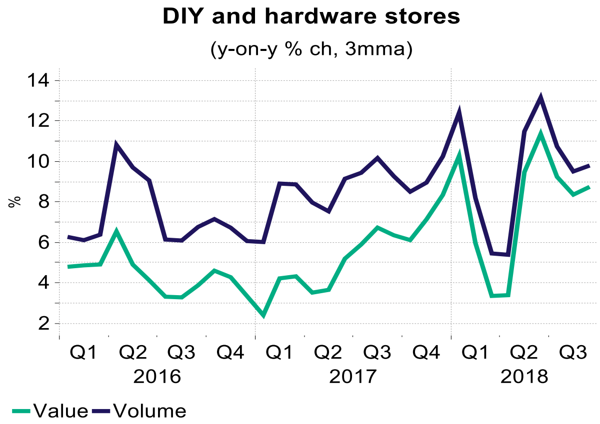
After a disappointing result in the second quarter of 2018, Q3 produced a stronger performance for furniture and homewares as temperature cooled consumers returned to stores. Small month-on-month growth was underpinned by stronger annual growth as the category benefited from an increase in housing market activity and a drive by consumers towards big tickets items in the post Summer period. Again, volume growth remains markedly stronger than value growth suggesting promotional activity was a prominent feature of the quarter.



Category analysis

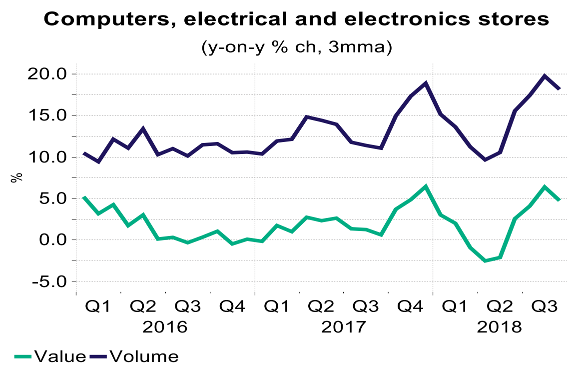
Rise in home enhancement projects brings steady growth

Q3 saw continued buoyancy in the DIY sector. While gardening related categories declined following the peaks reached over the summer, this was adequately compensated for by positive trends in the decorative, DIY and maintenance categories. Consumers are feeling more confident to tackle home enhancement projects with this likely to keep the sector healthy in the short term.



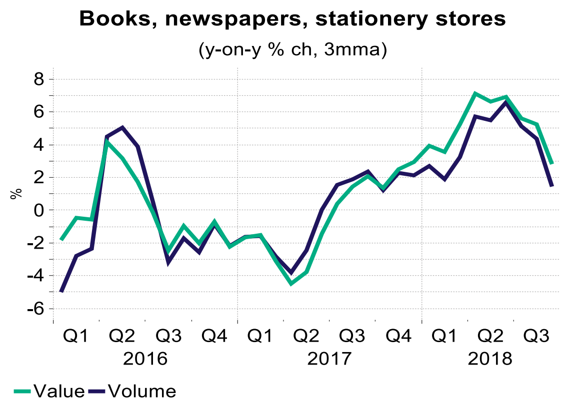
Product launches and deep discounting the order of the day

A strong performance in the category with sales values increasing by 7.4% in the month of September and by over 2% in the year to date. Undoubtedly some of this growth is coming at the expense of margin with sales volumes continuing to soar, growing by over 22% in September when compared with the same month last year. New product launches by market leaders earlier this year have helped drive activity in this quarter, but the early start to the Christmas season for this category will make the coming weeks crucial as discounting and promotional based activities begin in advance of Black Friday.



Book sales remain solid, while magazines enjoy temporary relief

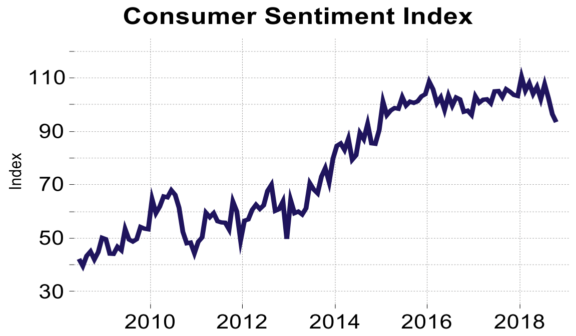
After a positive July performance, the Books, Newspapers and Stationery category saw year on year declines in both August and September. With back to school being a significant driver of book and stationery sales in the quarter, the continued migration of consumers to online retailers for schoolbook purchases and a switch in stationery purchases to non-specialist retailers both had negative impacts on the quarterly index. These trends were however offset by growth in the rest of the book market, resulting in a relatively flat overall volume and value performance for the quarter.



Macro trends

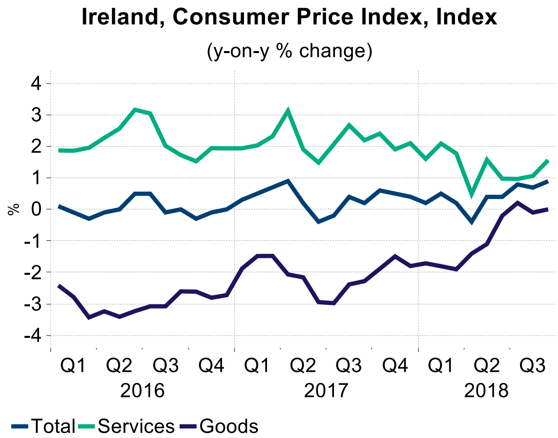
Potential for 'no deal Brexit' weighs on consumer minds

The KBC Bank/ESRI consumer sentiment index fell to 93.5 in October from 96.4 in September. The sentiment index is now at its lowest level since December 2014. Despite the small boost to personal finances from Budget 2019, Irish households remain concerned about the potential for a 'no deal Brexit' and the possibility of a negative economic shock. Consumer sentiment in Ireland remains out of line with other comparable economies. In the Euro area, consumer confidence improved marginally in October. The latest UK confidence reading recorded a slight decline (to -10 from -9) but this produced a three-month low in UK sentiment whereas the Irish index is at a 46-month low.



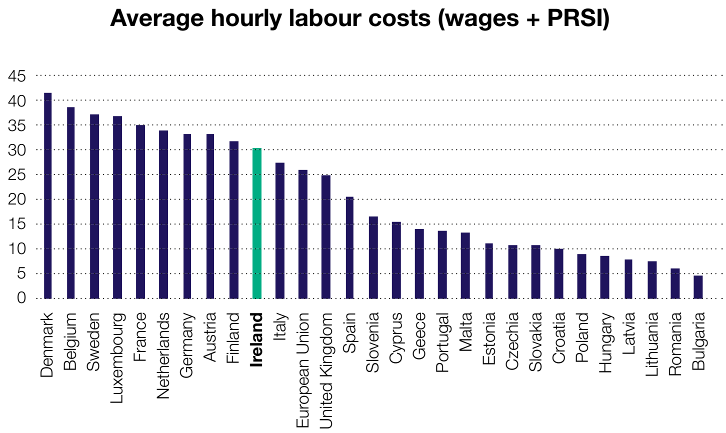
Goods prices flat as housing and utilities prices rise

Prices on average, as measured by the CPI, were 0.9% higher in September compared with September 2017. The sub index for Services rose by 1.6% in the year to September, while goods prices remained flat. Overall inflation in the economy continues to show no signs of pickup despite increases in wages and employment. Continued retail price competition has seen clothing and grocery prices fall along with household goods such as furniture. Housing, utilities, hospitality and education are the only price categories which are up substantially year-on-year. Despite this, we expect inflation to average around 0.6% in the full year of 2018.



Budget 2019 continues to put pressure on labour costs

Labour costs in Ireland are 15.6% higher than the EU average (includes employers PSRI) and wages are 32% higher that the EU average. Budget 2019 will increase the minimum wage by 25c per hour, from €9.55 to €9.80, a cumulative increase of over 13% since 2015. The Employment Miscellaneous Bill 2017 and the proposed introduction of an auto enrolment pension scheme in 2022, will further add to labour costs. As domestic labour shortages begin to place pressure on wages in labour intensive sectors, retailers will begin to feel upward pressure over the coming years with the risk of a knock-on impact on domestic prices and competitiveness.



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