Retailers feel pressure as online shopping hits €16bn

Irish retailers are under pressure to up their game and compete with digital shopping trends, especially as Black Friday nears.

Irish online shopping is forecast to hit €16bn this year, up 16pc compared with last year, and €250m of this will be spent on Black Friday alone.

The latest Consumer Market Monitor (CMM), published today by the Marketing Institute of Ireland and UCD Michael Smurfit Graduate Business School shows that Irish consumers are continuing to spend despite some weakening in confidence and the relentless move towards online retailing is continuing unabated.

This trend will be underlined on Black Friday (29 November), when €250m is forecast to be spent by Irish shoppers, split almost equally between online and bricks and mortar retailers, according to Marketing Professor Mary Lambkin of UCD Michael Smurfit Graduate Business School, author of the report.

Retail spending continues to migrate online

“Whilst higher wages and improving household finances are welcome developments, Irish retailers must urgently lift their game in order to win greater shares of online spend” said Tom Trainor, chief executive of the Marketing Institute of Ireland.

Retail sales (excluding the motor trade) were solid in 2018, up by 3.8pc in volume and 2.7pc in value, but lower than 2017 (+5.8pc in volume and +3.5pc in value). 2018 sales equated to €45 billion which was back to the levels last seen in 2007.

2019 got off to a strong start in Q1 with sales up by 5.8pc in volume and 4.2pc in value year-on-year. Momentum slowed a bit in Q2, with volume up by 3.6pc and value up 2.2pc year-on-year. The third quarter has been relatively strong, up 4.2pc in volume and by 1.8pc in value year-on-year. This amounts to an average of 4.5pc growth in volume and 2.7pc growth in value for the year to the end of September which is consistent with 2018.

Household equipment continued to be the fastest growing category this year, up by 13.2pc in volume and 5.9pc in value in Q3, year-on-year. Sub-categories within that -- electrical goods and furnishings -- did exceptionally well, up by 18.0pc and 6.6pc respectively.

Supermarkets and other food stores also performed very well, as did pharmaceuticals and cosmetics. Department stores and the motor trade were the weakest categories in Q3, down by -6.5pc and -4.5pc in volume respectively.

Key points:

- Food sales up 5.2pc in volume and up 4.5pc in value
- Non-specialised stores (supermarkets) up 5.6pc in volume and 4.5pc in value
- Household equipment up 13.2pc in volume and 5.9pc in value
- Pharmaceuticals and cosmetics up 5.6pc in volume and 3.0pc in value
- Clothing, footwear & textiles up 1.4pc in volume but down -0.7pc in value
- Fuel up 0.8pc in volume but down by -0.5pc in value
- Bar sales up 0.6pc in volume and down -0.7pc in value.
- Books, newspapers and stationery down -3.1pc in volume and -1.3pc in value.
- Motor trades down -4.5pc in volume and down -3.5pc in value
- Department stores down -6.5pc in volume but down -9.5pc in value

Economic growth, consumer confidence and Brexit

The Irish economy is continuing to grow strongly, with consumer spending providing the main stimulus together with property investment. Personal spending grew by 3.4pc in 2018 to €105bn and is up by 3pc in the first half of this year which is a strong performance.

A recent weakening in consumer confidence, however, as well as a slowdown in car sales point to some loss of momentum so latest forecasts point to a slightly reduced growth rate of 2.6pc for 2019 as a whole, with a further slowing to 2.4pc in 2020.

This is a relatively good performance against a backdrop of uncertainty concerning the outcome of Brexit. It seems likely that this uncertainty will continue to weigh on consumers up to the end of this year, although the risk of a “no deal” Brexit seems to be receding giving reason for renewed optimism. The strong fundamentals in the Irish economy are also a counterbalance to any negative sentiment associated with Brexit.

The key fundamentals are the continuing growth in employment and incomes leading to significant improvements in household finances. There are now 2.3 million people at work, up 45,000 (2pc) year-on-year, and up by 439,000 or 20pc from the low point in mid-2012. Employment is expected to continue growing but at a moderating rate as the economy approaches full employment. Projected growth of 2.4pc for 2019 and 1.7pc in 2020 will add another 100,000 people to the workforce.

Wages increased by 2.5pc per annum from 2015 to 2017, by 3.5pc in 2018 and are trending up by a further 3.6pc this year as the labour market approaches capacity.

55,000 homes were sold in 2018 and sales are up again this year, but only by 2pc, suggesting a total of 56,000 for 2019. In contrast, the number of mortgages approved was up 10pc in the first half of the year indicating that demand is still strong. 65pc of those mortgages are going to first time buyers showing that this is still the predominant need.

The market for cars is the most troubled sector right now; sales of new cars were down by -7pc in the year to the end of September, for a total of 107,686. This suggests a total of about 112,000 new cars for the full year. This continues the negative trend of the previous two years, with sales down -10.5pc, in 2017 and by a further -4.6pc in 2018.

The disposable income of Irish households rose by 6pc in 2018 to a total of €110bn, significantly overtaking the last peak of €101m in 2007. Increasing numbers in employment together with pay increases drove this growth.

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Earnings growth has also played a significant role in recent years; wages increased by about 2.5pc per annum from 2015 to 2017, by 3.5pc in 2018 and by a similar rate in 2019. Average weekly earnings stand at €771 this year, equivalent to annual pay of €40,000 and this is forecast to grow further next year as the labour market tightens.

Household wealth has also recovered well from the recession, standing at €772bn in 2018, €444,000 per household or €159,000 per person. This is up by 70pc from the trough of €430bn in Q2 2012.

Main image: Kyle Johnson ***on*** Unsplash

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