

Irish Retail Sales (July Provisional)

Wednesday, 1 September 2010

The latest retail sales figures released this morning by the CSO suggest that the Irish consumer is running out of steam, and personal spending is slowing down again. The bottom line is that the labour market remains very weak, as reflected in the further pick up in the Live Register in August, and the unemployment rate rising to 13.8%. Until the labour market stabilises and consumers become more confident about job prospects then spending will remain subdued.

The volume of retail sales (i.e. excluding price effects) decreased by 0.1% in July compared with July 2009, the first negative reading since January. Month-on-month, sales were down 0.2%. On the whole, consumers spending behaviour remains fairly cautious, with the notable exception being car sales, where the 'scrappage' scheme has boosted the attractiveness of buying a new vehicle. But to the extent that car scrappage schemes tend to prompt some consumers to bring forward purchases, there is likely to be some moderation in the contribution of car sales after the expiry of the current scheme in Ireland at the end of this year.

Car sales were again strong in July, up 13.9% in the year in volume terms. However, the healthy performance of the motor industry was offset by weak sales in many of the other retail sectors, including Department Stores down 7.3%, Clothing, Footwear and Textiles down 5.7%, Bars down 13.8% and Pharmaceutical Medical & Cosmetics down 10.6%. Excluding motor trades, the volume of retail sales fell by 1.0% month-on-month in July, giving a year-on-year decrease of 2.5% as against an annual decline of 1.5% in June.

Retail sales were down 14.0% in volume terms in 2009 while overall spending on goods and services last year was 7.0% lower on average in real terms than in 2008. The decline in consumer expenditure in 2009 reflected the impact of contracting disposable incomes and exceptionally weak consumer confidence which prompted an increase in precautionary savings. Despite the fact that the labour market remains quite weak and consumers are suffering a further erosion of disposable incomes arising from falling wages and an increased tax burden, due to the carryover from 2009, sentiment picked at the start of the year, boosting spending in the first half of 2010. However, we appear to have hit a wall now, not helped of course by the fears of the United States heading backing into recession, which would have negative consequences for Ireland, and by the negativity that is being generated on a daily basis by the Anglo Irish Bank fiasco.

Looking at the overall picture, we think spending behaviour is likely to remain somewhat restrained over the coming months, with tighter conditions for consumer credit and higher interest rates leading households to pay down debt. With the Cabinet meeting today for the first time since the Summer recess, it will have a lot to contemplate. Implementing further tough fiscal austerity measures in the December Budget will only do more harm than good to the economy in 2011 in our view unless there is also another stimulus package for consumers to replace the car scrappage scheme.

S.A. (Indices 2005=100)	Total Volume Index	% Change Month	% Change Year	Excl. Motor Trades Index	% Change Month	% Change Year
2009 July	94.8	0.9	-14.4	104.7	0	-5.7
2010 May	95.3	-0.2	3.1	104.0	0	0
2010 June	95.0	-0.3	1.0	103.1	-0.8	-1.5
2010 July	94.8	-0.2	-0.1	102.1	-1.0	-2.5

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