



Consumer Market Monitor



2011

Q3



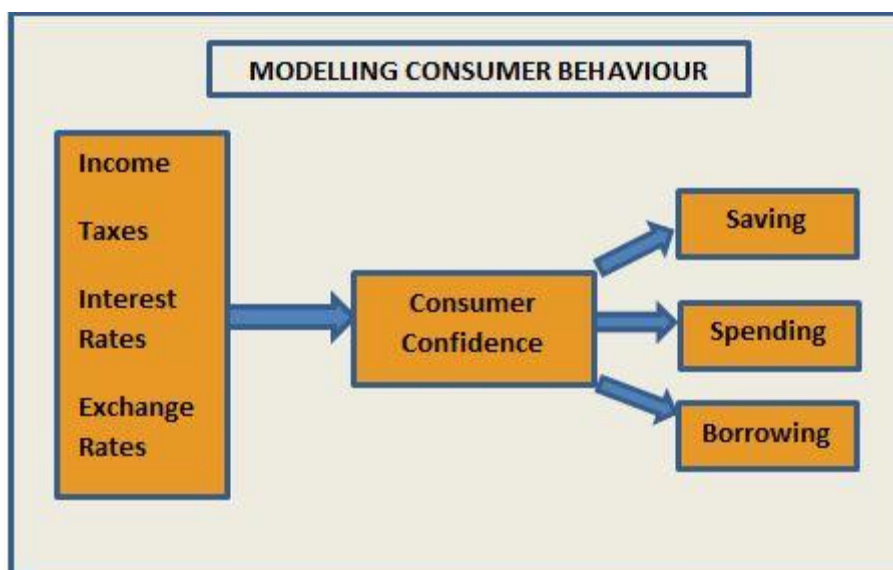
UCD Michael Smurfit Graduate Business School
Scoil Chéimithe Ghnó Michael Smurfit UCD

Consumer Market Monitor

The Consumer Market Monitor is a publication provided by the Marketing Institute of Ireland in collaboration with the UCD Michael Smurfit Graduate Business School.

It is designed to track key indicators of confidence and activity in the Irish consumer market as a resource for marketers and the wider business community. The consumer market accounts for 63% of GNP so it is an important indicator of the health of the overall economy.

It relies on a model of consumer behaviour which sees economic variables such as income levels, taxes, interest rates and exchange rates influencing consumer confidence which, in turn, influence consumer behaviour including spending, saving and borrowing.



It is based on data from the Central Statistics Office (CSO), the Central Bank, the European Commission, and other secondary sources. The added value rests in the fact that the information is brought together in a single location and presented in a way that is easy to use for market analysis and sales planning. The accompanying editorial also tries to highlight important trends and linkages that point to emerging opportunities and threats.

It is published on the MII website and is updated every quarter. This edition covers the third quarter of 2011 and also provides a review of the first three quarters of this year.

Executive Summary





Executive Summary

CONSUMER CONFIDENCE

Consumer confidence recovered in the first quarter of 2011, reaching a seven month high in March at -15, a 40% improvement on the December 2010 figure of -25. It faltered slightly in April 2011 but recovered again in the months of May and June with June's consumer confidence level at -15, on a par with the UK.

However, consumer confidence weakened again in the third quarter of 2011, down to -24 in September, a sharper drop than the UK and Europe for the same period. This downward trend looks set to continue for the next few months as we face the prospect of another difficult budget in December.

Consumer confidence in the UK has also been subdued in recent months, with consumers worried about living costs and the economic situation. It averaged -21 in September, a consistently downward trend since May when it registered -13.

Confidence among U.S. consumers has also been weak throughout this year with the October figure the lowest since March 2009.

CONSUMER SPENDING

Consumer spending reached an all-time high in 2008 but has been on a steady downward trend since then, declining by -12% from the peak to the end of 2010. Personal consumption in Ireland declined in real terms by -0.8% in 2010, broadly matching the decline in real disposable incomes.

Unfortunately, consumer spending is maintaining the downward trend this year, down -1.9% in the first quarter, compared to the same quarter in 2010. It actually increased by 0.3% in the second quarter as a result of strong car sales in the final months of the car scrappage scheme.

The official forecast is now for a decline in real personal consumption of -2.6% for 2011 as a whole with a further decline of -0.8% expected for next year, as real disposable incomes continue to fall due to further fiscal consolidation measures and as prices of utilities continue to increase.

It looks like being 2013 at the earliest before we can expect any increase in consumer spending and some forecasts are suggesting that consumer spending is going to remain weak until 2014/2015.

CONSUMER BORROWING

Household credit peaked in March 2008 at €150 billion, but has declined steadily since then, to €128 billion in September 2011, down -15% from the peak. Total lending to private households was 4% lower on a year-to-year basis at end-Sept 2011.

Residential mortgage lending accounts for 85% of all personal sector credit. It peaked at €123 billion in September 2008 and has been declining steadily since, reaching €98 billion in September 2011, a drop of -20% from the peak. Lending for house purchase was 2.5% lower on an annual basis in September.

Lending for consumption and other purposes has declined at an even faster rate, down by -13.6% in September year-on-year, and down by 30% from the peak of €19 billion in June 2008.

Credit card debt has also continued to decline in 2011, down -8% in September year-on-year and down 11.7% from the peak in 2008.

RETAIL SPENDING

Retail sales volume excluding the motor trade decreased by -1.1% for 2010 as a whole, and value decreased by -4.2%. This was somewhat better than the dramatic decline of -6.6% in volume and -11.1% in value that occurred in 2009, but still provided a bleak market for retailers.

Retail sales have continued to decline in the first 3 quarters of 2011 with an average drop in volume of -3.4% and a -2.4% drop in value. The volume of retail sales decreased by -3.3% in Q3 year-on-year while value decreased by -2.3%.

The remainder of 2011 is expected to remain very challenging for the retail sector due to reduced disposable incomes and the effects of price increases in fuel and other essential services (the CPI is up by 2.6%).

RECENT TRENDS

A total of 82,721 new private cars were licensed between January and September 2011, compared with 78,372 in the first nine months of 2010 — an increase of almost 5.3%.

In September, however, only 2,861 new private cars were registered, compared to 4,683 in September 2010 (a drop of -39%), largely due to the ending of the scrappage scheme on June 30th. Sales of second hand cars remained fairly steady, with 31,021 sold in the first 9 months of 2011, down by just 1% from the same period in 2010 (31,326).

Excluding the motor trade, the retail sector did badly in Q3, down by -3.3% in volume and by -2.3% in value compared to the same quarter last year.

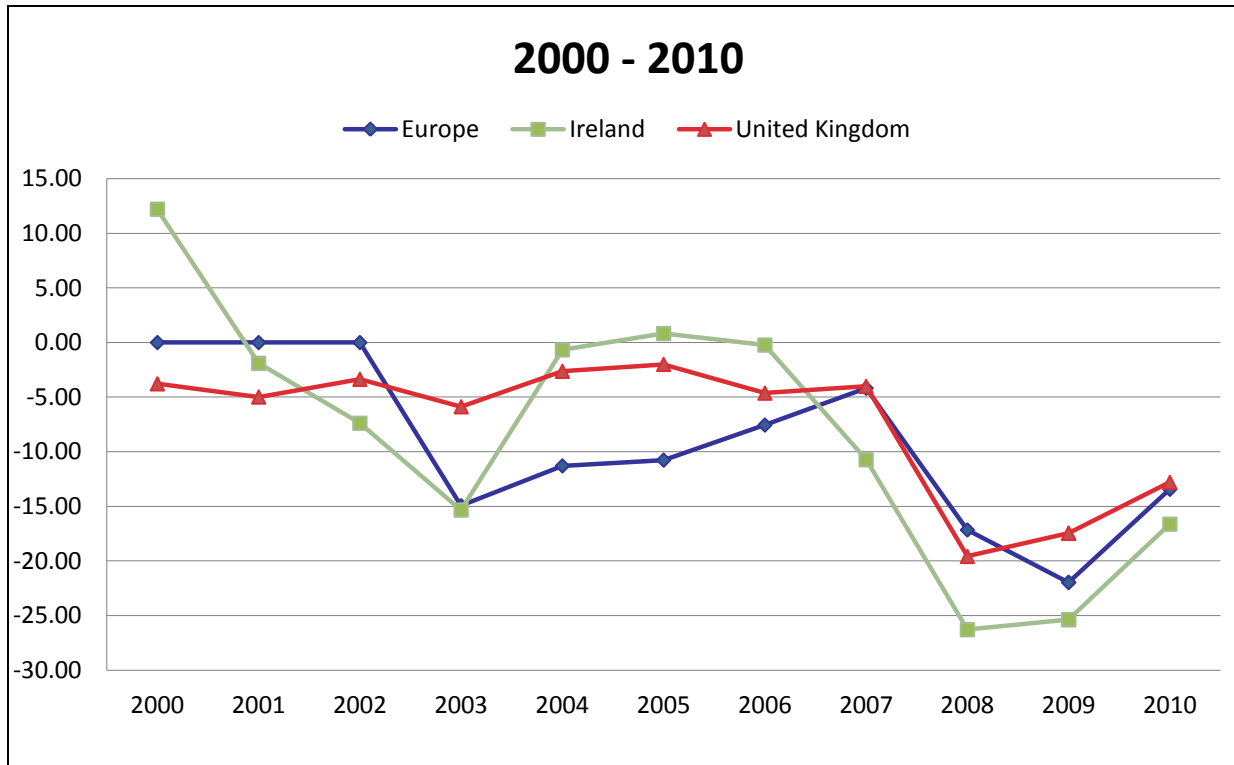
No retail category grew in volume in the third quarter of 2011:

- Motor trade down -1.3% in volume and -4.5% in value.
- Food sales down -0.4% in volume but up 0.3% in value;
- Clothing, footwear & textiles down -2.7% in volume and -3.0% in value;
- Non-specialised stores down -0.3% in volume and up 0.4% in value.
- Department stores down -3.9% in volume and down -4.2% in value;
- Household Equipment down -4.1% in volume and -7.0% in value;
- Pharmaceuticals and cosmetics down -8.9% in volume and -8.4% in value;
- Fuel down -8.3% in volume but up 2.8% in value;
- Books, stationery etc. down -10.5% in volume and -10.7% in value;
- Bar sales down -5.2% in volume and -5.4% in value.

Consumer Confidence



Consumer Confidence – Annual



Consumer confidence in Ireland was at an all time high in 2000; All countries experienced a fall in confidence after 9/11 and the dot.com crash. Ireland recovered rapidly from 2003 and reached a peak in 2005, again exceeding its European neighbours.

Consumer confidence reached an all-time low in Ireland in 2008, following the financial crisis, and this was mirrored in the United Kingdom and the rest of the European Union, where the percentage declines were 18% and 6% respectively¹.

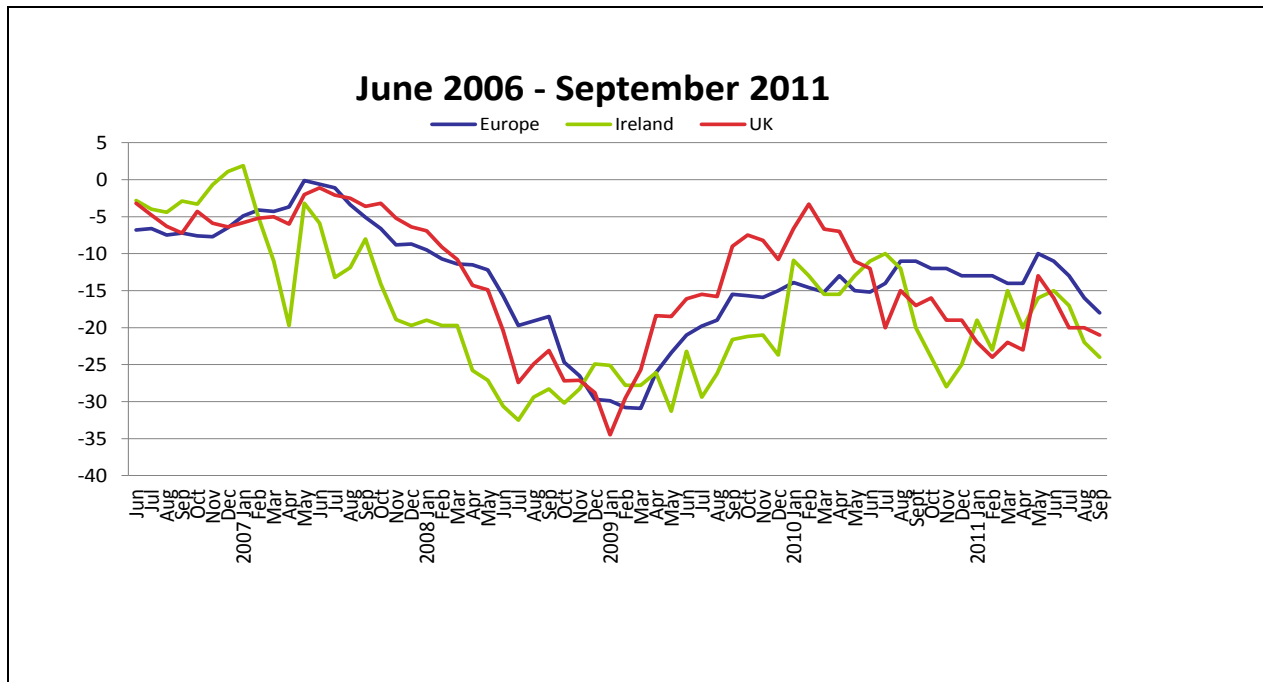
Confidence improved all over Europe throughout 2009 with the UK showing the strongest signs of recovery. Ireland continued to lag both the UK and the rest of Europe, by margins of 54% and 47% respectively. The average level of confidence for 2009 in Ireland was just 4% better than 2008.

Consumer confidence here recovered steadily through the first half of 2010 but this trend reversed in the second half of the year due to anxiety about the December budget and the IMF bailout. This decline caused our index to fall below the UK and the EU again by a considerable margin (30% lower than the UK and 24% lower than the EU in December).

All countries measured in this index remain well below the average confidence level experienced in the growth years preceding 2007. For example, The UK is now averaging -18 compared to a long-term average of -5 while the US is averaging 60 compared to a long-term average of 97.

¹ Data collection for Ireland ceased from May 2008 but resumed in May 2009. Trends in the intervening period were extrapolated from the KBC/ESRI Consumer Sentiment Index.

Consumer Confidence – Monthly



Consumer confidence in Ireland reached an all-time low of -33.0 in July of 2008. It remained low throughout 2009 in contrast to our European neighbours whose confidence picked up significantly in 2009. Consumer confidence recovered through the first half of 2010 but reversed in the latter half of the year as anxiety about the IMF bailout and the December budget dominated our thinking.

Consumer confidence recovered in the first quarter of 2011, reaching a seven month high in March at -15, a 40% improvement on the December 2010 figure of -25. It faltered slightly in April 2011 but recovered again in the months of May and June with June's consumer confidence level at -15, on a par with the UK.

However, consumer confidence weakened again in the third quarter of 2011, down to -24 in September, a sharper drop than the UK and Europe for the same period. This downward trend looks set to continue for the next few months as we face the prospect of another difficult budget in December.

Consumer confidence in the UK has also been subdued in recent months, with consumers worried about living costs and the economic situation. It averaged -21 in September, a consistently downward trend since May when it registered -13. Europe's consumer confidence improved steadily in the first half of the year, to highs of -10 and -11 in May and June, but dipped again in September to -18, a drop of 39%.

Confidence among U.S. consumers has also been weak this year with the June figure of 57.6 representing a seven month low. Confidence declined further in September, to 46.4, and to 39.8 in October, the lowest level since March 2009.

Financial Data and Impact on Spending





Financial Data & Impact on Spending

INTRODUCTION

This section deals with consumer income and use of credit from financial institutions. It details aggregate consumer spending and borrowing trends.

CONSUMER SPENDING

The volume of personal spending in Ireland peaked in 2008 and declined by 12% from then until the end of 2010. It declined by -0.8% in the year 2010, broadly matching the decline in disposable incomes.

Unfortunately, consumer spending is maintaining the downward trend this year, down -1.9% in the first quarter, compared to the same quarter in 2010. It actually increased by 0.3% in the second quarter as a result of strong car sales in the final months of the car scrappage scheme.

The official forecast is now for a decline in real personal consumption of -2.6% for 2011 as a whole with a further decline of -0.8% expected for next year, as real disposable incomes continue to fall due to further fiscal consolidation measures and as prices of utilities continue to increase.

It looks like being 2013 at the earliest before we can expect any increase in consumer spending and some forecasts are suggesting that consumer spending is going to remain weak until 2014/2015.

Consumption expenditure in the UK is also subdued, down -0.6% for the first half of 2011, and is expected to remain flat for the year as a whole.

CONSUMER BORROWING

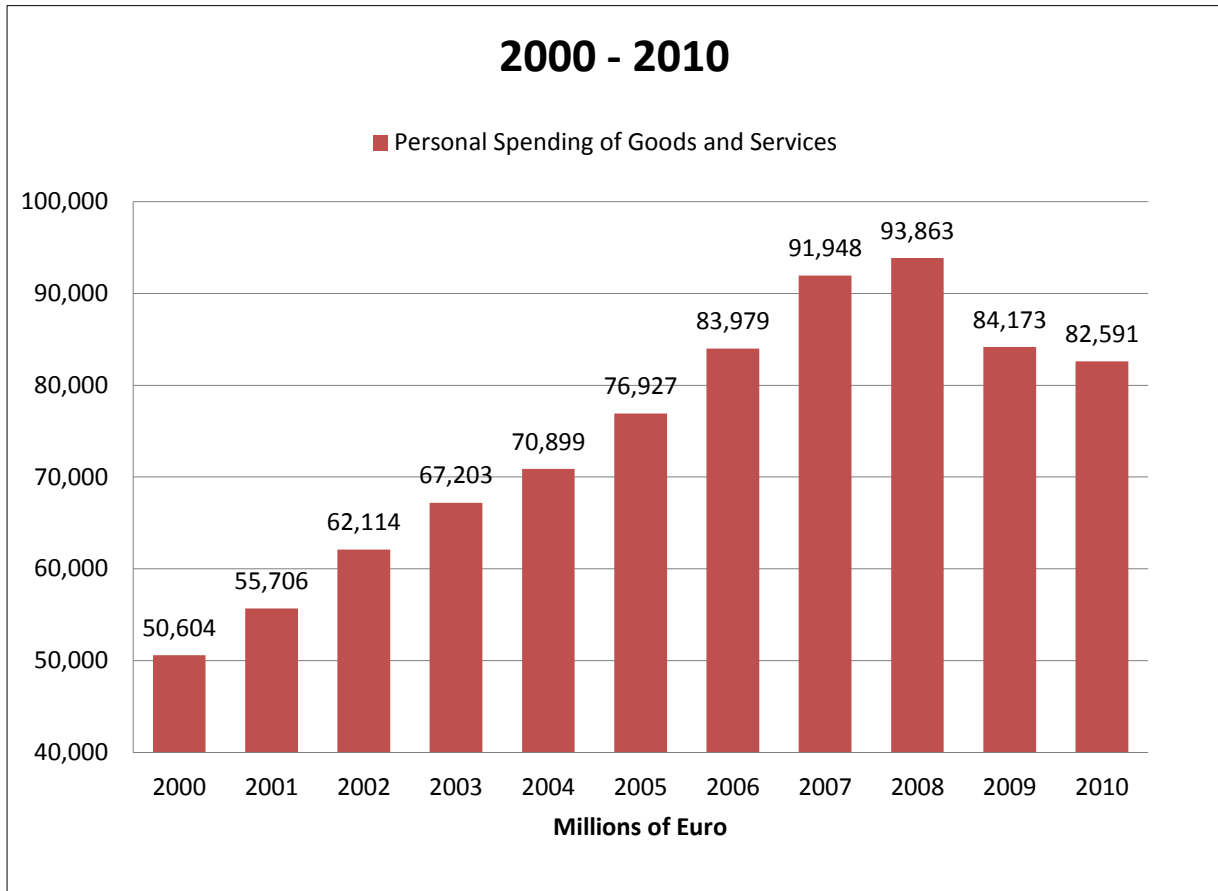
Total household credit peaked in March 2008 at €150 billion, but has declined steadily since then, to €128 billion in September 2011, down -15% from the peak. Total lending to private households was 4% lower on a year-to-year basis at end-Sept 2011.

Residential mortgage lending accounts for 85% of all personal sector credit. It peaked at €123 billion in September 2008 and has been declining steadily since, reaching €98 billion in September 2011, a drop of -20% from the peak. Lending for house purchase was 2.5% lower on an annual basis in September.

Lending for consumption and other purposes has declined at an even faster rate, down by -13.6% in September year-on-year, and down by 30% from the peak of €19 billion in June 2008.

Credit card debt has also continued to decline in 2011, down -8% in September compared to the same period last year. This compares to a drop of -2% for 2010 as a whole.

Personal Spending on Goods and Services – Annual



There was a steady rise in personal spending in Ireland from 2000 to 2007, with a record increase of 8.6% in that year. Spending growth slowed in 2008, recording only 2.2% growth from 2007.

Consumer spending has been on a fairly consistent downward trend over the last three years reflecting the impact of declining real incomes and a sharp increase in precautionary saving by consumers. 2009 experienced a record decline of -7.2% reflecting a steep fall in disposable incomes and an increase in precautionary savings².

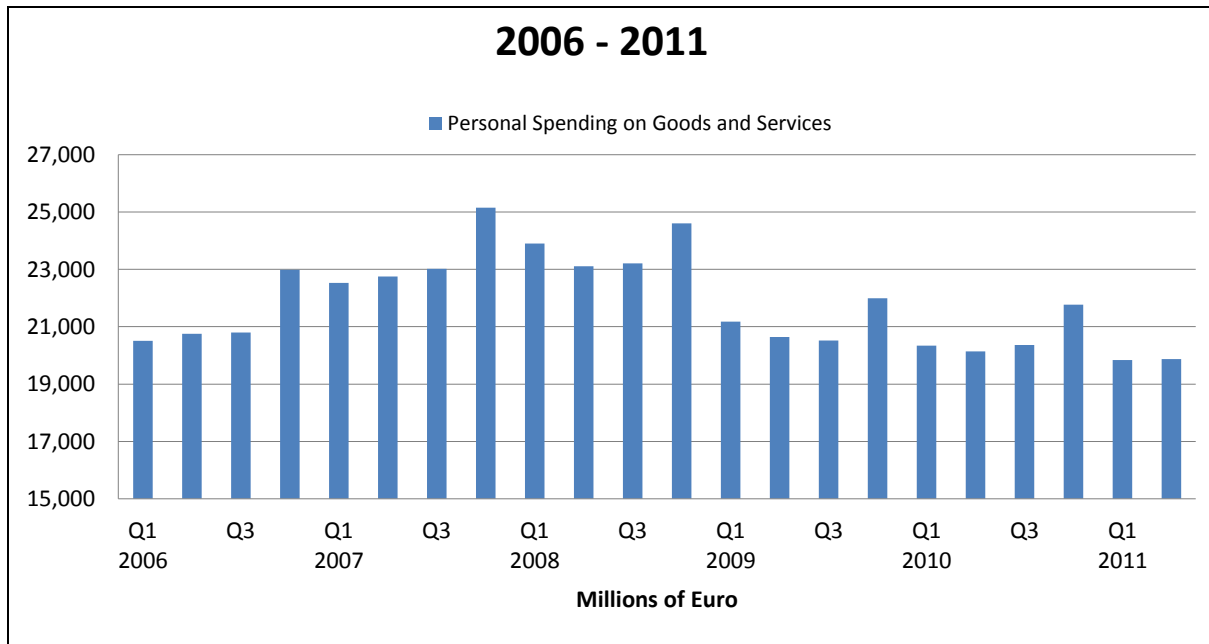
Personal consumption declined by -0.8% in real terms in 2010, a significant moderation compared to the previous year, broadly matching the decline in real disposable incomes. Consumers continued to pay down debt and exercise caution in the face of weak labour market conditions and uncertainty surrounding real income growth.

Unfortunately, consumer spending is declining at an even greater rate this year, down -1.9% in the first quarter, compared to the same quarter in 2010, and the latest official forecast is for a decline of at least -2.6% for the year as a whole³. In sum, this represents a decline of 13.5% from the peak in 2008 to the end of 2011.

² CSO National Accounts

³ Bank of Ireland Quarterly Economic Bulletin, Q4 2011

Personal Spending on Goods and Services – Quarterly



Personal spending peaks each year in the fourth quarter, in the run up to Christmas. This peak reached an all-time high in the final quarter of 2007 but has been on a steady downward trend since then. The volume of personal consumption in Ireland declined in real terms by -0.8% in 2010, broadly matching the decline in real disposable incomes.⁴

Unfortunately, consumer spending is maintaining the downward trend this year, down -1.9% in the first quarter, compared to the same quarter in 2010. It actually increased by 0.3% in the second quarter as a result of strong car sales in the final months of the car scrappage scheme.

The official forecast is now for a decline in real personal consumption of -2.6% for 2011 as a whole with a further decline of -0.8% expected for next year, as real disposable incomes continue to fall due to further fiscal consolidation measures and prices of utilities continue to increase⁵. In sum, this represents a decline of 13.5% from the peak in 2008 to the end of 2011.

It looks like being 2013 at the earliest before we can expect any increase in consumer spending⁶ and some forecasts are suggesting that consumer spending is going to remain weak until 2014/2015.⁷

Consumption expenditure in the UK is also subdued, down -0.6% for the first half of 2011, and is expected to remain flat for the year as a whole⁸.

The drop in consumer confidence in the US has yet to translate into a slump in household spending, which accounts for 70% of the economy. Consumer spending climbed by 1.9% in the third quarter, mainly reflecting strong sales of durable goods.

⁴ CSO National Accounts

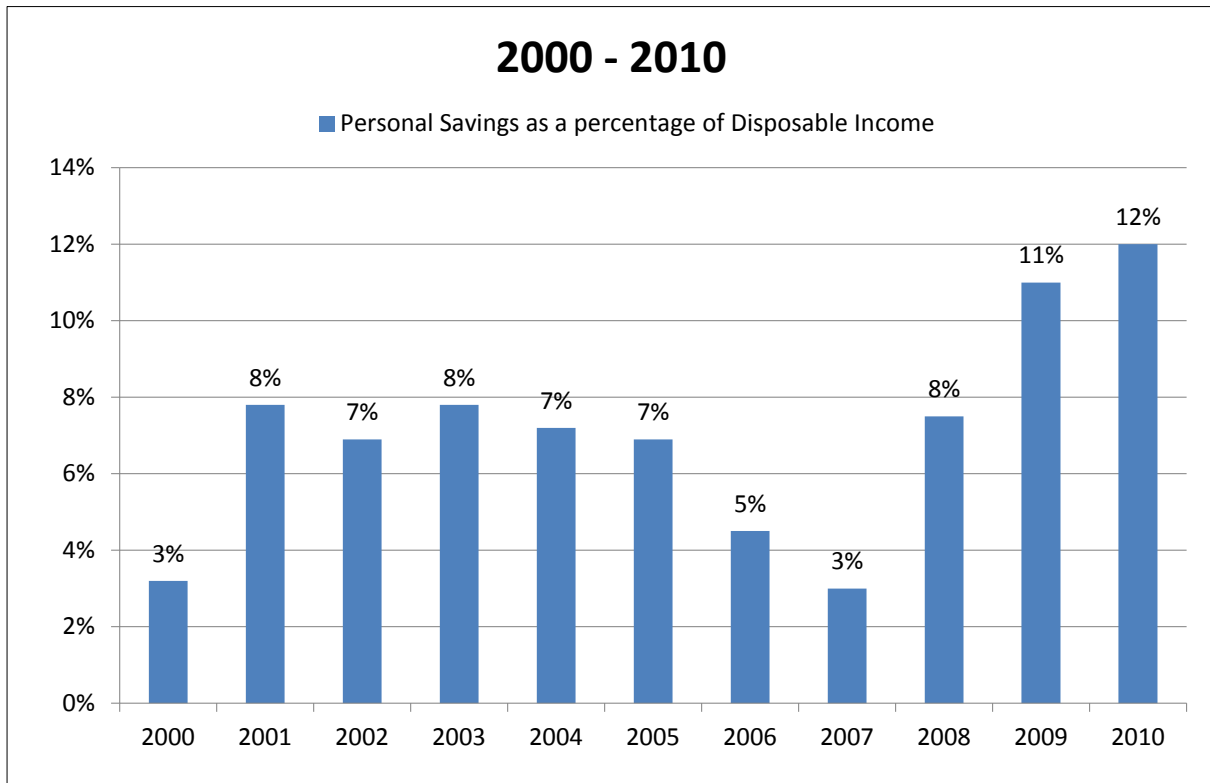
⁵ Central Bank of Ireland, Quarterly Economic Bulletin, Q4, 2011.

⁶ OECD Economic Survey of Ireland 2011

⁷ Ernst and Young Eurozone Forecast Summer 2011;

⁸ UK Expenditure Index, Visa Europe/Markit.

Personal Savings – Annual



The level of personal saving in Ireland increased dramatically over the past three years, from a low of 3 % of disposable income in 2007 to a high of 12 % in 2010. The average for the past decade has been 5.4%.

The household savings ratio was 12.9% in the first quarter of 2011 and it is not expected to reduce much in the next few years as consumers prioritise repaying personal loans and mortgage debt over current spending⁹.

Despite the increase in savings, the net worth of Irish households (the difference between total assets and liabilities) has fallen by 34% from its peak value of €641 billion in Q4 2006 to Q1 2011. Household net worth fell by approximately 2% in Q1 2011 from Q4 2010, largely driven by a reduction in housing asset values of 4%. This amounts to €92,657 per head of population.

The UK savings ratio also declined steadily from the mid 1990s up until 2008 when it reached minus -0.8%. The savings ratio rose again following the financial crisis and reached a peak of 8.4% in Q3 2009 but has since fallen back to a more normal level of about 5%.

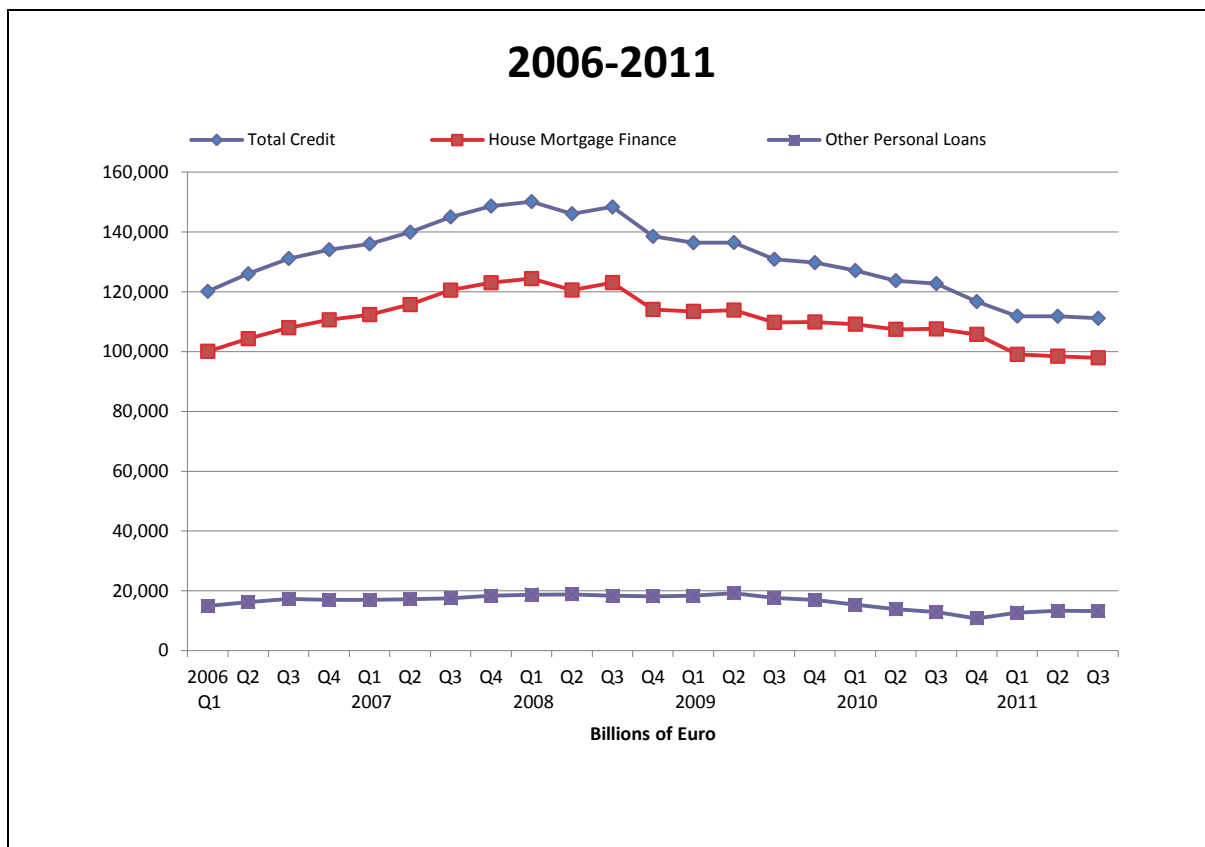
The US personal savings rate has averaged 4.2% over the past 20 years but fell as low as 1% in 2005. It went back up following the financial crisis, averaging a relatively high level of 5.5% in 2010¹⁰. It was back to 4.1% in the third quarter of 2011¹¹.

⁹ Central Bank of Ireland, Quarterly Economic Bulletin, Q4, 2011.

¹⁰ US Department of Commerce.

¹¹ US Bureau of Economic Analysis.

Personal Borrowing – Quarterly



Borrowing by Irish consumers grew at a record level from 2000 onwards. The ratio of household debt to disposable income increased from 48% in 1995 to a record 176% in 2009, and our debt ranking went from 17th to 4th among OECD countries.¹²

Total household credit peaked in March 2008 at €150 billion, but has declined steadily since then, to €128 billion in September 2011, down -15% from the peak. Total lending to private households was 4% lower on a year-to-year basis at end-Sept 2011.

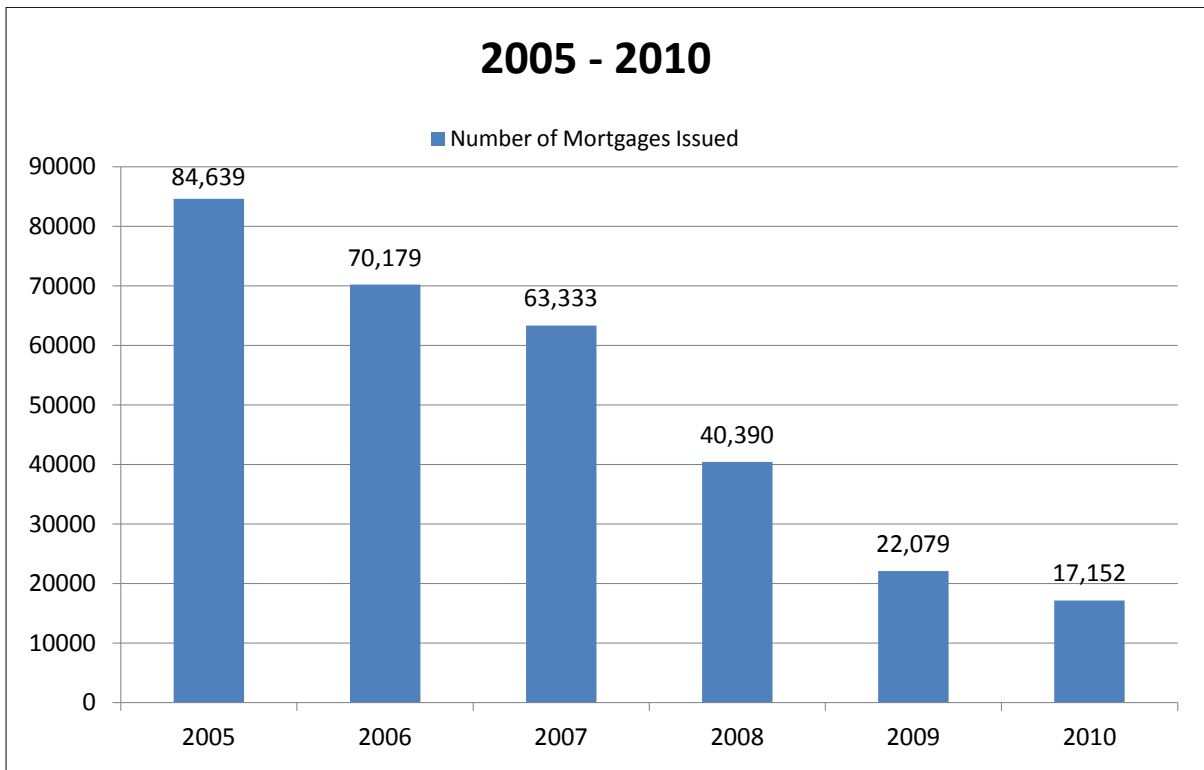
Residential mortgage lending accounts for 85% of all personal sector credit. It peaked at €123 billion in September 2008 and has been declining steadily since, reaching €98 billion in September 2011, a drop of -20% from the peak. Lending for house purchase was 2.5% lower on an annual basis in September.

Lending for consumption and other purposes has declined at an even faster rate, down by -13.6% in September year-on-year, and down by 30% from the peak of €19 billion in June 2008.

Consumer borrowing in the UK is also relatively weak with an annual growth rate of approximately 0.8%. Total personal debt at the end of August 2011 stood at £1,451bn.

¹² Law Reform Commission Personal Debt Management and Debt Enforcement Consultation Paper, 2010

Number of House Purchases – Annual



The number of new loans paid out for house purchases is a good indicator of the number of homes being bought and sold in the market. This number peaked in 2005 with a total of almost 85,000 new loans issued, but has fallen precipitously since then, with a total of 40,390 for 2008, 22,079 in 2009 and 17,152 in 2010.¹³

This trend reflected the number of new house completions which reached almost 90,000 in 2006, the peak year of the Irish property bubble. In contrast, there were 26,820 house completions in 2009, a decline of 48% year-on-year,¹⁴ and fewer than 10,000 new houses were completed in 2010¹⁵. A similar picture is expected in 2011 and 2012 with fewer than 10,000 new homes being completed each year¹⁶.

At the peak in 2006, Ireland was building 21 housing units per 1000 of its population, when the European average was 5.6. As a result, there remains a large overhang of unsold property in the Irish market. There were 294,000 vacant properties in Ireland according to the 2011 Census results, suggesting that there is still a significant overhang of unsold units. There are approximately 60,000 units for sale nationally and 33,000 empty or incomplete new houses.

However, the higher than expected rate of new household formation, of 41,000 per year between 2006 and 2011, gives some cause for optimism that the demand and supply will come back into balance over the next few years.

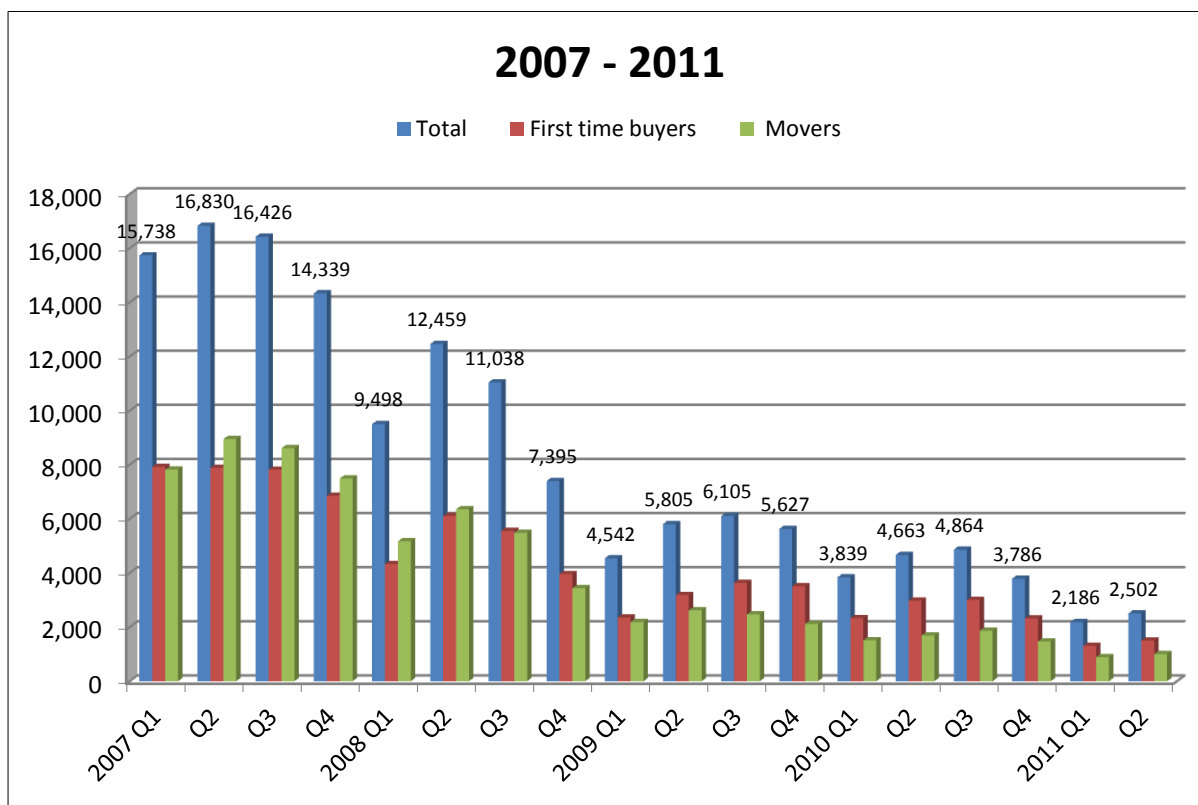
¹³ Irish Bankers Federation, IBF/PWC Mortgage Market Profile, Quarterly

¹⁴ Goodbody analysis reported in Finfacts, January 19, 2010

¹⁵ Construction Industry Federation

¹⁶ AIB Housing Market Bulletin July 2011.

Number of House Purchases – Quarterly



The number of new loans paid out for home purchases is an indicator of the number of homes being bought and sold. The number of homes sold has decreased dramatically since its peak of 85,000 in 2005.

The number of new mortgages issued to owner occupiers continued to fall in 2011 with an all-time low of just 2,186 in the first quarter, a drop of 76% on the same quarter in 2010¹⁷.

The second quarter of 2011 has shown an increase of 14% on the first quarter but is still down by 46% on the same period last year. Of the 2,502 new mortgages issued in Q2, 1,503 or 60% were issued to first time buyers and 999 to movers. The value of these mortgages was €488 million, down from €970 million in the same quarter of 2010 (-50%).

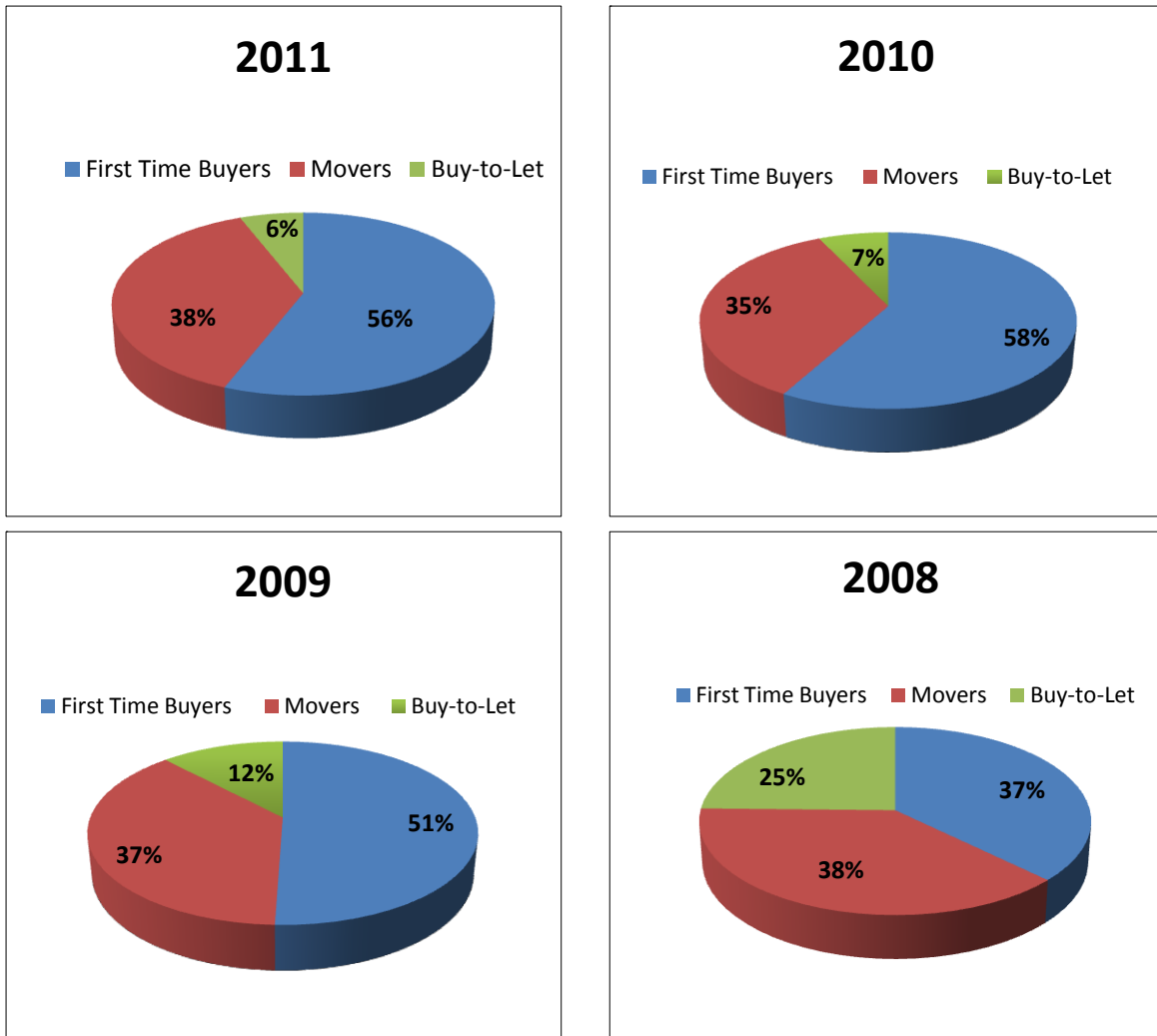
Property sales in the UK have also suffered in the recent recession. Transactions peaked in 2007 at 1.85 million, falling to 931,000 in 2009, and 886,000 in 2010. They are expected to fall further to 840,000 this year¹⁸.

Home sales in the US have fallen in four of the past five years and hit a 13-year low last year. However, sales have risen by 5.7% between quarter two and quarter three of 2011, due to the fact that house prices are at their lowest levels in nearly a year.

¹⁷ IBF/PwC Mortgage Market Profile, Q2 2011.

¹⁸ Council of Mortgage Lenders

Ownership Status of Borrowers



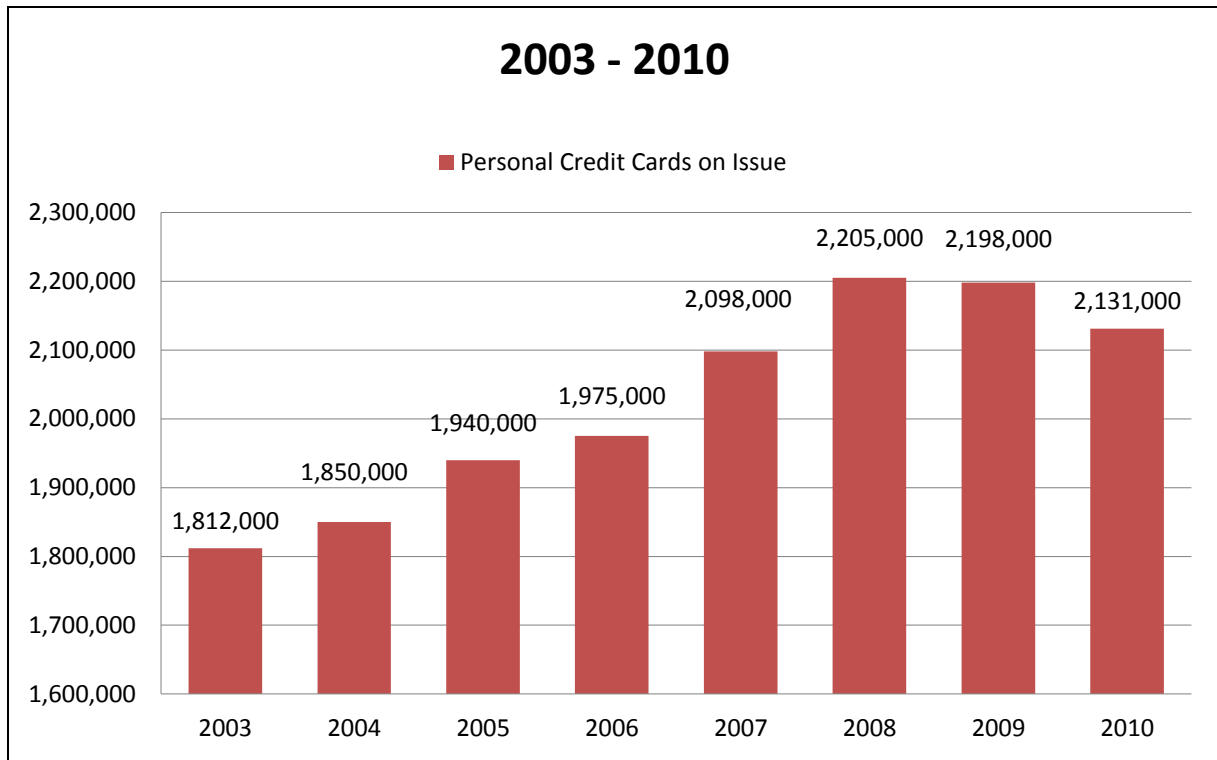
The most notable change in the composition of mortgage lending has been the reduction in buy-to-let lending from 25% in 2008 to 4% in 2011¹⁹. Other categories which experienced declines were mover purchasers and the re-mortgage and top-up segments.

The only sector which showed some buoyancy was the first-time-buyers. First-time buyers remain the single largest segment of the market accounting for almost 60% of the total market in terms of number of transactions and 55% in terms of monetary value.

The mover market has held relatively steady in percentage terms from 2007 to 2011, down 4% for the four years as a whole, but this conceals a dramatic reduction in the number of transactions, from 32,864 in 2007 to 6,533 in 2010 and just 999 for the second quarter of 2011.

¹⁹ Irish Bankers Federation, IBF/PWC Mortgage Market Profile Quarterly Reports

Number of Credit Cards in Circulation – Annual



There was a steady rise in the number of credit cards in circulation in Ireland from 2003 to 2008, peaking at 2.2 million, an increase of 393,000 over five years which equates to a rise of 22%²⁰.

This trend levelled off in 2009 when the number of personal credit cards on issue remained at 2.2 million.

The number of personal credit cards in circulation in May 2011 was 2.004 million which represents a decline of 201,000 from the peak.²¹

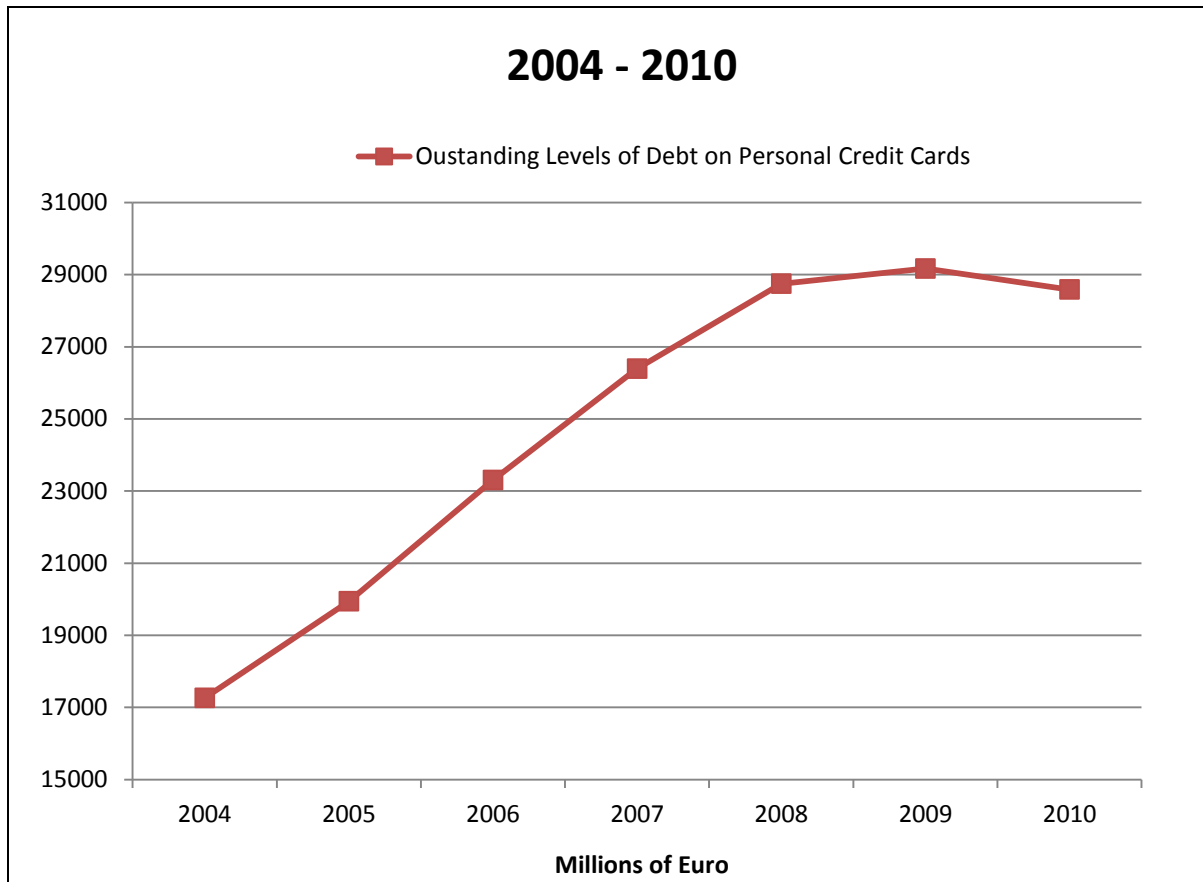
The number of credit cards in circulation in the UK has also fallen by some 1.5 million from 2009 to 2010, to a total of about 60 million, the lowest level since 2003. By contrast to this, debit cards have continued to gain popularity in the UK, overtaking cash for the first time.²²

²⁰ Central Bank Quarterly Bulletin: Statistical Appendix (Adjusted Base Year 2003). The Data were only available in their current format since 2003.

²¹ Central Bank of Ireland: Monthly financial Statistics

²² PWC Precious Plastic Report, January 2011

Credit Card Debt – Annual



The increase in credit card debt correlates with the increase in the number of credit cards on issue, as shown in the previous graph. There was an increase of 31% in credit card debt from 2005 to 2008, or approximately 10% per annum. The level of indebtedness rose by 13% from 2006 to 2007 which was a record²³. Growth continued into 2008 but at a slower rate of 8.2%, and reversed altogether in 2009 with a decline of 1% for the year.

Total repayments exceeded new spending for ten of the twelve months in 2009 and this trend continued throughout 2010; net outstanding credit card debt was down -2% for the year ending December 2010.

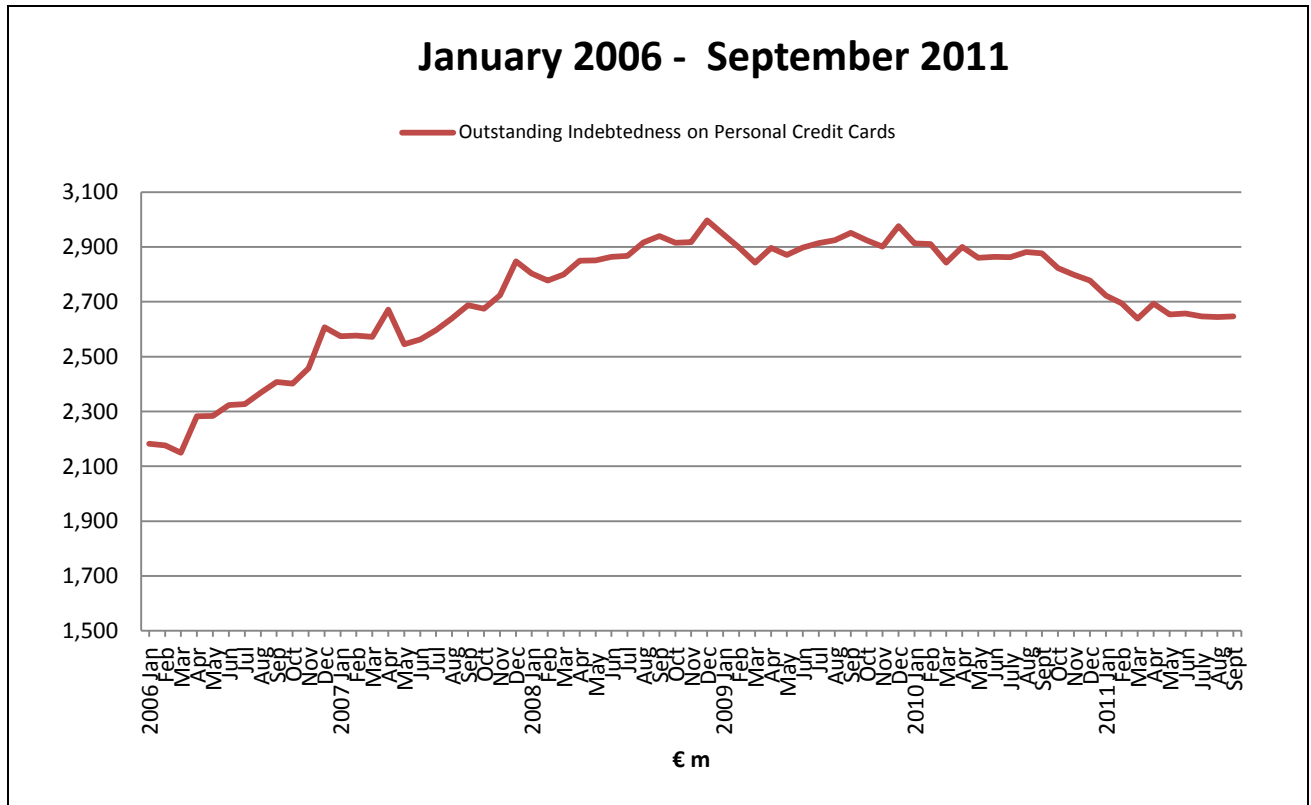
This decline has actually accelerated in 2011 with net outstanding credit card debt -8% in September year-on-year.

Credit card spending in the UK is also down – average unsecured credit (credit cards and personal loans) fell by 5.7% in 2010 following a drop of 3% in 2009. This equates to a reduction in spending of about £500 out of an average of around £8,000 per household. This trend is expected to continue over the next few years with a further fall of up to £300 per household in 2011²⁴.

²³ Central Bank Annual Statistical Bulletin. The graph shows the level of credit card debt outstanding on personal credit cards. The available data begins in the month of May 2004. The rest of the years are full 12 month periods.

²⁴ PWC Precious Plastic Report,

Credit Card Debt – Monthly



The spike in credit card debt that occurs each December corresponds to the Christmas season.

Having grown at a dramatic rate for several years, the level of credit card debt levelled off in 2009 with a small decrease of 1% for that year²⁵. This trend continued in 2010, with payments exceeding spending every month, and net outstanding credit card debt down 2% for the year. Total credit card debt outstanding stood at €2.78 billion in December 2010 compared to the peak of €3 billion in December 2008, a decline of 7%.

Credit card debt has continued to decline in 2011, down -8% in September compared to the same period last year. Outstanding debt on personal credit cards stood at €2.65 billion in September 2011, down 11.7% from the peak in 2008.

Credit card spending in the UK is also down – average unsecured credit (i.e. credit cards and personal loans) fell by 5.7% in 2010 following a drop of 3% in 2009. This trend is expected to continue over the next few years with a further fall in 2011²⁶. The annual increase over the Christmas period is forecasted to affect online sales with a 16.3% increase, while offline sales are set to fall by 2.1%.²⁷

²⁵ Central Bank Quarterly Statistical Appendix. The graph maps the level of credit card debt outstanding on personal credit cards.

²⁶ PWC Precious Plastic Report

²⁷ Internet Retailing.com

Retail Sales





Retail Sales

Retail sales including the motor trade accounts for about half of all consumer spending so is a very important sector of the economy (the motor trade on its own accounts for 20% and other retailing for 30%).

This section details changes in retail sales over two specific time periods: the annual trends from 2005 to 2010, and monthly trends from 2006 to 2011. It is based on the CSO Retail Sales Index (RSI) which is a monthly measurement of all goods sold by retailers and is based on a sampling of retail and wholesale stores.

RETAIL SPENDING

Retail sales volume excluding the motor trade decreased by -1.1% for 2010 as a whole, and value decreased by -4.2%. This was somewhat better than the dramatic decline of -6.6% in volume and -11.1% in value that occurred in 2009, but still provided a bleak market for retailers.

Retail sales have continued to decline in the first 3 quarters of 2011 with an average drop in volume of -3.4% and a -2.4% drop in value. The volume of retail sales decreased by -3.3% in Q3 year-on-year while value decreased by -2.3%.

The remainder of 2011 is expected to remain very challenging for the retail sector due to reduced disposable incomes and the effects of price increases in fuel and other essential services (the CPI was up by 2.6% in September year-on-year).

RECENT TRENDS

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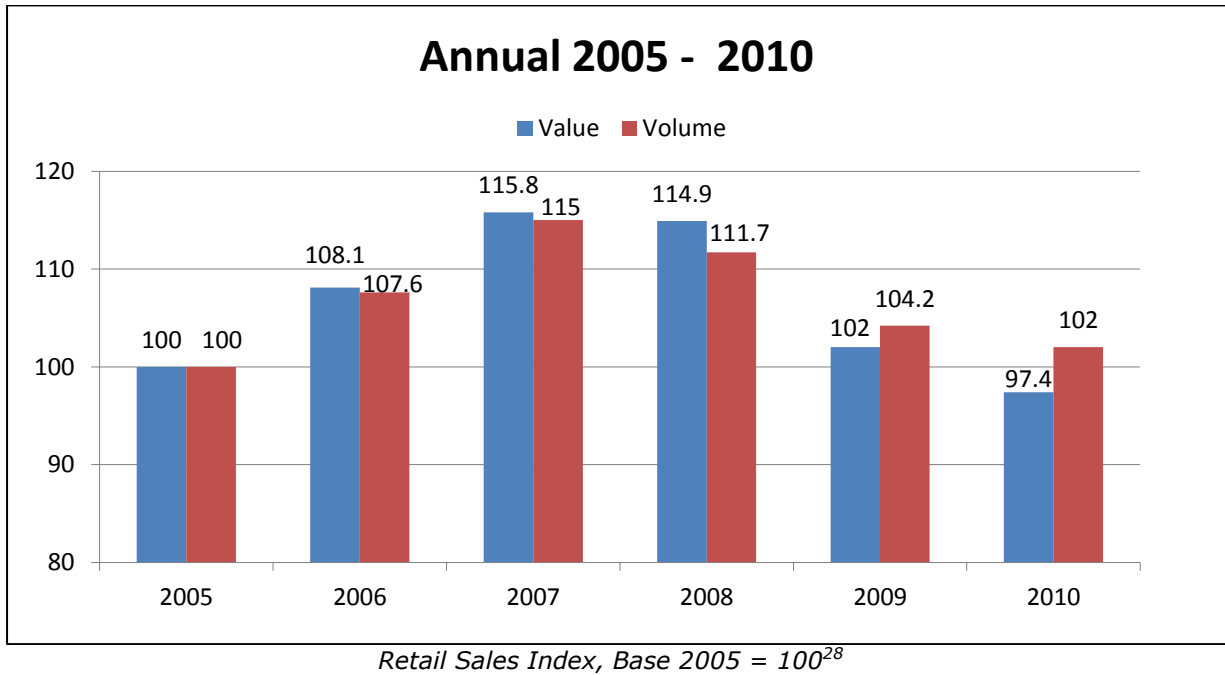
In September, however, only 2,861 new private cars were registered, compared to 4,683 in September 2010 (a drop of -39%), largely due to the ending of the scrappage scheme on June 30th. Sales of second hand cars remained fairly steady, with 31,021 sold in the first 9 months of 2011, down by just 1% from the same period in 2010 (31,326).

Excluding the motor trade, the retail sector did badly in Q3, down by -3.3% in volume and by -2.3% in value compared to the same quarter last year.

No retail category grew in volume in the third quarter of 2011:

- Motor trade down -1.3% in volume and -4.5% in value.
- Food sales down -0.4% in volume but up 0.3% in value;
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- Fuel down -8.3% in volume but up 2.8% in value;
- Books, stationery etc. down -10.5% in volume and -10.7% in value;
- Bar sales down -5.2% in volume and -5.4% in value.

Retail Sales Index



Retail sales in Ireland, excluding the motor trade, grew exceptionally strongly from 2000 to 2007, with a 32% increase in volume and a 52% increase in value. There was a 15% increase in volume and a 15.8% increase in value from 2005 to 2007 alone.

This was facilitated by a huge increase in shopping space over the 10 years from 2000. There are 3.32 million square metres of retail floor space in shopping centres and retail parks in Ireland currently, compared with less than 500,000 square metres at the beginning of 2000, and 850,000 square metres of shopping space in 2005²⁹. Ireland now ranks second in shopping space per capita in Europe, surpassed only by the Netherlands.

Retail sales have fallen each year since the peak of 2007. 2008 saw a decline of 6% in volume and of 4.5% in value. This decline accelerated in 2009 with sales volume declining by an unprecedented -6.8% in volume and -11.1% in value.

The decline slowed in 2010, ending the year down by just -1.8% in volume, although value was down by -4.3%. From peak to the end of 2010, the drop was -9% in volume and -16% in value. Looked at another way, we have lost about a third of the gains that we made over the 2000-2007 period.

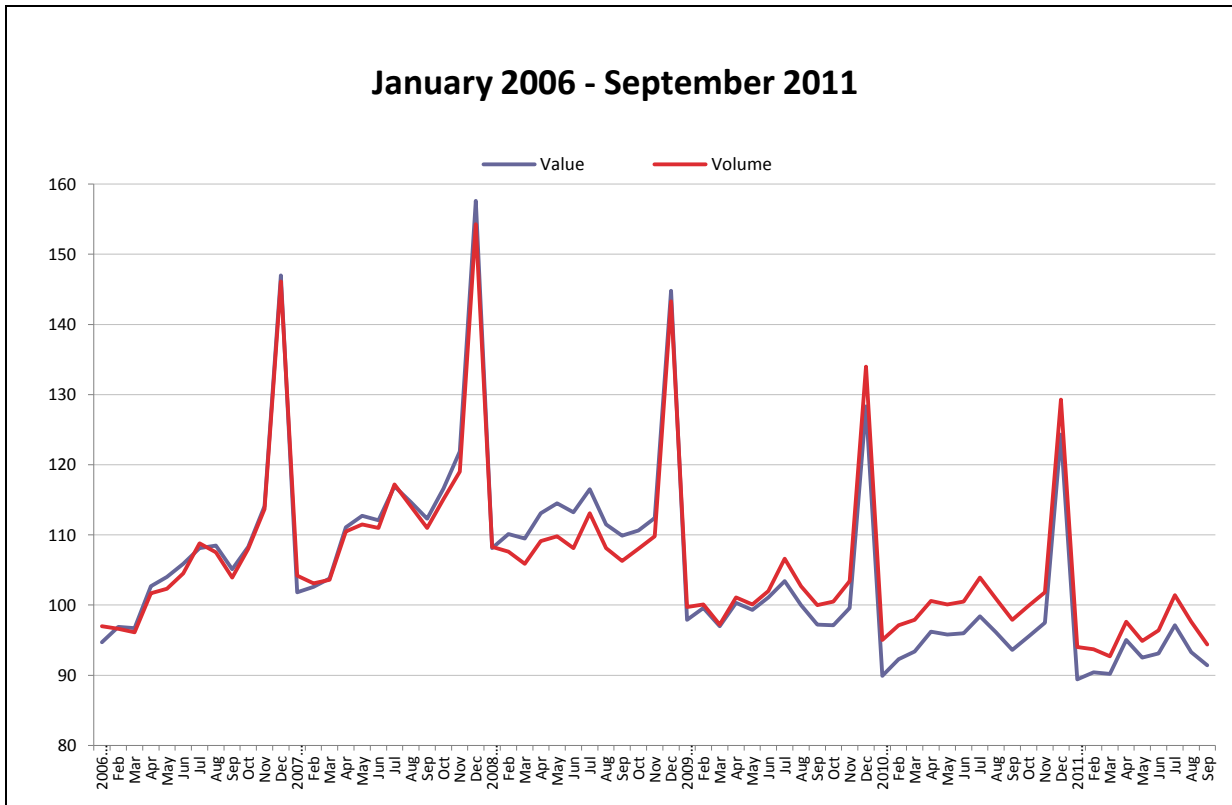
Retail sales in the UK and the rest of Europe were also affected during the recession but not to the same extent. Retail sales in the UK increased by 1.9% in volume and by 1.8% in value in 2009 and stabilised in 2010 with no change on the previous year. Non-store, predominantly internet, retailing increased by 14.5% in 2010.

Retail sales in the US rebounded quite strongly in 2010, up 5.9% from 2009. This contrasts with a decline of 2.5% in 2009. Online retail sales increased at a faster rate of 12% in 2010.

²⁸ All Businesses Excluding Motor Trade 2005 - 2010, Retail Sales Index Value and Volume Unadjusted (Base 2005=100), www.cso.ie

²⁹ CBRE Richard Ellis Gunne.

Retail Sales Index



Retail Sales Index = Base 2005 = 100³⁰

The seasonal spending which typically begins in November and peaks in December in the run up to Christmas was subdued in 2010. This was partly due to the exceptionally bad weather which kept shoppers at home. Retail sales volume decreased by -1.7% for 2010 as a whole, and value decreased by -4.2%. This was somewhat better than the dramatic decline of -6.8% in volume and -11.1% in value that occurred in 2009.

Retail sales have continued to decline in the first 9 months of 2011. The volume of retail sales excluding the motor trade decreased by -4.1% in Q2 year-on-year while value decreased by -2.5%. This decline continued in Q3 with sales volume down by -3.1% and value by -2.2% on the previous year.

The fourth quarter of 2011 is expected to be very challenging for the retail sector due to reduced disposable incomes and the effects of price increases in fuel and other essential services—the CPI was up by 2.6% in September year-on-year.

Retail sales volume in the UK rose by 0.6% in September on the back of increased sales of laptops and video games, but overall retail sales volume for Q3 decreased by -0.2%³¹. In contrast, retail sales in the US were up 1.1% in September. This was the largest retail sales increase in more than 7 months³².

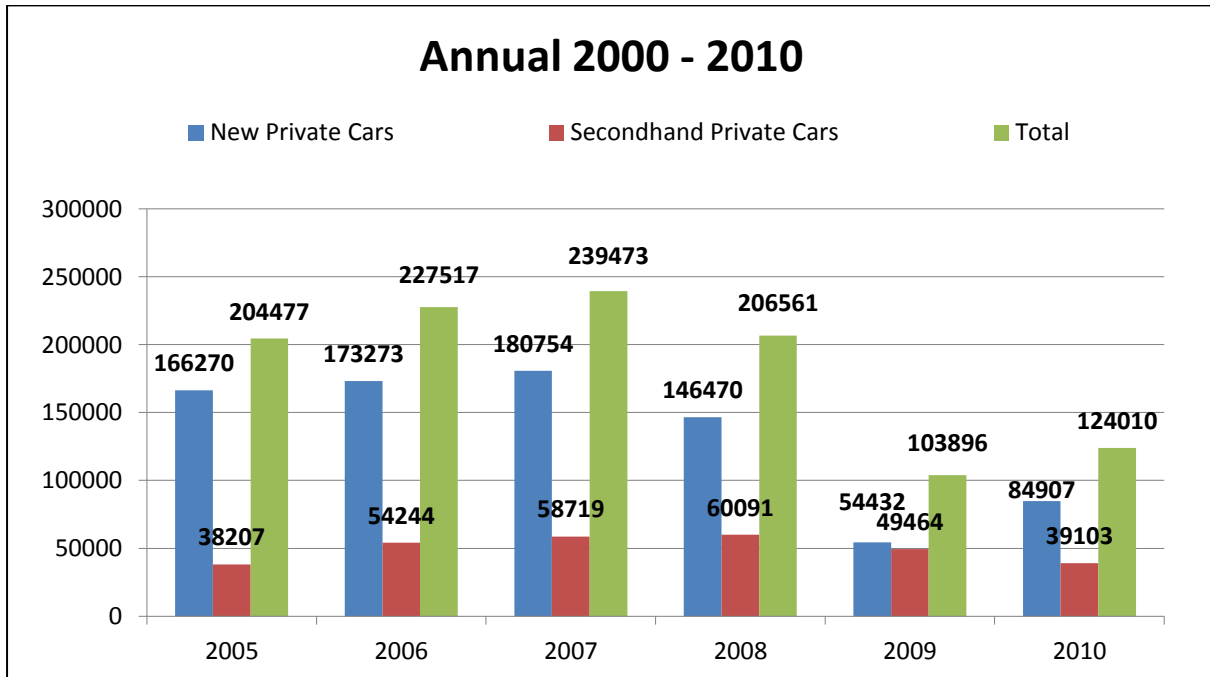
³⁰ All Businesses Excluding Motor Trade 2006 - 2011, Retail Sales Index Value and Volume Unadjusted (Base 2005=100), www.cso.ie

*Visible data labels refer to value of sales.

³¹ www.ons.gov.uk

³² www.Bloomberg.com

Sales of Private Cars



Sales of Private Cars, 2005-2010³³

Car sales are a leading indicator of activity in the wider consumer market. In Ireland, the motor industry grew strongly during the economic boom of the Celtic Tiger. This activity peaked in 2007 with 180,754 new cars being sold that year.

Between 2008 and 2010, sales of new cars dropped by -42%. The largest drop occurred between 2008 and 2009, when the market dropped by -63%, with just 54,432 new cars sold for the year as a whole.

The market rebounded well in 2010, with 84,907 new cars sold, an increase of 56% on 2009. This was strongly influenced by the government scrappage scheme which accounted for 20% of new cars sold in 2010.

The second-hand car market also increased in the boom years, to a peak of 60,000 in 2008. This figure dropped back to 49,464 in 2009 and 39,103 in 2010, partly due to the effect of the scrappage scheme which encouraged sales of new cars.

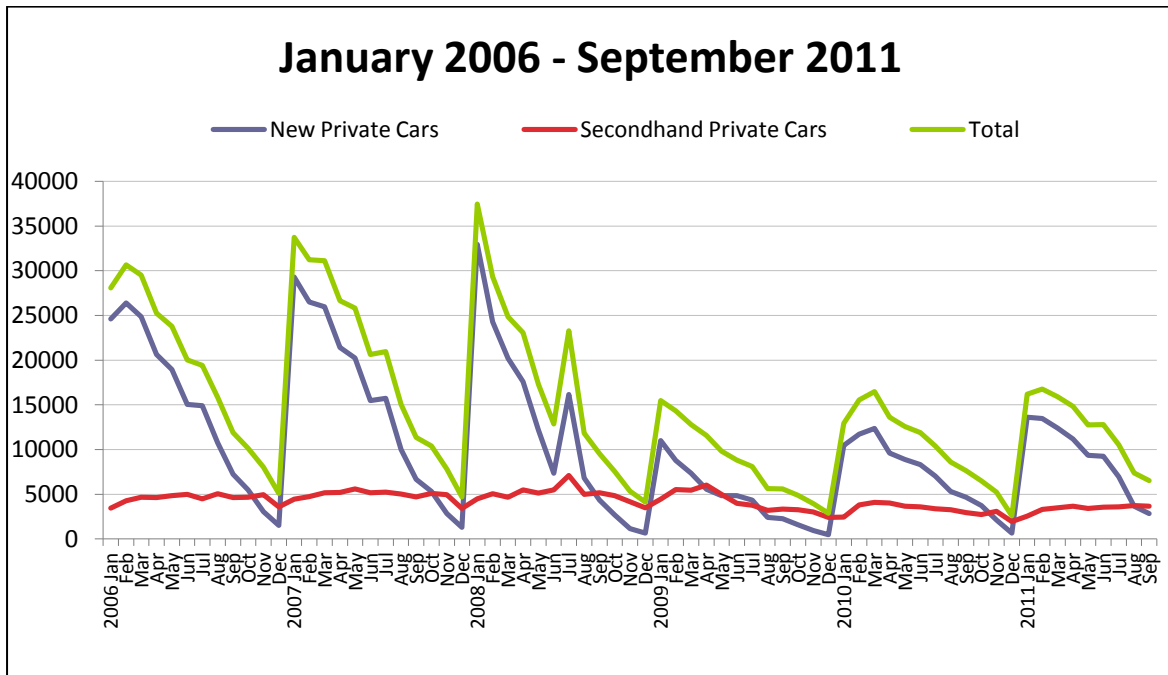
Sales of new cars in the UK stabilized in 2010 with just over 2 million new cars sold, an increase of 1.8%.

US auto sales peaked in 2005 at 17.4 million and bottomed out at 10.6 million in 2009. New car and truck sales came in at 11.6 million for 2010, up 11% from the previous year³⁴.

³³ Vehicles Licensed for the First Time (Number) by Type of Vehicle Registration and Year, 2005-2010, www.cso.ie

³⁴ FT.com, August 3, 2010.

Sales of Private Cars



Private Vehicles Licensed for the First Time, Number of Units³⁵

The variance in car sales over each twelve months is due to seasonality with new car sales concentrated in January and February.

A total of 82,721 new private cars were licensed between January and September 2011, compared with 78,372 in the first nine months of 2010 — an increase of almost 5.3%.

Last month, however only 2,861 new private cars were registered, compared to 4,683 in September 2010 (-39%), largely due to the ending of the scrappage scheme on June 30th. The scrappage scheme accounted for 20% of new car sales in 2010 and for more than 12,000 vehicles in the first half of this year.

Sales of second hand cars are fairly steady, with 31,021 sold in the first 9 months of 2011, down by just 1% from the same period in 2010 (31,326).

Car sales in the UK dipped in the first half of 2011; total sales of 1,029,638 new cars were down -7.1% on January-June 2010. New car sales in September were down -0.8% year-on-year, with the UK car market on track for a -5% fall for the full year³⁶.

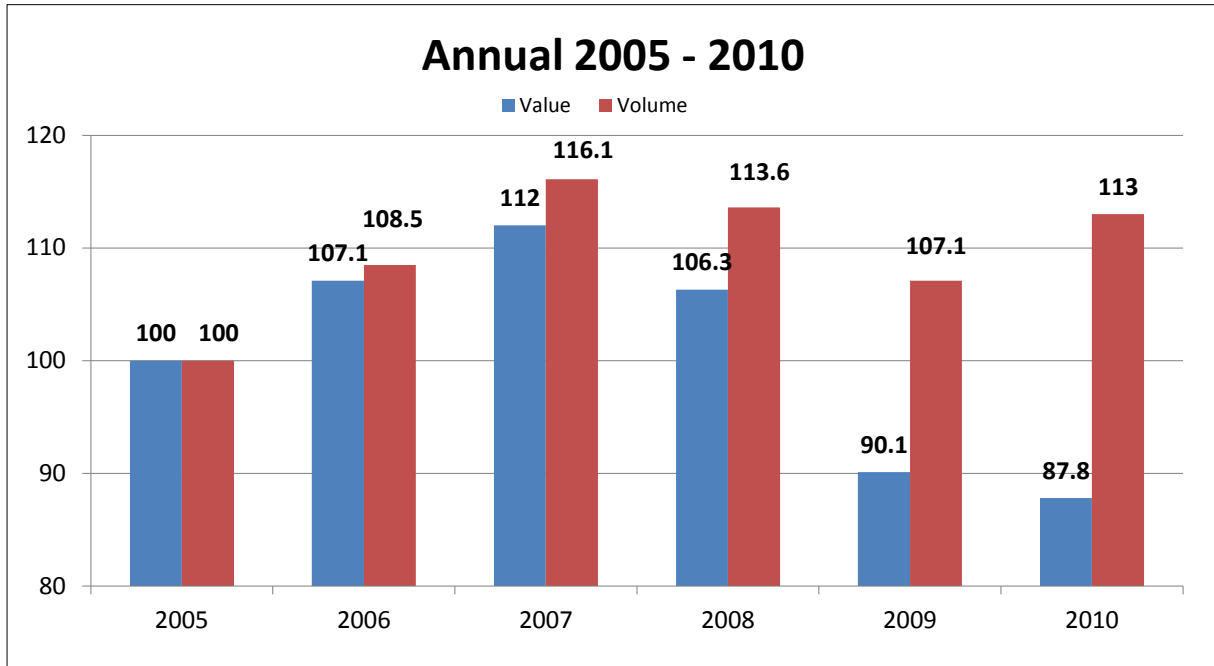
US auto sales rose by 10.7% in September 2011, compared to the same period last year, and up 7% from last month. This sales rise has been due to an increase in industry wide incentives³⁷.

³⁵ Vehicles Licensed for the First Time (Number) by Month and Type of Vehicle Registration, New and Second Hand Private Cars, www.cso.ie.

³⁶ Society of Motor Manufacturers and Traders (SMMT)

³⁷ www.huffingtonpost.com

Retail Sales Index – Department Stores



Retail Sales Index – Department Stores, Base 2005 = 100³⁸

In line with general retail trends, sales through department stores increased continuously over the period from 2005 to 2007, with a total growth of 42% in volume and 49% in value. Sales volume grew by 16% and value by 12% in the peak period from 2005 to 2007.

This trend was interrupted in the year 2008, which saw a marginal decrease in sales, with a reduction of -3.3% in volume and -3.5% in value. Sales in 2009 fell much more significantly, down -5.8% in volume and -15.4% in value.

Sales improved significantly in 2010, up 5.5% in volume for the year as a whole, although value declined by -2.5%, showing evidence of some price discounting.

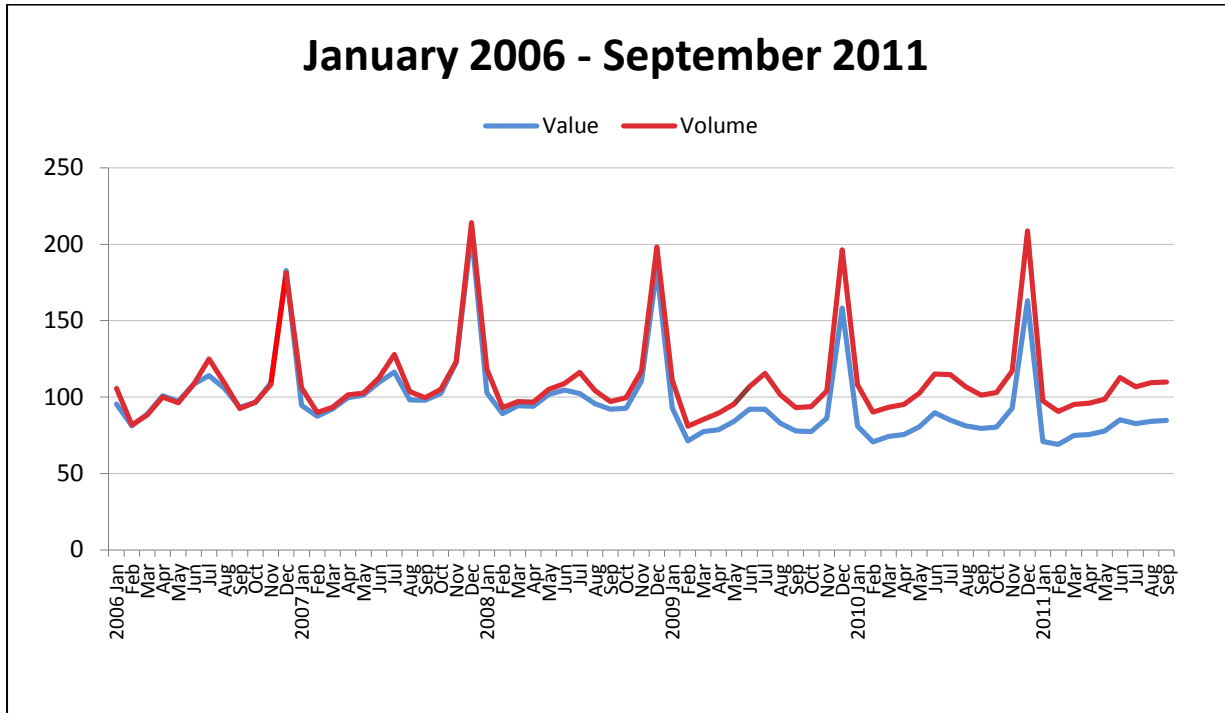
The UK department store sector rallied somewhat in the first half of 2010 with major retailers reporting sales growth in the range of 3-5%³⁹. This stalled in the latter part of the year, partly because of exceptionally bad weather conditions, with the leading retailers reporting sales as flat or rising just 1%.

U.S. department store sales dropped -1.3% for the year to the end of December 2010, in contrast to an increase of 7.1% in retailing as a whole.

³⁸ Department Stores 2005 - 2010, Retail Sales Index, Value and Volume Unadjusted (Base 2005=100), www.cso.ie

³⁹ Office of National Statistics, UK, Retail bulletin

Retail Sales Index – Department Stores



Department stores have a marked seasonal pattern, which peaks each year in the pre-Christmas period and experiences a lesser increase in July coinciding with summer sales.

Irish department stores saw some improvement in business in 2010 with an increase of 5.5% in volume and 2.5% in value for the year to the end of December. Encouragingly, sales volume was up 6.3% for December 2010 and the value figure was up 3.7% on the same month in the previous year.

However, sales have reverted to a downward trend in 2011. Sales volume for the first 3 quarters was down by -3.9% and value by -4.2% compared to the same period in 2010. Sales volume for the month of September was down by -4.5% and value by -4.1% which does not suggest a very positive scenario for the forthcoming Christmas season.

Sales through department stores in the UK actually increased by 1.4% in September, month on month, driven by the purchasing of back to school goods, as well as an increase in sales of laptops and video-games.⁴¹ However, the outlook is not seen as very promising for the rest of the year with 0 growth forecast.

Department store sales in the US have also experienced a slight quarterly increase with volume up 1% on the third quarter of 2010. The month of September also showed an increase of 1.1% on the same month last year.⁴²

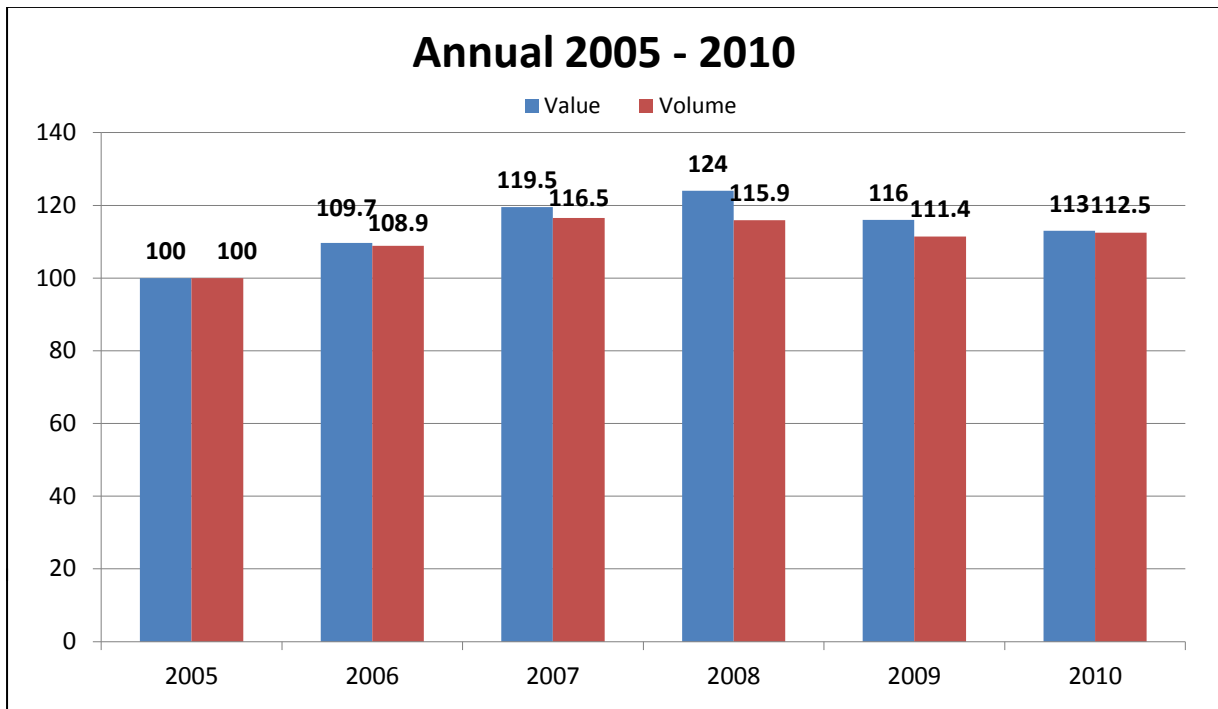
⁴⁰ Department Stores 2006 - 2011, Retail Sales Index Value and volume Unadjusted (Base 2005=100), www.cso.ie

*Visible data labels refer to value of sales.

⁴¹ www.statistics.gov.uk

⁴² www.ycharts.com

Retail Sales Index – Food



Retail Sales Index – Food, Base 2005 = 100⁴³

Food sales increased steadily in the period between 2005 and 2008 along with most other retail categories. In the following period, between 2008 and 2010, the food market contracted slightly although it remained at a higher level than in 2005.

The volume of food sold from 2005 to 2008 increased by 15.9%, an average annual growth rate of 5.3%. The value of food sales increased even more, by 24%, an average annual rate of growth of 7.9%.

As an essential item, sales of food have held up relatively well in the current recession. Both volume and value sales remained stable for the full year 2008 and reductions since then have been relatively modest.

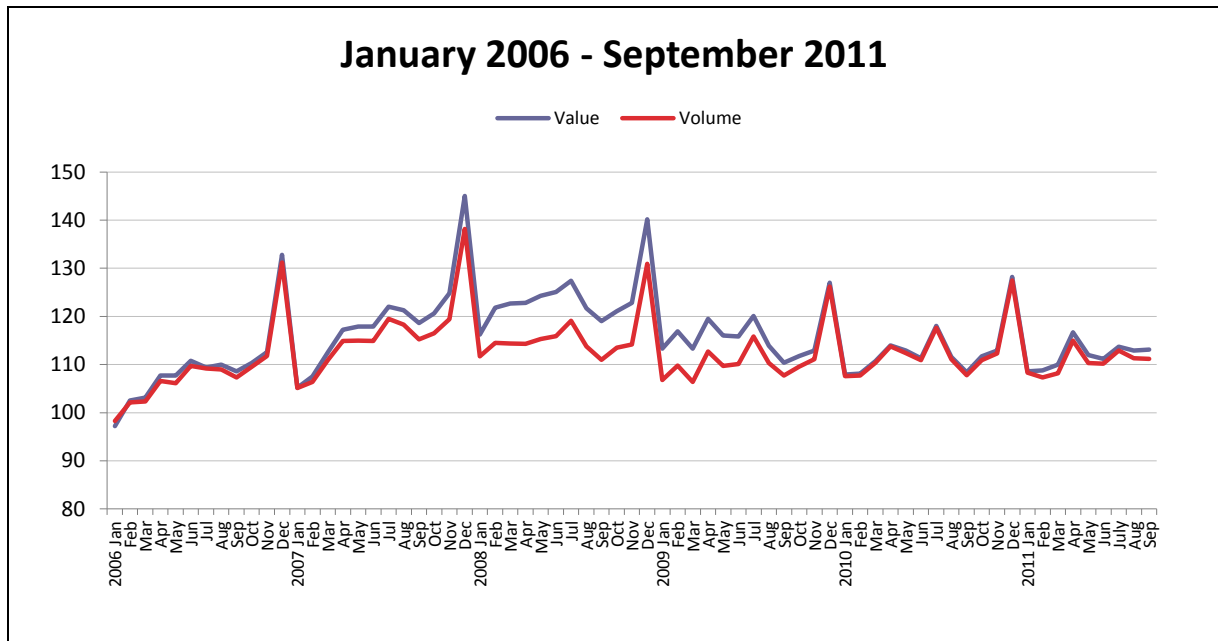
Sales volume dropped by -3.9% in 2009 and value by -6.5%. Cross-border shopping was one of the factors contributing to this loss. It was estimated that cross-border shopping cost the Irish exchequer €419 million in the first half of 2010⁴⁴.

The volume of food sold stayed steady in 2010 while value declined by a relatively modest 2.6%.

⁴³ Food 2005 - 2011, Retail Sales Index Value and Volume Unadjusted (Base 2005=100), www.cso.ie

⁴⁴ Irish Times, Friday 12 November 2010.

Retail Sales Index – Food



Sales of food are normally steady throughout the year with a small peak in the pre-Christmas period, followed by a return to trend in January.

The volume of food sold in Ireland in December 2010 was up by 1.7% on the same month in 2009 and the value was up by 1.1% suggesting that the price discounting of the previous year had levelled off.

Food sales have been more or less flat in the third quarter of 2011, both in volume and value, compared to the third quarter last year. This picture was the same for the month of September with sales volume down by just -0.5% and value up by 0.3% year-on-year.

The food sector accounts for 42% of all retail spending in the UK. There was an increase of 5.3% in food sales value in Q3.

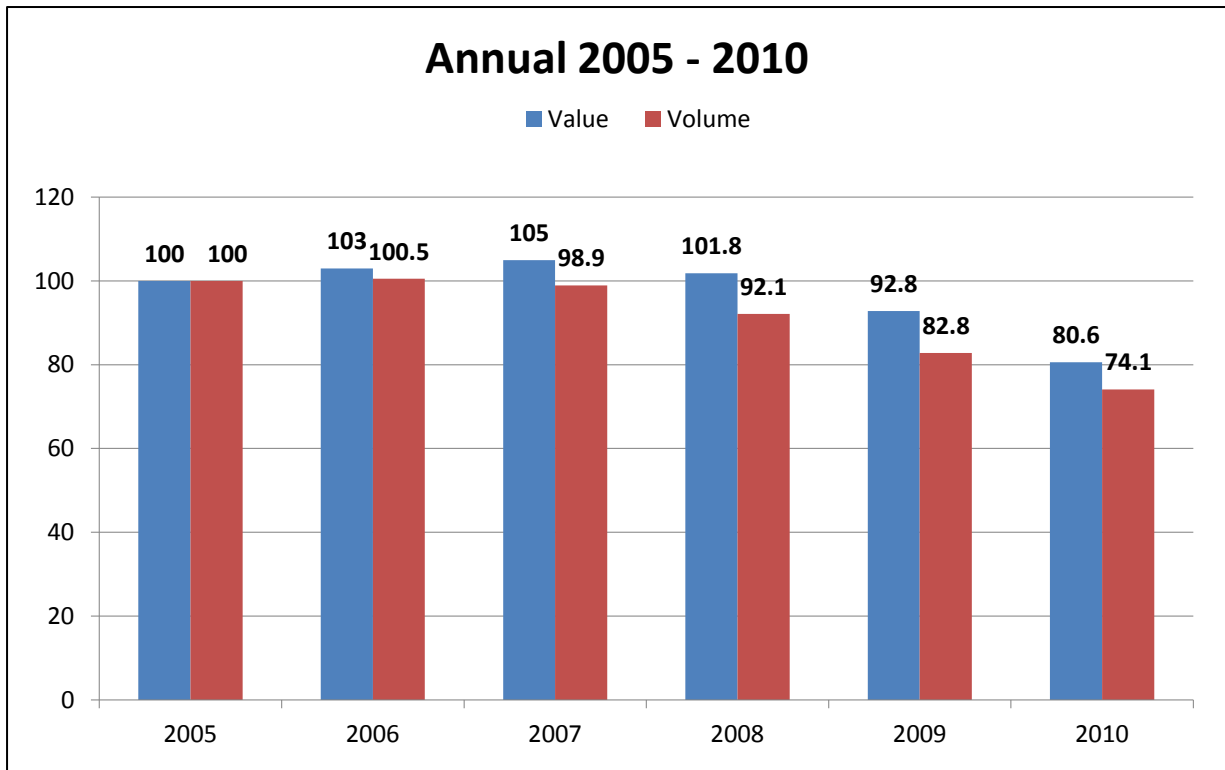
Food sector sales in the US have performed very well over the first 9 months of 2011. This performance has partly been driven by a 5.8% increase in grocery store sales for the first 9 months of the year compared with the same period last year.⁴⁶

Visible data labels refer to value of sales.

⁴⁵ Food 2006 - 2011, Retail Sales Index Value and Volume Unadjusted (Base 2005=100), www.cso.ie

⁴⁶ US Department of Commerce, Retail Sales September 2011

Retail Sales Index – Bars



Retail Sales Index – Bars, Base 2005 = 100⁴⁷

The bar trade in Ireland has been in decline for the past decade as a result of a combination of factors including the introduction of the smoking ban and random breath testing, and changing consumer lifestyles.

The volume of bar sales decreased by a total of -25.9% from 2000 to 2010, and this has been a steady pattern with a regular annual decline of around -2.5%. However, the value of bar sales decreased by slightly less, -19.4% in total or -1.9% per year, due to increases in unit prices and taxes.

This declining pattern continued into 2009 with sales volume down -10.1% and value down -9% for the year. This unusually large decline was partly blamed on cross border shopping.

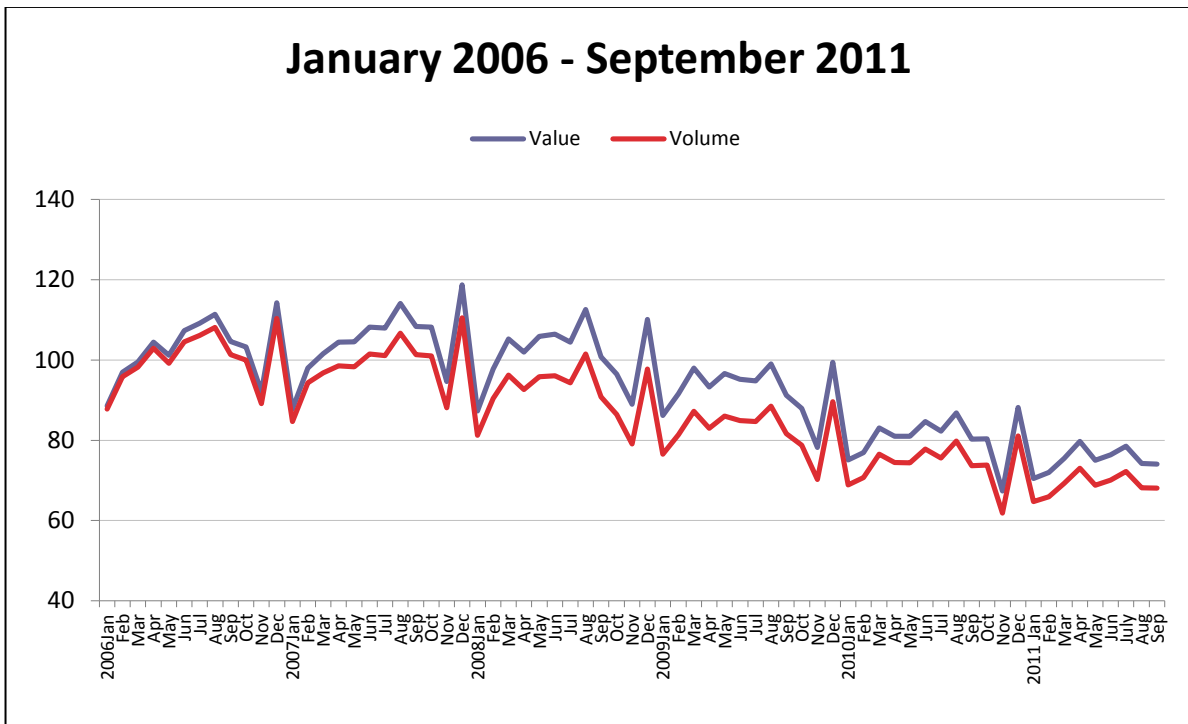
Sales continued on a downward trend in 2010 with volume down -9.9% and value down -11.7% in December year-on-year.

A similar trend has been experienced in the UK, with sales down by -5.5% in 2008 compared with -4.8% in 2009 and by -4.2% in 2010.⁴⁸

⁴⁷ Bars 2005 - 2011, Retail Sales Index Value and Volume Unadjusted (Base 2005=100), www.cso.ie, All figures relate to on-trade sales.

⁴⁸ British Beer & Pub Association's (BBPA) UK, Quarterly Beer Barometer

Retail Sales Index – Bars



Bar sales follow a seasonal pattern with a peak in August and December followed by a trough in January each year.

Sales continued on a downward trend in 2010 with volume down -9.9% and value down -11.7% for the year to end December. This continuing decline in bar sales can be attributed to a “stay-at-home” culture which has emerged in the wake of higher taxes on alcohol and lower consumer discretionary income.

2011 figures indicate that this relentless decline is continuing. Despite many high profile sporting events taking place at home and abroad, volume sales were down by -5.2% for the third quarter compared to the same period last year, and value was down -5.4%.

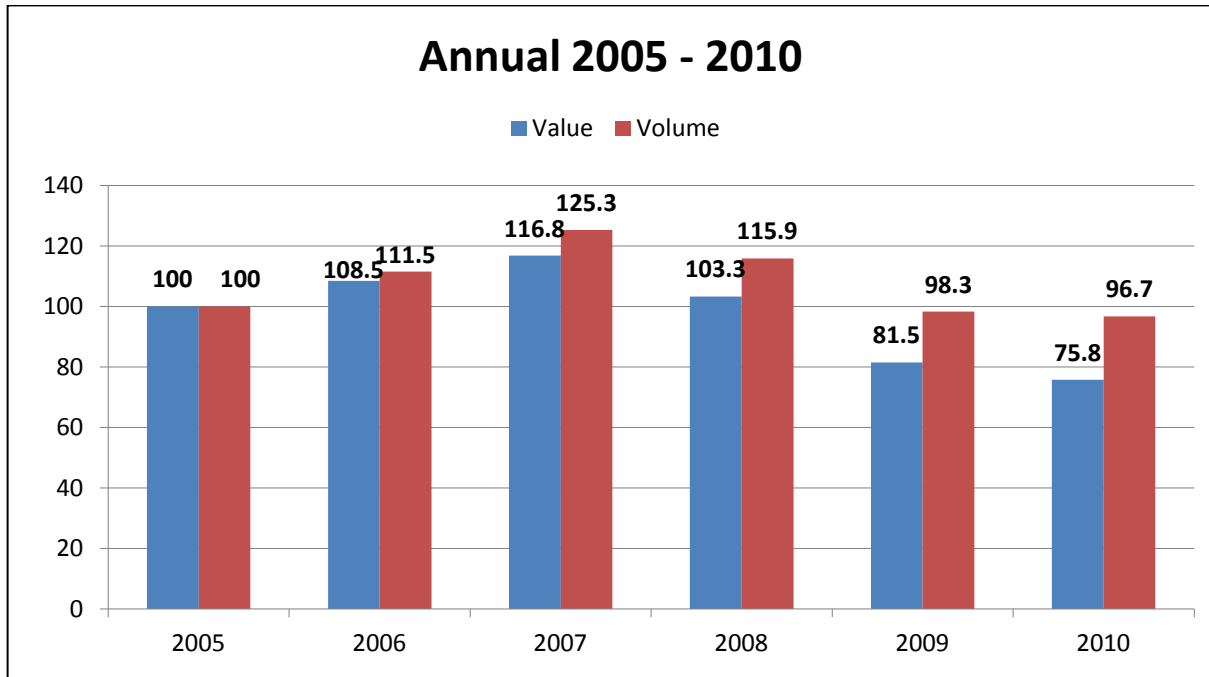
The tighter drink driving rules that came into force this October Bank Holiday weekend are likely to further encourage the tendency to drink at home rather than visiting pubs which suggests further difficulty for the pub trade.

In the UK, Q3 on-trade beer sales have decreased by -4.3% compared to the same quarter last year. However, beer sales through off-licences and supermarkets increased by 1.3% in Q3, compared to the same period last year. UK pub sales are being hit by cheaper alcohol at retailers and reduced consumer demand⁵⁰.

⁴⁹Bars 2006 - 2011, Retail Sales Index Value and volume Unadjusted (Base 2005=100), www.cso.ie All figures relate to on-trade sales.

⁵⁰ British Beer and Pub Association Quarterly Beer Barometer.

Retail Sales Household Equipment – *Annual*



Retail Sales Index – Household Equipment, Base 2005 = 100⁵¹

Household equipment is the sum of three retail sub-categories: furniture and lighting, hardware, paints and glass, and electrical goods. All of these items are for household use and are therefore highly dependent on the housing market, particularly on the number of new homes and first-time-buyers.

As the chart above shows, sales of household equipment grew rapidly in line with the boom in housing construction, reaching a peak in 2007, following the year in which 90,000 new homes were built.

Sales of household goods have declined just as rapidly, falling by -23% in volume and -5% in value from the peak in 2007 to the end of 2010. This decline came despite substantial price reductions in furnishings and household equipment.

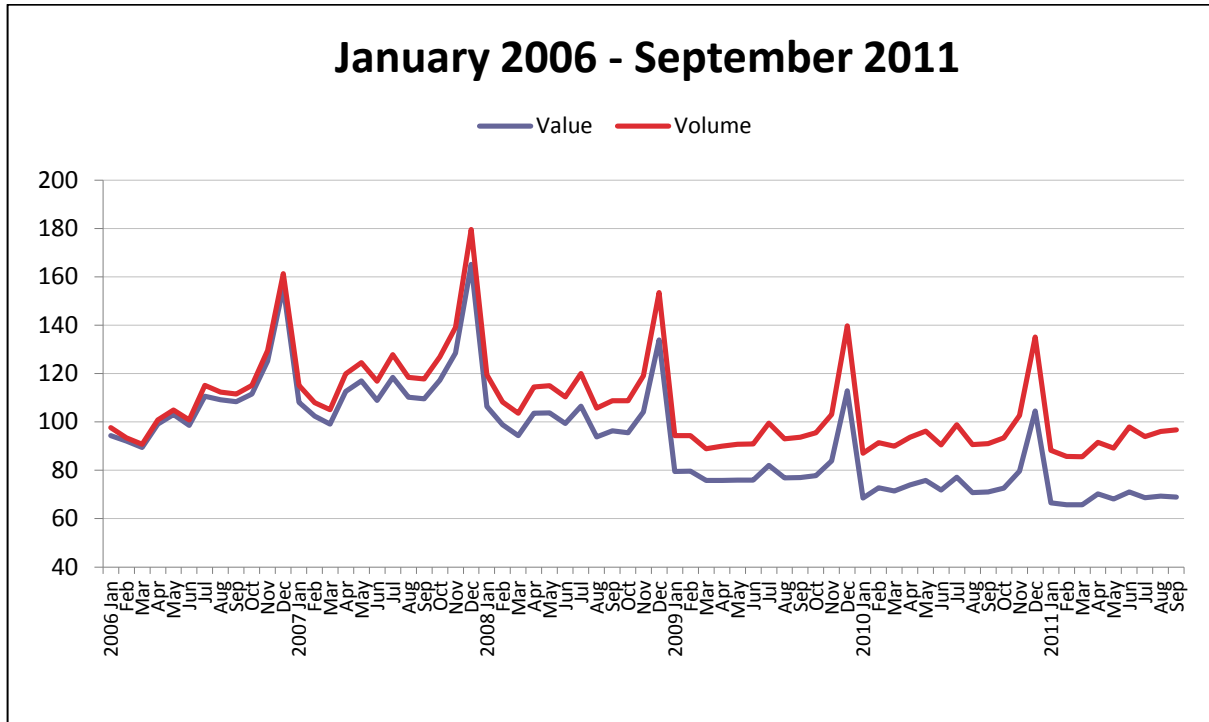
The rate of decline slowed, however, through 2010, with sales volume down by -1.6% and value down by -7%, suggesting that the market might be stabilising.

Some of the categories that are combined under the heading household goods fared much worse year-on-year to December 2010. Furniture and lighting fell by -21.5% in volume and by -25.8% in value, hardware, paints and glass fell by -7.4% in volume and by -9% in value, while electrical goods actually increased by 5.1% in volume although declining by -2.3% in value.

Sales of household goods in the UK were also very weak, down by -8.6% in volume and -10.2% in value for 2010.

⁵¹ Household Equipment 2005 - 2011, Retail Sales Index Value and volume Unadjusted (Base 2005=100), www.cso.ie

Retail Sales Household Equipment – *Monthly*



Sales of household goods are quite seasonal with a small peak in June/July each year coinciding with the summer retail sales, and a bigger peak in the pre-Christmas period. Within this seasonal pattern, the underlying trend has been downwards from 2008 through 2010.

This downward trend has continued into 2011 with sales volume in the combined household equipment category down by -3.2% for the third quarter, year-on-year, and value down by -7.5%.

Some of the sub-categories fared better or worse than this average during the third quarter of 2011. Furniture and lighting fell by -9.3% in volume and -13.2% in value while hardware, paints and glass fell by -5.6% in volume and -6.2% in value. In contrast, electrical goods rose by 0.1% in volume but declined by -6.9% in value.

Sales of household goods in the UK grew by a better-than-expected 0.6% in September, reversing a -0.4% fall in August. This performance was driven by strong sales of electrical appliances, carpets, books and jewellery which rose 2.3% in the month, the largest increase since October 2010⁵³.

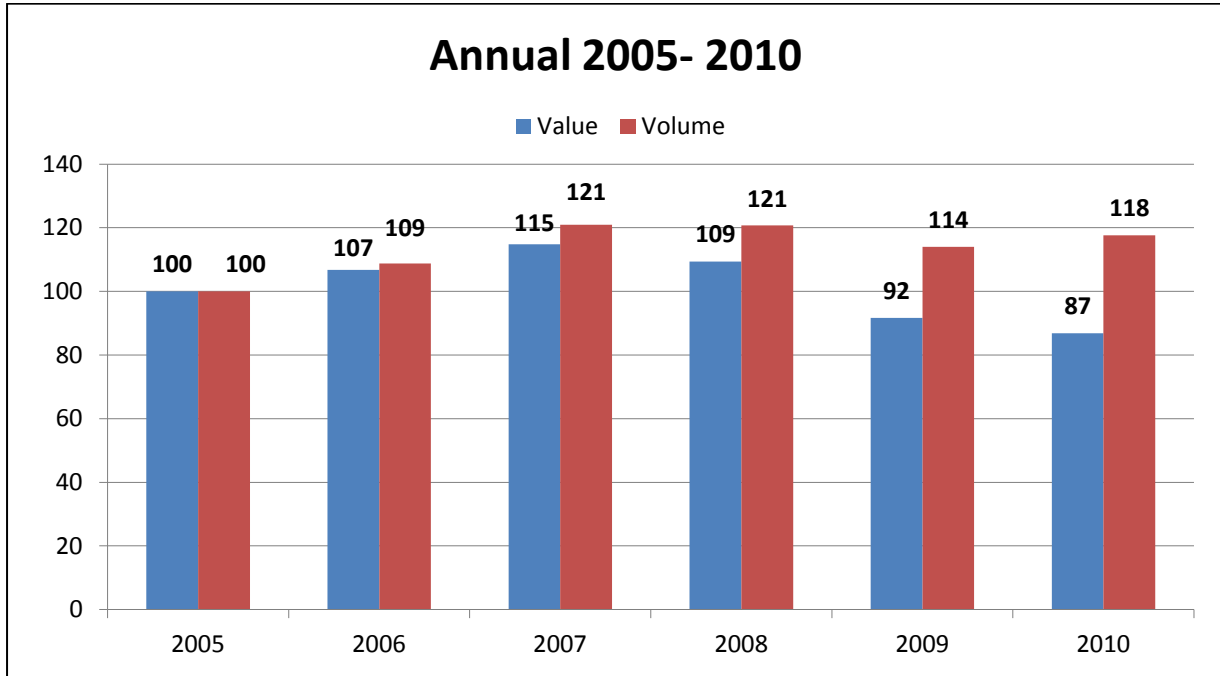
Sales of home furnishings in the US were up by 0.5% for the first 9 months of September from the end of year figure in 2010. Sales for September 2011 were up 2.4% compared to the same period last year⁵⁴.

⁵² Household Equipment 2006 - 2011, Retail Sales Index Value and volume Unadjusted (Base 2005=100), www.cso.ie

⁵³ www.ons.gov.uk

⁵⁴ www.furnituretoday.com

Retail Sales Clothing, Footwear and Textiles – Annual



Retail Sales Index – Clothing, Footwear and Textiles, Base 2005 = 100⁵⁵

Clothing and footwear purchases are price and income elastic which means that they tend to fluctuate along with the health of the economy. As can be seen from the chart above, this is exactly what happened in Ireland.

Sales of clothing and footwear grew strongly during the boom years and then dropped back just as quickly when economic conditions deteriorated. Sales volume grew by 89% from 2000 to 2007 which is equivalent to 13% per annum, while value increased by 46% or 6.6% per year.

Sales declined dramatically in 2009, down by -5.6% in volume and by -16.2% in value. The larger reduction in sales value reflects the effect of price promotions introduced to try to stimulate sales.

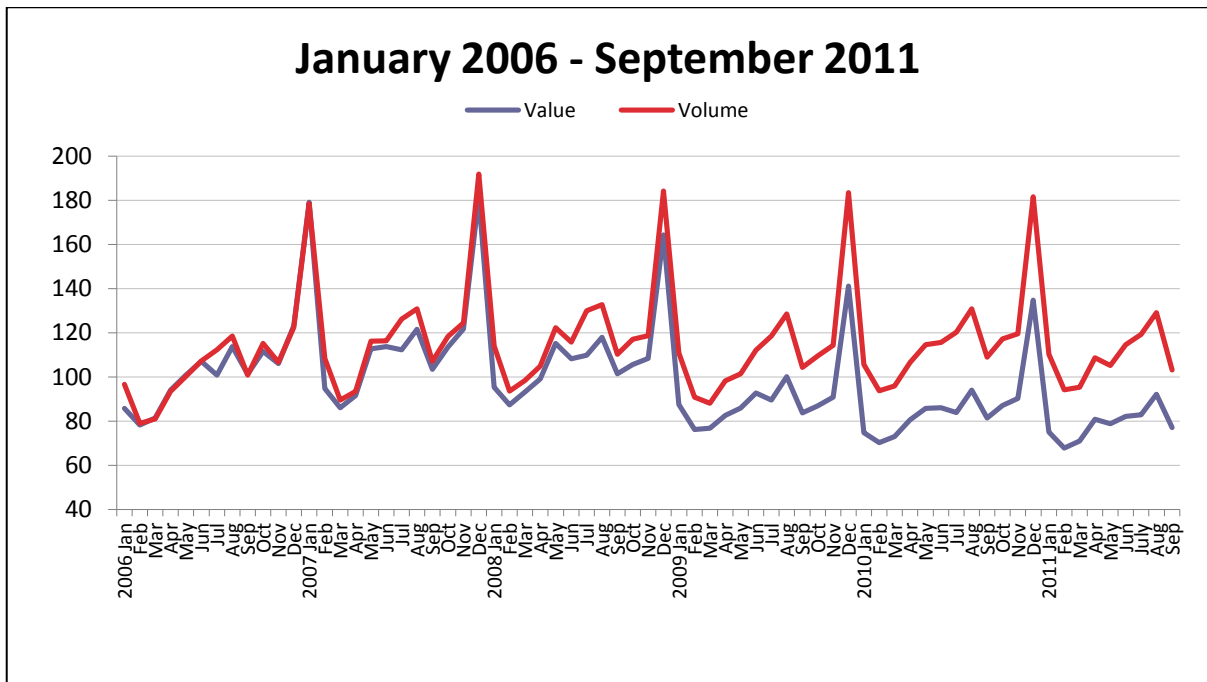
Sales of clothing and footwear rallied somewhat in 2010, up 3.5% in volume although down -5.4% in value.

In the UK, textile, clothing and footwear sales volumes increased by 3.4% and value by 4.7% for the year to end December 2010

Sales of clothing in the US increased by 5.1% for the full year 2010.

⁵⁵ Textiles and Clothing 2005 - 2011, Retail Sales Index Value and volume Unadjusted (Base 2005=100), www.cso.ie

Retail Sales Clothing, Footwear and Textiles – Monthly



Retail Sales Index – Clothing, Footwear and Textiles, Base 2005 = 100⁵⁶

Sales of clothing, footwear and textiles have a marked seasonal pattern with a large peak in the pre-Christmas period. On average from 2006 to 2009, sales volume increased by 56.6% from November to December each year.

Sales of clothing and footwear rallied slightly in 2010, up 3.5% in volume although down -4.2% in value. This reflects the price promotions that retailers have employed to stimulate sales, offsetting weak consumer confidence.

Unfortunately this trend has reversed again in 2011 with sales volume and value down significantly. Quarter 3 sales by value decreased by -2.8%, and sales by volume decreased by -2.3% compared to the same quarter last year. September was the worst performing month of the quarter with sales volume down -5.2% compared to the same month last year, and value down by a fractionally larger -5.3%.

Sales of textiles and clothing in the UK are also weak, with volume down by -2.1% between September 2011 and September 2010. This is the biggest annual fall since April 2008⁵⁷.

In contrast, sales increased at US clothing stores in the third quarter of 2011. Monthly purchases of apparel for September showed an increase of 1.3% compared to August figures.⁵⁸

⁵⁶ Textiles and Clothing 2006 - 2011, Retail Sales Index Value and Volume Unadjusted (Base 2005=100), www.cso.ie

⁵⁷ www.itn.co.uk

⁵⁸ US Census Bureau



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