

Q4 2018

Consumer Market Monitor

Overview Fourth Quarter

THE OUTLOOK IS LARGELY POSITIVE FOR THIS YEAR WITH THE FUNDAMENTAL ECONOMIC CONDITIONS REMAINING STRONG, HOWEVER, THE RISK OF A "NO DEAL" BREXIT IS CONTINUING TO WEIGH ON CONSUMER CONFIDENCE.

Strong growth in employment and disposable incomes in 2018 continued to provide the conditions to support growth in the Irish consumer economy. As counterpoint to this, however, consumer confidence weakened in the face of the protracted negotiations about Brexit and a pervasive anxiety that a hard Brexit would damage the Irish economy and employment. The net effect of these forces was a solid rather than spectacular growth in the Irish consumer economy in 2018. Aggregate consumer spending increased by an estimated 3% in real terms, better than the rather muted out-turn for 2017 (+1.9%).

Most areas of spending, with the exception of new car sales, showed a positive trend. Retail spending was up by almost 4% and services spending was up by double that at 8%.

Residential property sales were up by 5%, a figure constrained more by supply than demand.

Mary Lambkin
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FORECASTS SUGGEST THAT PERSONAL CONSUMPTION WILL GROW BY 2-3% THIS YEAR AND SLOW TO 2% NEXT YEAR.

Looking forward, the outlook is largely positive for this year and next with the fundamental economic conditions remaining strong and likely to continue to drive employment and incomes in an upward direction. However, the risk of a "No Deal" Brexit is continuing to weigh on consumer confidence this year moderating the outlook for consumer spending. Forecasts suggest that personal consumption will grow by 2-3% this year and slow to 2% next year.

STRONG EMPLOYMENT



2.255mn

The main drivers of growth in spending are the continuing gains in employment and incomes. There are now 2.255 million people at work, up 67,000 (3%) year-on-year, and up by 429,000 or 23% from the low point in 2012. Employment growth is expected to continue this year and next but at a moderating rate of 2% per annum. Even at this rate, we will see almost 100,000 more people entering the workforce by 2020.



MORTGAGES ON THE RISE



52,000

One area where borrowing is growing modestly is for the purchase of residential property. There were 30,629 mortgages issued for purchasing homes last year, up 9% on 2017, with a value of €7 billion which was up by a slightly higher 13% reflecting price increases. In sum, 52,000 homes were sold last year, and forecasts suggest about 55,000 for this year.



PERCEIVED WEALTH



151,000

Consumer spending has also been supported by improving household balance sheets mainly driven by the increasing value of peoples' homes. Household net worth per capita now stands at €151,000, up 70% from the low of 2012. Perceptions of increasing wealth feed confidence and encourage consumers to release some of their wealth for spending. It is important to note that credit and borrowing are not major contributory factors in recent spending, unlike in the last boom.



A final point to note is the broad-based deterioration in the UK consumer economy on foot of the Brexit confusion. There has been a decline in virtually every metric measured in this monitor, from property to cars to retail and services over the past two years. Only time will tell whether this downward trend is temporary or the beginning of a protracted decline.

Recent Trends

THE MARKET FOR NEW CARS IS THE MOST TROUBLED SECTOR RIGHT NOW



The market for new cars is the most troubled sector right now; new car sales fell 10.5% in 2017 to 127,045 units, and weakened further in 2018, to 121,158 (-4.6%). This is due to a large increase in the number of used cars being imported from the UK as a result of the weakness of Sterling. Taking new and imported cars together, sales have been more or less flat for the past two years.

Retail sales were solid rather than spectacular in 2018, up by 3.9% in volume terms and 2.6% in value, compared to growth of 5.8% in volume and 3.5% in value in 2017.



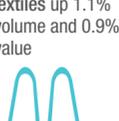
Non-specialised stores (supermarkets) up 5.3% in volume and 4.3% in value



Pharmaceuticals and cosmetics up 6.2% in volume and 2.3% in value



Household equipment up 16.6% in volume and 7.5% in value



Clothing, footwear & textiles up 1.1% in volume and 0.9% in value



Books, newspapers, stationery up 5.7% in volume and 7.0% in value

Consumer Confidence

Confidence dropped through 2018 as a result of anxiety about the likely damage to our economy of a "hard Brexit". However, confidence here is still in positive territory and remains higher than in the UK and among our EU neighbours.



Consumer confidence in Ireland began to recover in 2013, reaching a record high in June 2015, at which point it was well ahead of the previous peak in 2007 and also significantly higher than our European neighbours. Confidence fell slightly through 2016, reflecting the effects of the Brexit referendum and industrial unrest here in Ireland, but picked up again in 2017 in response to positive employment data and strong economic performance.

Tom Trainor,
Chief Executive, The Marketing Institute



Consumer Incomes and Spending

CONTINUING STRENGTH IN THE CONSUMER ECONOMY



The disposable income of Irish households rose by 5% in 2018 to a total of €109 billion, significantly overtaking the last peak of €101 billion in 2007. Increasing numbers in employment was the main driver of the increase, with pay increases also contributing slightly. Lower fuel prices and a weakening in the value of Sterling also boosted spending power.



Personal spending grew by 4% in 2015 and 2016 as the recovery really took hold. Spending was softer in 2017, up by just 1.6%. Spending was stronger in 2018, up by 3%, and broke through the €100 billion level, to almost €105 billion. All forecasts see continuing growth this year and next of 2-3%.



The main driver of growth in spending is the continuing gains in employment and incomes. There are now 2.255m people at work, up 67,000 (3%) year-on-year, and up 429,000 or 23% from the low point in 2012. Employment is expected to continue to grow this year and next but at a moderating rate of 2.5% for 2019 and 2% in 2020.

Consumer Borrowing

Loans for house purchase, which account for 84% of household borrowing, peaked in Q1 2008 at €124bn, but dropped to €73bn by Q4 2016, a cumulative decline of 40%. Mortgage lending has resumed growth since then, up 2.5% per annum to a total of €77 billion by Sept 2018.



Borrowing by Irish households grew at a record level from 2000 and peaked in March 2008 at €150 billion, but declined steadily since then, down 40% to €88 billion in Q4 2016. This trend finally reversed in 2017 with debt increasing by 2%, the first sign of a return to normal conditions. Outstanding household debt stood at €92 billion in September 2018.



Overall, the ratio of household debt to disposable income has fallen by 40% from a peak of 215% in mid-2011 to 126% in Q3 2018, although Irish households are still the fourth most indebted in the EU.

Retail Spending

RETAIL SALES WERE SOLID RATHER THAN SPECTACULAR IN 2018



Retail sales (excluding the motor trade) were solid rather than spectacular in 2018, up by 3.9% in volume terms and 2.6% in value, compared to growth of 5.8% in volume and 3.5% in value in 2017. 2018 sales equated to €45 billion which was back to the levels last seen in 2007. Growth was a little softer in the fourth quarter, up 3.7% in volume and 2.4% in value year-on-year, considerably lower than the growth rate experienced in the final quarter of 2017 (6.7% in volume and 3.6% in value). This out-turn was probably a result of faltering consumer confidence.

Services growth accelerated in 2018, up 8%. This closely matched the growth in VAT returns which were up 7% for a total of €14 billion.

Contact



The Consumer Market Monitor is a publication provided by The Marketing Institute of Ireland in collaboration with the UCD Michael Smurfit Graduate Business School. Data from the Central Statistics Office (CSO), the Central Bank, the European Commission, and other secondary sources. View further information about the Consumer Marketing and other sources: <http://www.mii.ie/cmm/>



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