

Q1

May
2018

Retail Ireland Monitor

Storm Emma cools retail sales

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Storm Emma the unwanted star of the show in Q1

There are no prizes for guessing the major talking point within the retail trade following the close of the first quarter of the year. Storm Emma has dominated not only public discourse through media coverage during the first three months of 2018, but conversations within the trade have also been dominated by the significant damage done to trading performance during that faithful week in late February, early March.

It had been a reasonably good start to 2018 for Irish retailers, with most categories trading strongly in the first two months of the year. A motoring economy, buoyed by growing disposable income and improving consumer sentiment in the post-Christmas period had seen tills ringing again, and retailers generally in positive mood following a good start to the year. However, a freak weather event was to derail that positivity as March loomed. Six-foot snow drifts, a red weather warning and a country in lock down meant that when the snow melted, and trade eventually returned to normal, it was clear that this was more than just a small blip. Falling as it did during the busiest part of the retail week (Thursday-Sunday), retailers' ability to limit the damage was restricted. Uncertainty is the enemy of retail and most in the sector experienced the guts of a full week of uncertainty, as initially the population hunkered down, bracing itself for the approaching storm. Then came the blitz as weather not seen since the early 80's battered the country, with the East coast particularly affected. Then came the clean-up operation. As supply chains returned to normal and consumers emerged and once again went about their daily business, a full week had passed, and retailers were left counting the cost countrywide.

It is difficult to put hard numbers around the revenue lost in the retail sector as a result of Storm Emma, but our straw poll of large and medium sized retailers suggests it easily runs into the tens of millions of euro.

So, what did we learn from all of this? Firstly, we remain unprepared and ill equipped for the ravages of Siberian-esque weather. Not surprising you may say given the infrequency of such events. Secondly, community spirit is alive and well in Ireland, with numerous examples of neighbours helping each other out in extremely difficult conditions. But what is also clear after the events of Storm Emma is the unique role Irish retailers play in the social fabric of Irish society. Amid a run on bread, dairy products, soup and other staples; retailers flexed up supply chains in order to continue to keep shelves stocked and communities fuelled to meet the challenges posed by the Storm. Long queues were serviced as many relied solely on their local stores as a focal point, not only for food, fuel and related products, but as the social hub of the community during the blitz like spirit which took hold in Ireland during that week. Retailers should also be praised for their rapid and responsible reaction to the unfolding events.

All heeded warnings from the National Emergency Coordination Group and took the early decision to close during red weather warnings, despite the huge costs incurred. They made the safety of their staff the primary focus and also took the proactive move to ensure staff rostered for days that businesses were closed were not out of pocket, despite the silence of the tills on those days.

As with any event, lessons can be learned and clarity around certain issues will be required before we face another such weather event. What exactly does a red weather warning mean? Is it merely an advisory, or are there curfew implications? Furthermore, many questions were raised around the implications for commercial and fleet insurance during a red weather warning, clarity will be required here also. Finally, we must consider how we keep the country moving during any future such events. While there can be no doubt that the authorities did a wonderful job of ensuring public safety during the Storm event, we must consider how we keep vital routes clear for food, fuel and pharmaceutical deliveries during red weather warnings. The sector remains committed to achieving such an outcome and stands ready to work with the National Emergency Coordination Group and others to make this happen. The 'just in time' nature of the highly integrated, sophisticated, modern retail supply chain presents unique challenges in this regard, but all parties must work together to ensure we are fully prepared to meet these challenges in future.

In terms of the revenue lost during this period, I'm afraid that will not be recouped. People won't buy that extra newspaper or that extra tank of fuel. Those sales are lost permanently. Its timing was also unfortunate coming as it did on the cusp of the change in seasons from winter to spring. This exacerbated its impact for some retail categories as it delayed the onset of spring in the minds of many consumers. This delay is particularly detrimental to the fashion, footwear, hardware & DIY retail categories.













Retailers will end 2018 talking of the snow earlier in the year, and the what might have been. Many are now looking to Q2 to make up the ground lost during the first quarter of the year. This year will be synonymous with the great snow of late February, early March, but how we react and prepare for the next such event will define the impact of future weather events on Irish retail. The time to start planning is now.

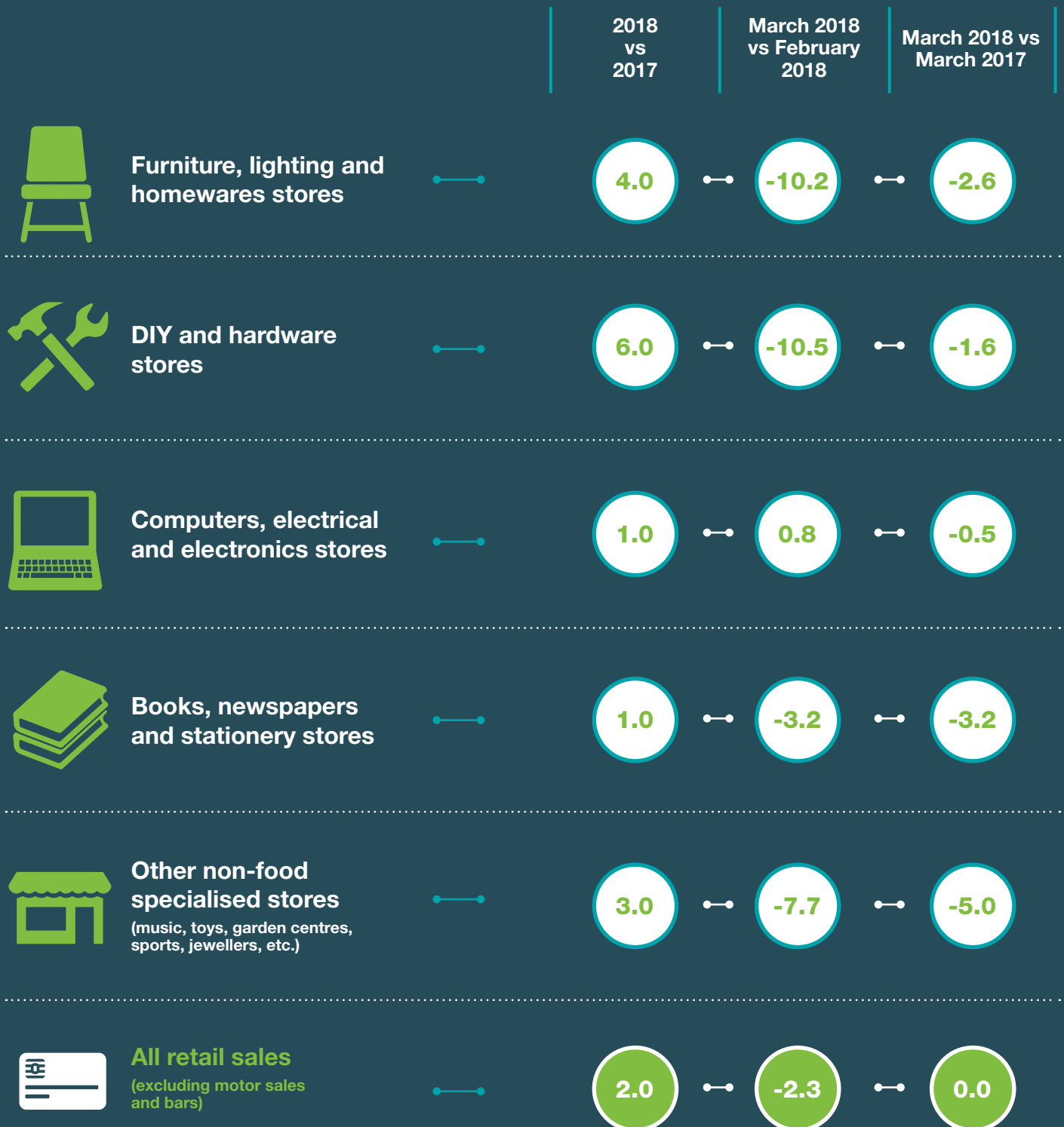


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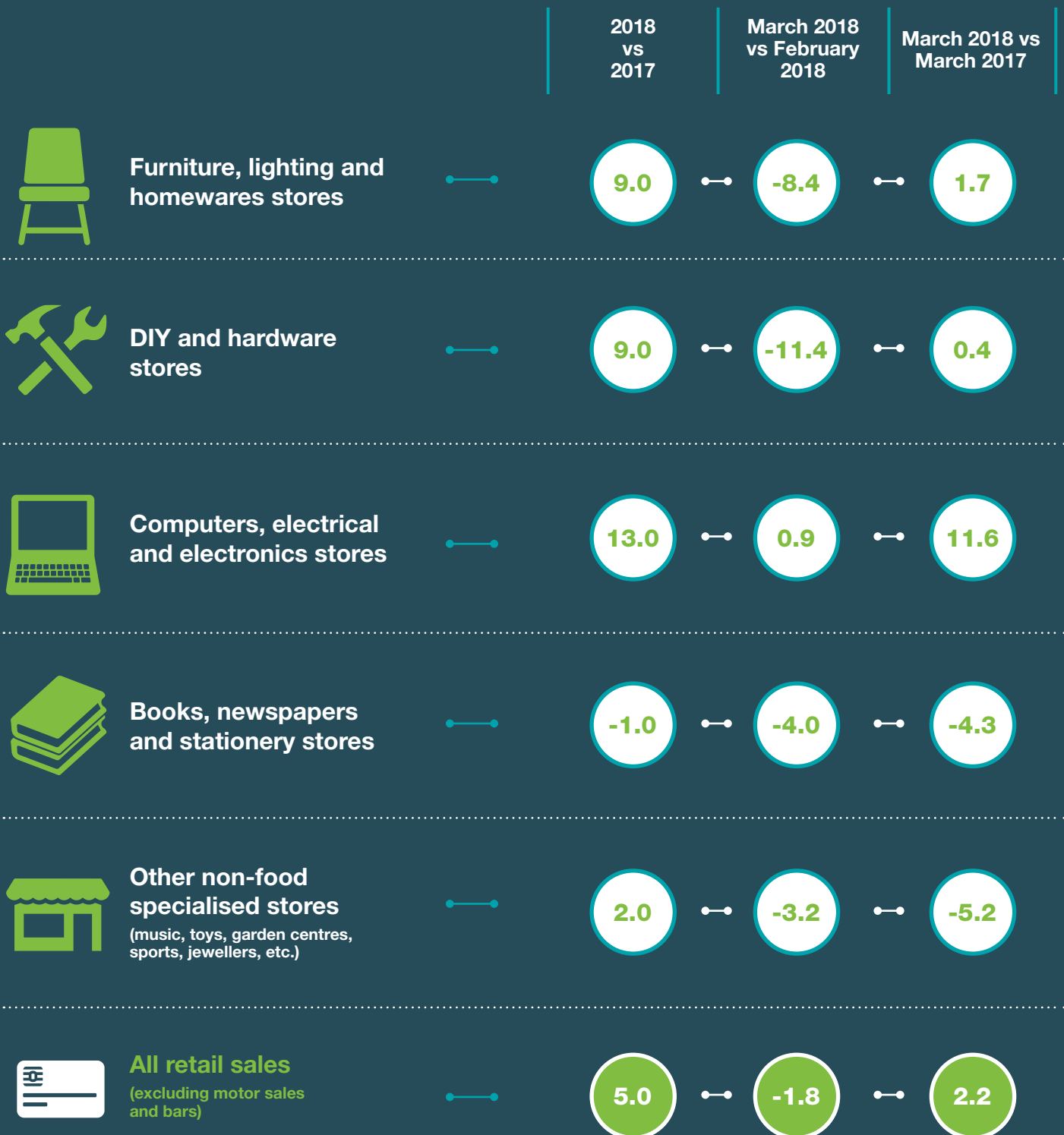
Value of Irish retail sales – as at March 2018

Value		2018 vs 2017	March 2018 vs February 2018	March 2018 vs March 2017
 Supermarkets and convenience stores		4.0	-0.6	4.0
 Department stores		1.0	-3.1	1.9
 Specialised food and drinks stores (grocers, butchers, fish mongers, off-licences, bakeries, etc.)		-3.0	-1.5	-6.3
 Fuel (including petrol and diesel)		-1.0	-6.1	-5.8
 Pharmacies (including medicines, beauty and cosmetics)		-1.0	-2.2	-3.5
 Fashion, footwear and textiles stores		-1.0	-3.8	-4.4



Volume of Irish retail sales – as at March 2018

Volume		2018 vs 2017	March 2018 vs February 2018	March 2018 vs March 2017
 Supermarkets and convenience stores		6.0	-0.5	5.6
 Department stores		5.0	-1.2	5.4
 Specialised food and drinks stores (grocers, butchers, fish mongers, off-licences, bakeries, etc.)		-1.0	-1.5	-3.8
 Fuel (including petrol and diesel)		-1.0	-4.1	-4.8
 Pharmacies (including medicines, beauty and cosmetics)		3.0	-1.3	0.3
 Fashion, footwear and textiles stores		3.0	-4.1	-1.9

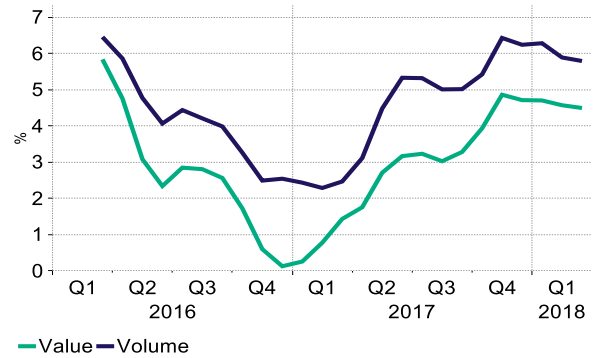


Category analysis

Consumers stock up on storm provisions in local supermarkets & convenience stores

It would appear that Storm Emma was a leading factor in significant growth in both sales value and volume in the supermarkets and convenience stores sector in the first quarter of 2018. February's performance in this category is the key driver in strong year to date figures. Despite Easter falling in March this year, it could not live up to the performance of February, with both value and volume falling on the previous month. Within the category, Storm Emma with its heavy snowfalls ultimately proved a net positive for convenience stores and local supermarkets, but impacted more adversely on big box retailing.

Supermarkets and convenience stores
(y-on-y % ch, 3mma)



Turbulent weather impacts Department stores in Q1

Department stores had a strong start to the year with total sales values growing by 1% in quarter one 2018 compared to Q1-2017. Total sales volumes increased by 5% over quarter one 2017. The fall in total sales value of 3.1% and total sales volume by 1.2% for the month of March, when compared to the previous month, demonstrates how the bad weather seriously affected sales and footfall in Department stores at the beginning of March.

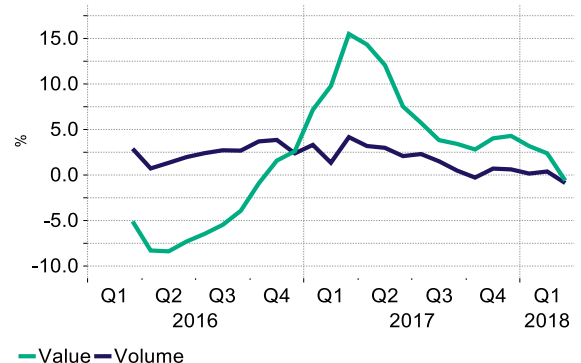
Department stores
(y-on-y % ch, 3mma)



Beast from the East dampens March's fuel sales

Prices at the pump increased by 1% in the first three months of 2018 compared to Q4-2017. On an annualised basis, prices at the pump increased by 1% in Q1-2018 versus Q1-2017. Volumes were significantly impacted by Storm Emma at the end of February and the start of March, and the drop-in fuel volume sales during that week were not recovered in subsequent weeks. Fuel sales continue to be impacted by more efficient vehicles in the Irish fleet. Hybrid and Electric vehicle sales accounted for circa 6% of new cars sold in the first three months of 2018, up from 4% compared to the same quarter in 2017.

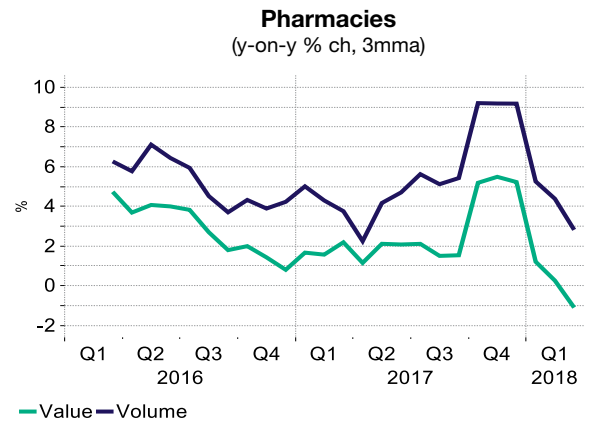
Fuel
(y-on-y % ch, 3mma)



Category analysis

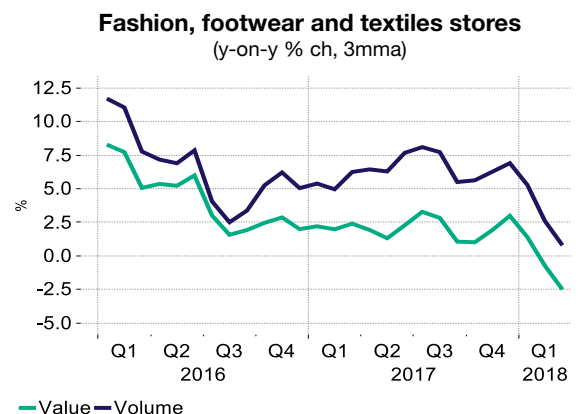
Cough and cold season drives pharmacy sales in Q1

Q1-2018 was a relatively solid quarter for the pharmacy category despite total sales values decreasing by 1% compared to the same quarter last year, as total sales volumes increased by 3% versus Q1-2017. The key areas driving growth in quarter one was a prolonged cough and cold season, coupled with a healthy performance in core toiletries. January and February had strong performances, but the beginning of March was impacted by bad weather. Overall the quarter remained positive year on year reflecting continued positive consumer sentiment.



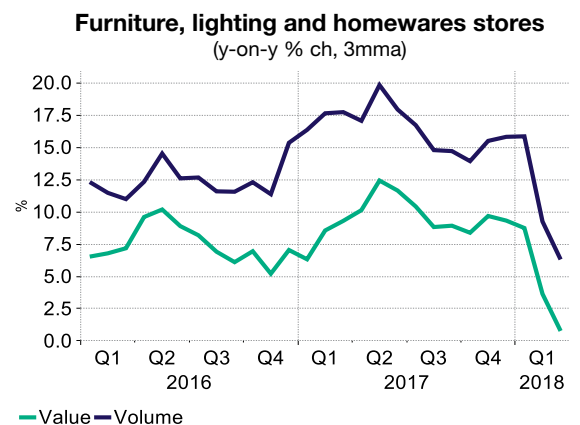
Heavy snow hits fashion and footwear sales in early 2018

Total sales values declined by 1% and total sales volumes increased by 3% in quarter one, when compared to the same quarter in 2017. Sales of fashion and footwear continue to fluctuate, affected by issues such as bad weather, increased competition from online UK shopping platforms and changes in the value of sterling. The unseasonably cold weather and the late onset of spring has undoubtedly impacted sales within this category also, as consumers delay new season purchases. Positive consumer sentiment and an expected increase in household spending in 2018 will potentially improve the position of Irish fashion and footwear retailers over the coming months.



Strong demand for furniture and homewares continues in Q1

Furniture, lighting and household accessories saw total sales values increase by 4% compared to Q1-2017, with strong volume growth of 9% in quarter one, when compared to the same period last year. An increase in house building and a rising demand for rental properties continues to boost consumer demand for furniture, lighting and household accessories in Q1-2018. While demand in this sector continues to improve, retailers remain reluctant to increase prices. In March prices for furniture and furnishings fell by 4.5% compared to the same month in 2017.



Category analysis

Q1 a rollercoaster quarter for DIY and garden sales

Quarter one proved a rollercoaster quarter for the DIY and garden sector. The cold conditions in January and February proved a boon to sales in the insulation, heating, fuel and plumbing categories. The in-home DIY and enhancement categories also fared well with a solid performance in the painting and decorating sector. The sales progress in the first two months was wiped out by Storm Emma, with the situation exacerbated by very poor March garden centre sales. On the plus side, the early arrival of Easter prompted a rise in shopping activity to negate the worst effects of the weather. Quarter two is now a vital period for the DIY and hardware sector.

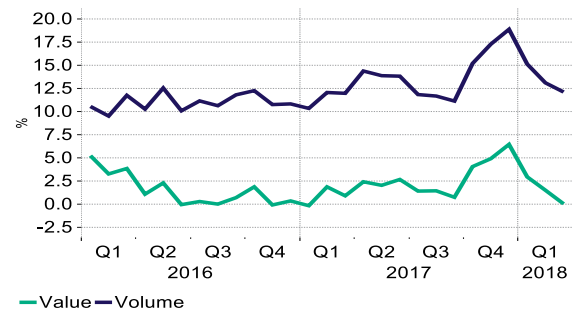
DIY and hardware stores
(y-on-y % ch, 3mma)



Deep discounting and promotional activity continues in electrical & electronics stores

Despite the bad weather experienced in March, Q1-2018 was a good quarter for computer, electrical and electronic stores. Total sales values grew by 1% versus the first quarter of 2017 and total sales volumes increased by 13% compared to the same quarter last year. Retailers in this category continue to rely on deep discounting and promotional activity and are reluctant to increase prices for fear of consumers voting with their feet and going elsewhere, or online to UK shopping platforms. In March 2018, the price of home entertainment systems fell by 15.4% compared to the same month last year, the prices of cameras fell by 7.5% and personal and home computers recorded a remarkable 26.4% fall versus the same month last year.

Computers, electrical and electronics stores
(y-on-y % ch, 3mma)



Storm Emma knocks the wind out of newspaper sales

Overall books, news and stationery sales were down during quarter one 2018, despite a positive performance in the book market over the quarter due to a strong release schedule. Stationery remains competitive with some value declines, but the main impact during the quarter was Storm Emma. News continues to struggle, with the magazine market posting double digit declines. Newspapers were in low single digit decline over the quarter. While Storm Emma significantly impacted sales when compared to the prior week, the book market recovered this deficit in the following weeks with stationery only partly recovering. News was particularly affected given its immediacy, with recovery of revenue lost during the Storm limited to magazines only.

Books, newspapers, stationery stores
(y-on-y % ch, 3mma)

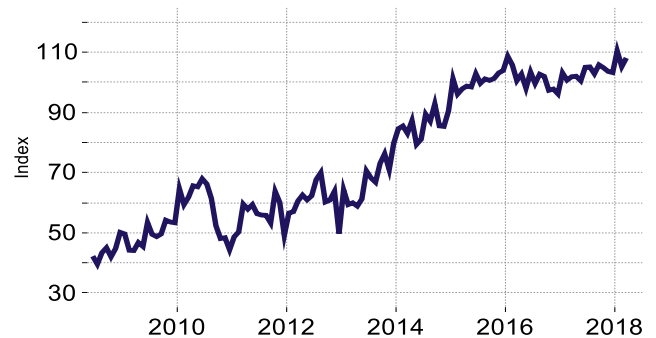


Macro trends

Improved consumer sentiment good news for retailers

KBC Bank Ireland/ESRI Consumer Sentiment Index increased to 108.1 in March from 105.2 in February 2018. Improved expectations were likely influenced by a more positive outlook for the job market during March. The country's unemployment rate fell to 6.1% down from 7.0% compared to March 2017. Consumer spend is expected to grow by over 4% in value terms in 2018, and by 2.6% in volume, this would take the total household spend above €100 billion for the first time. Stronger trends in sentiment and consumer spending in 2018 would be welcomed by retailers, especially those in categories where deflation and intense competition remain consistent themes.

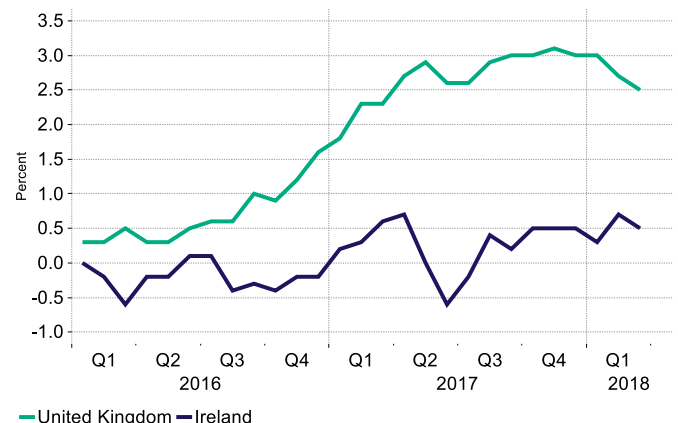
Consumer Sentiment Index



Irish consumers continue to benefit from low prices

Inflation fell to 0.2% in March 2018 from 0.5% in February. Food and clothing prices continue to remain low, as Irish consumers continue to be strongly motivated by price and value in 2018. Despite the continuing uncertainty of Brexit, inflation in the UK fell to 2.3% in March 2018, down from 2.5% in February 2018, as recent currency impacts continue to unwind. Since reaching a recent high of 2.8% towards the end of 2017, the rate has now fallen back to its lowest since March 2017. This is good news for British households, as wages rose by 2.8% per year in the three months to January 2018.

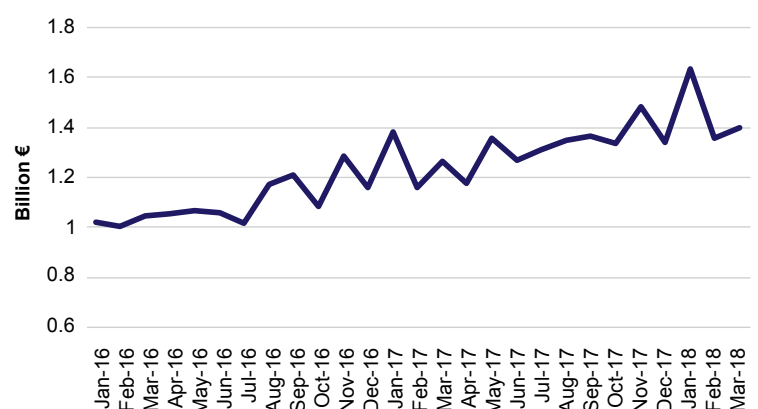
Inflation (annual %)



Shoppers use of credit and debit cards rising

Irish shoppers continue to increase their use of debit and credit cards in 2018, following an all-time high card spend over the Christmas period last year. In December 2017, Irish consumers spent a total of €1.34 billion on internet shopping, with €949 million and €389 million attributable to debit and credit cards respectively. The December 2017 value is 15% higher than the previous year. E-commerce transactions now form 26% of debit card spending and 40% of credit card purchases.

Ecommerce





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