The Marketing Institute

UCD Michael Smurfit Graduate Business School

Q1 2020 Consumer Market Monitor

Overview First Quarter

THE WORLD CHANGED BEYOND RECOGNITION DURING THE FIRST QUARTER OF 2020 AS A RESULT OF THE CORONAVIRUS PANDEMIC.

While primarily a health crisis, it has also caused a severe economic shock affecting activity across all sectors of the economy. This shock has been felt first and foremost by consumers, especially the many people who have been laid off as a result of the shutdown of non-essential businesses since March 27.

1 MILLION RECEIVING SUPPORT

The Irish consumer economy collapsed in April with most sectors showing dramatic declines as a result of the Covid19 lockdown. However, several features of this crisis differ from the last recession and give cause for some optimism about the pattern of future recovery

Mary Lambkin
Professor of Marketing
at UCD Michael Smurfit
School of Business

THIS SITUATION PRESENTS A DRAMATICALLY DIFFERENT OUTLOOK FOR THE ECONOMY WITH A MAJOR DECLINE IN ALL AREAS OF ACTIVITY.

Economic activity as a whole (GDP) in Ireland is forecast to decline by 8-9% in 2020. This assumes strong growth in the first two months of the year, a sharp decline in the second quarter and a gradual recovery in the third quarter which gathers more momentum in the final quarter. This reduction is greater than the 2008-9 economic crisis.

STATE SUPPORT

There are currently 602,100 people receiving the special Pandemic Employment Payment of €350 per week on top of about 214,700 people on the live register who were receiving Job Seeker Benefit of €203. Combining these two groups, the current rate of unemployment is 28%. In addition, 52,000 businesses employing 425,200 people are having their pay subsidised under the Covid-19 wage subsidy scheme.

28% UNEMPLOYMENT

CARD SPENDING

Card spending data gives a good indication of the pattern experienced in recent months. Spending on debit and credit cards combined was up by 10% in March compared to the same month in 2019. This was probably because of the stockpiling that was witnessed in mid March. However, card spending fell by 36% year-on-year in April after the shutdown of all but essential retailers and most services outlets.

36% down

FOOD & DRINK

This overall trend varied considerably across spending categories. Retail sales of food and drink performed very strongly in March, up by 19% year-on-year, and up by 8% for Q1, partly because of stockpiling but also because people are staying at home and eating more of their meals there. It seems likely that this trend will continue and result in good growth for the year, of possibly 5-10%.

5% up

Services such as transport, hotels and restaurants, arts and recreation sectors have experienced drastic falls in business (80-90%) in Q1 2020 and it does not seem likely that they will be able to recoup this loss over the summer. The most likely outlook is for a major loss of business for the year, possibly of the order of 25%.

Recent Trends

Q1: 50,861

SALES FELL BY -90% IN APRIL ONCE MOTOR DEALERSHIPS WERE CLOSED

Sales of new cars were down -29% in March and sales of imported used cars were down -39% year-on-year. However, sales fell by -90% in April once motor dealerships were closed. On this basis, sales of new and imported cars combined look like they may end the year close to the record low of 104,000 experienced in 2009.

Consumer Confidence

CONFIDENCE LOOKED PROMISING FOR THE REST OF THIS YEAR UNTIL THE CORONAVIRUS CAUSED IT TO PLUNGE TO -24.2 IN APRIL

-24 IRELAND

-22 EU

-22 UK

"Marketing will play a key role in driving business growth and recovery during and post COVID-19. Now more than ever, businesses will need to back their marketing strategy, to either win back their customers or acquire new ones. Different industries have different challenges but ultimately the consumer should be at the heart of all decisions made in order to survive and thrive post COVID-19"

David Field,
Interim Chief Executive of the Marketing Institute of Ireland.

Consumer Incomes and Spending

THE IMPACT OF COVID19

5%

Disposable income has grown for the past five years by an average of 5% a year. This healthy situation has been turned upside down by the coronavirus. This is not so much because of a drop in disposable income - it is rather because the closures of shops, restaurants etc. has removed the opportunity for spending. In fact, it is likely that people will accumulate significant savings during this time.

Consumer spending grew by 2.8% for the full year 2019, unfortunately, this positive scenario was overturned by the arrival of Covid19 which has halted everything except essential spending. Based on a detailed analysis of various scenarios concerning employment and other factors influencing consumption, the Central bank has estimated that private consumption is likely to fall by 9% in 2020.

CLOSED

Some of this lost spending may have been deferred and may come back later in the year. There is discussion in some quarters about the effect of pent-up demand and whether this may give a noticeable sales bounce across various sectors in the latter part of the year. This would be welcome but is unlikely to be enough to make up for almost a whole year of lost sales.

Residential Property

INDUSTRY COMMENTATORS ARE SUGGESTING THAT SALES FOR THE YEAR WILL BE DOWN 25-30%

This year started positively; there were 8,142 sales filed in the first two months of this year which was slightly up on the same period in 2019 (8,049) and the number of sales agreed was also up by about 10%. 8,130 mortgages were approved in the first quarter of 2020 which was also 7% up on the same period in 2019, 6,700 were drawn down (82%) which is about the normal percentage.

However, all indications suggest that sales have almost ground to a halt since March with agreed sales being put on hold in many cases. Building has halted too and completions of new homes look set to come in much lower than the 25,000 planned. Industry commentators are suggesting that sales for the year will be down 25-30% on last year.

Retail Spending

SALES REVENUE FOR 2019 AMOUNTED TO €47 BILLION WHICH WAS BACK TO THE LEVELS LAST SEEN IN 2007

Looking at quarter one 2020 as whole, retail sales did not do badly, actually increasing by 1% year-on-year compared to Q1 2019. Most of the shutdown occurred in the second half of March, of course, so it should be more revealing to look at sales month-by-month rather than quarterly. In fact, however, the overall retail volume index for March 2020 was down by just -1.9% on February 2020 and by -0.6% year-on-year compared to March 2019.

These aggregate figures conceal enormous variation across retail categories, however, with positives and negatives more or less cancelling each other out. As can be seen in the table below, sales of food and drink were up by about 18% in March, year on year, as a result of stockpiling in anticipation of shortages. Sales of pharmaceuticals/medicines were also up by 12% as were sales of household goods (electrical goods were up by 24%).

In contrast, sales through bars dropped by 54%, and sales of clothing and footwear were down by 51% in March year-on-year. Books, newspapers and stationery were also very weak, down by 30% year-on-year. Sales of fuel were also noticeably down, by -13% in March, as a result of cars being off the road for part of the month. These are calamitous figures which have probably been even worse in April since it has been closed down for the whole month as compared to half of March.

It is widely speculated that some of the sales lost to traditional retailers have been substituted by online purchases, and the evidence bears this out to some extent. The percentage of sales made online has nearly doubled year-on-year in many of the largest retail categories. It is to be hoped that this growth has compensated traditional retailers to some extent for the loss of in-store sales.

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/**

The Marketing Institute

THE MARKETING INSTITUTE OF IRELAND
Marketing House, South County Business Park, Leopardstown, Dublin 18, Ireland
Email: editor@mii.ie **Web:** www.mii.ie
Contact: Gaelle Robert **Email:** gaelle@mii.ie

UCD Michael Smurfit Graduate Business School

UCD MICHAEL SMURFIT GRADUATE BUSINESS SCHOOL
University College Dublin, Carysfort Avenue, Blackrock, Co. Dublin, Ireland
Email: info@smurfitschool.ie **Web:** www.smurfitschool.ie
Contact: Prof Mary Lambkin **Email:** mary.lambkin@ucd.ie

Web: www.mii.ie