

Q3 2018

Consumer Market Monitor

Overview Third Quarter

CONSUMER SPENDING GREW BY 3.6% IN THE FIRST HALF OF 2018 AND APPEARS TO HAVE STRONG MOMENTUM FOR THE FINAL QUARTER OF THE YEAR

The Irish economy continues to grow at a strong pace underpinned by the growth in employment which is driving an increase in incomes and supporting the growth of consumer spending. Consumer spending grew by 3.6% in the first half of 2018 and appears to have strong momentum for the final quarter of the year. For the year as a whole, spending is forecast to be up by at least 3%, with further increases in 2019 and 2020, perhaps at a slightly lower level.

The main driver of growth in spending is the continuing gains in employment and incomes. There are now 2.255 million people at work, up 74,100 (3.4%) year-on-year. Employment grew 3% in H1 of this year and growth is expected to continue next year but at a moderating rate. Growth of 3% for 2018 would add another 68,000 people to the workforce.



Mary Lambkin
Professor of Marketing
at UCD Michael Smurfit
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A REMARKABLE INCREASE IN DISPOSABLE INCOME, UP 5% A YEAR IN EACH OF THE PAST THREE YEARS.



The increasing numbers of people employed, as well as increases in hours worked, is leading to a substantial uplift in the amount of disposable income circulating in the economy. There has been a remarkable increase in aggregate disposable income - it has increased up by about 5% a year in each of the past three years. It reached €103 bn in 2017, eclipsing the 2008 peak of €101 bn. The trend has continued in 2018 with disposable income up 4.4% in the first half of the year, suggesting an overall figure of €108 bn.

STRONG EMPLOYMENT



2.255mn

Pay increases have also contributed to the rise in disposable income, but by a smaller amount. Pay rates were up by around 2% per annum for the past three years. Increases of about 3% are expected this year, and a similar rate for 2019. Households across the economic spectrum are now starting to gain from employment and wage growth.



2% up

BREXIT NEGOTIATIONS



Up 5.8%

Consumer confidence is also strong here at present, and significantly higher than in the UK and the rest of Europe. It has fallen by several points in recent quarters, however, as the final stages of the Brexit negotiations play out with considerable uncertainty as to the effect on our economy. These concerns do not seem to be dampening spending, however, as both retail sales and spending on services are continuing to be strong, up by 5.8% for the year in volume terms, and by 3.8% in value.



3.8% up

PERCEIVED WEALTH



€150,768

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 €150,768, up 70% from the low of 2012. Perceptions of increasing wealth feed confidence and encourage consumers to release some of their perceived wealth for spending.



70% up

Recent Trends

NEW CAR SALES HAVE WEAKENED FURTHER IN 2018, DOWN -4.7% TO END SEPTEMBER FOR A TOTAL OF 115,858.



Sales of new cars are one important exception; new car sales fell -10.5% in 2017 to 127,045 units, and have weakened further in 2018, down -4.7% to end September for a total of 115,858. This is not due to a weak economy, however, but to the weakening in Sterling which has caused a dramatic increase in the number of used cars being imported from the UK. Taking new and imported cars together, sales have been more or less flat last year and this year.

Retail sales were very strong in 2017, up by 5.8% for the year in volume terms, and by 3.8% in value. This equated to spending of €40 billion which was back to the levels seen in the last boom.



Non-specialised stores (supermarkets) up 5.0% in volume and 4.0% in value



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



Household equipment up 14.4% in volume and 6.6% in value



Clothing, footwear & textiles up 2.3% in volume and 1.7% in value



Books, newspapers, stationery up 4.0% in volume and 5.0% in value

Consumer Confidence

"Consumer confidence is also strong here at present. It has fallen by several points in recent quarters, however, as the final stages of the Brexit negotiations play out with considerable uncertainty as to the effect on our economy."



Consumer confidence in Ireland has been recovering since 2013, reaching a record high in June 2015. Confidence fell slightly through 2016, reflecting uncertainty caused by the Brexit vote. However, it picked up again in 2017, and ended the year on a high, well above the EU average. Confidence has dropped by a few points in recent quarter of this year although it remains higher than in neighbouring countries. This probably reflects worries about "a Hard Brexit" and the implications of that for the Irish economy.

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 2017 to a total of €102 billion, eclipsing the last peak of €101 billion in 2007. Increasing numbers in employment was the main driver of the increase in disposable income, with pay increases also contributing slightly. Lower fuel prices and a weakening in the value of Sterling also boosted disposable income.



Household spending, which accounts for about 94% of all personal spending, closely mirrors income. It began to pick up in 2014, up by 2%, increased by 4.5% in 2015, and by 3.5% in 2016. 2017 saw spending increase by a further 3.8% to €94 billion and forecasts indicate a similar rate of growth in 2018 leading us closer to €100 billion.



The main driver of growth in spending is the continuing gains in employment and incomes. There are now 2.255 million people at work, up 74,100 (3.4%) year-on-year. Employment grew 3% in Q1 of this year and growth is expected to continue next year but at a moderating rate.

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 133% in Q1 2018, which leaves Irish households still the fourth most indebted in the EU.

Retail Spending

GROWTH ACCELERATED IN THE THIRD QUARTER, UP 4.3% IN VOLUME AND 3.7% IN VALUE YEAR-ON-YEAR



Retail sales have continued to grow in 2018 but at a slower rate, up by 3.9% in volume and 2% in value in the first half of the year. Growth accelerated in the third quarter, up 4.3% in volume and 3.7% in value year-on-year, and this momentum is expected to continue as we face into the final quarter and the holiday season. Vat receipts are moving in tandem, up 5% for the year to the end of September.

All retail categories reported good growth in Q3. Household equipment continued to be the fastest growing category, up 14.4% in volume and 6.6% in value, year-on-year. Supermarkets and other food stores also performed well as did pharmacies and department stores, although clothing and footwear were a bit weaker, as were sales through bars.

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 Monitor here: <http://www.mii.ie/cmm/>



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