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AIB RETAIL SPEND OUTLOOK REPORT

Q3 2022

AIB'S DETAILED LOOK AT THE RETAIL SECTOR, HIGHLIGHTING TRENDS AND INSIGHTS FOR Q3 2022.

REI Retail Excellence Ireland

AIB Merchant Services

Overall Spend Increase in Q3

However, prices across many categories are in excess of the growth value.

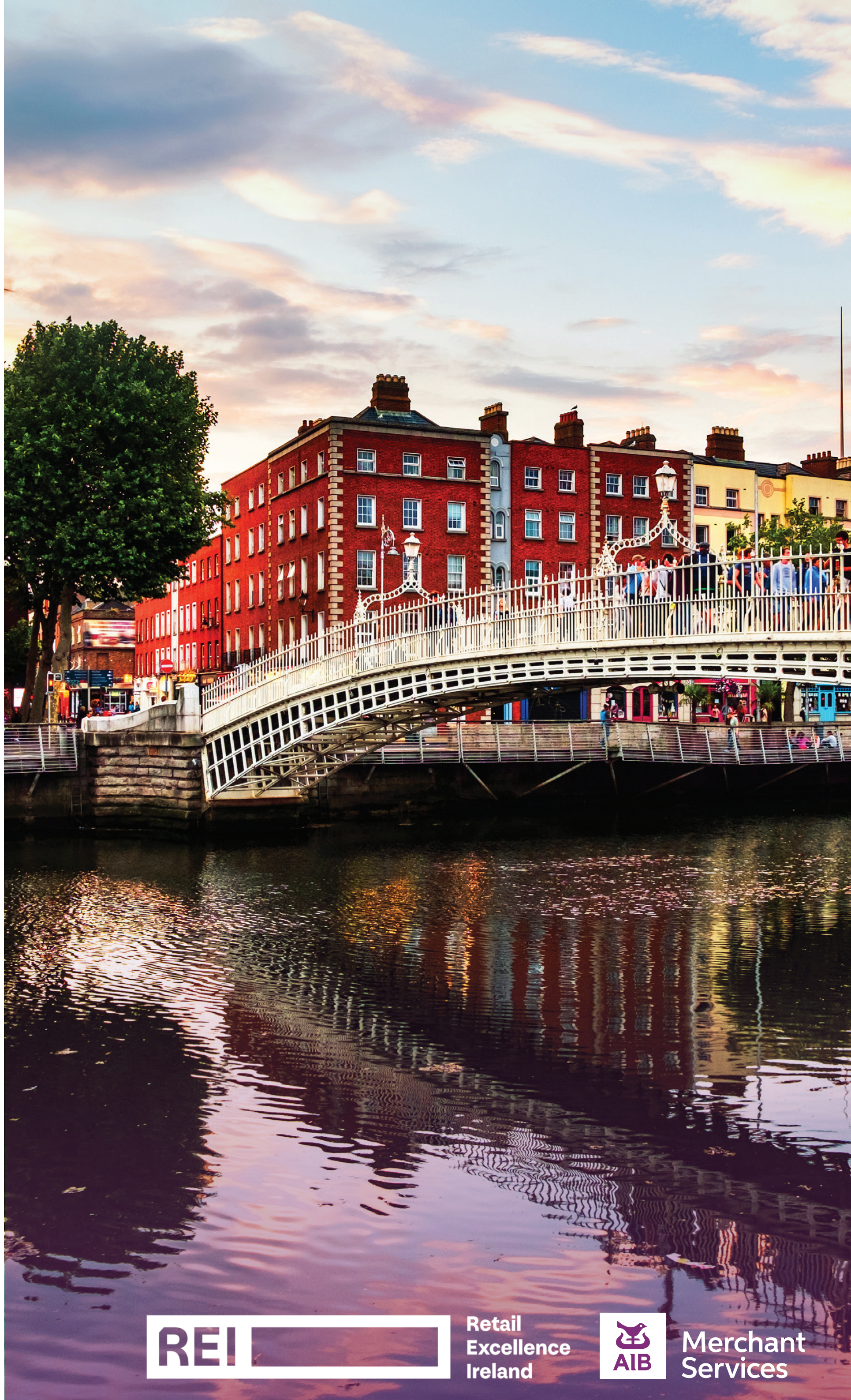
Welcome to our Q3 2022 Retail Spend Report, where we review recent consumer spending patterns across a variety of retail sub-sectors.

As we are all aware, Ireland is experiencing a period of inflation, driven in part by significant increases in energy costs. The energy cost spike is challenging for SMEs across many sectors, but is acutely felt by many retailers as it has the dual impact of increasing operating costs for their business, while also reducing discretionary cash available for consumers to spend.

When we look at the data for Q3, we see an overall spend increase of +3.8% for the quarter, however it should be noted that prices are higher in the majority of categories this year and well in excess of the +3.8% value growth. Although the performance is inconsistent across the sector, when we look into the individual sub-sectors there is evidence of consumers starting to tighten their belts a little with reductions in a numbers of areas that could be described as more discretionary spending, and increases in the non-discretionary sectors such as grocery and pharmacy.

While consumers may start to become more value focused in their purchasing for discretionary items, the grocery and pharmacy sectors will retain priority in household budgeting over some larger once off discretionary items.
We will explore this differentiation in performance through this report.

Alan Makim
Head of Retail
Sector AIB



Retail Excellence Ireland

Industry View

Customers continue to return to instore shopping

Q3 was the first quarter in two years where the 'year on year' comparison wasn't impacted by Covid restrictions. Overall sales held up well through the summer but declined during the warm weather in August and continued following the 'Back to School' peak.

Customers continued to return to instore shopping, which grew slightly ahead of online. There continues to be a rebalancing between instore 'experiential' shopping and online 'transactional' shopping. The return of tourism has helped drive the spend for retailers on the gift business, but this has been offset by the numbers of Irish leaving the country to holiday abroad this year.

Sales in electrical items, furniture, homeware and garden have continued to drop back from their peak experienced during the pandemic. Customers have more choice this year on where they spend their money, with the hospitality and leisure industries benefitting most from this transition.

Clothing and footwear sales started the year strongly as people shopped for occasions once again. As the year has gone on, sales have dropped back. Higher sales of full price items resulted in lower volumes of discounted stock during the sale period. There has been an improvement in the supply chain, which has helped clothing retailers to make a more impactive start to the autumn season compared to the previous two years.

There are indications that customers are buying seasonal products earlier in an effort to spread the cost of Christmas. Overall, retailers are bracing themselves for a tougher start to Q4 with inflation and higher interest rates impacting on consumer confidence.

Duncan Graham
Managing Director
Retail Excellence Ireland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Key Trends
+3.8% Overall Retail Spending
+2.9% Online Retail
+4% Instore Retail
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Retail

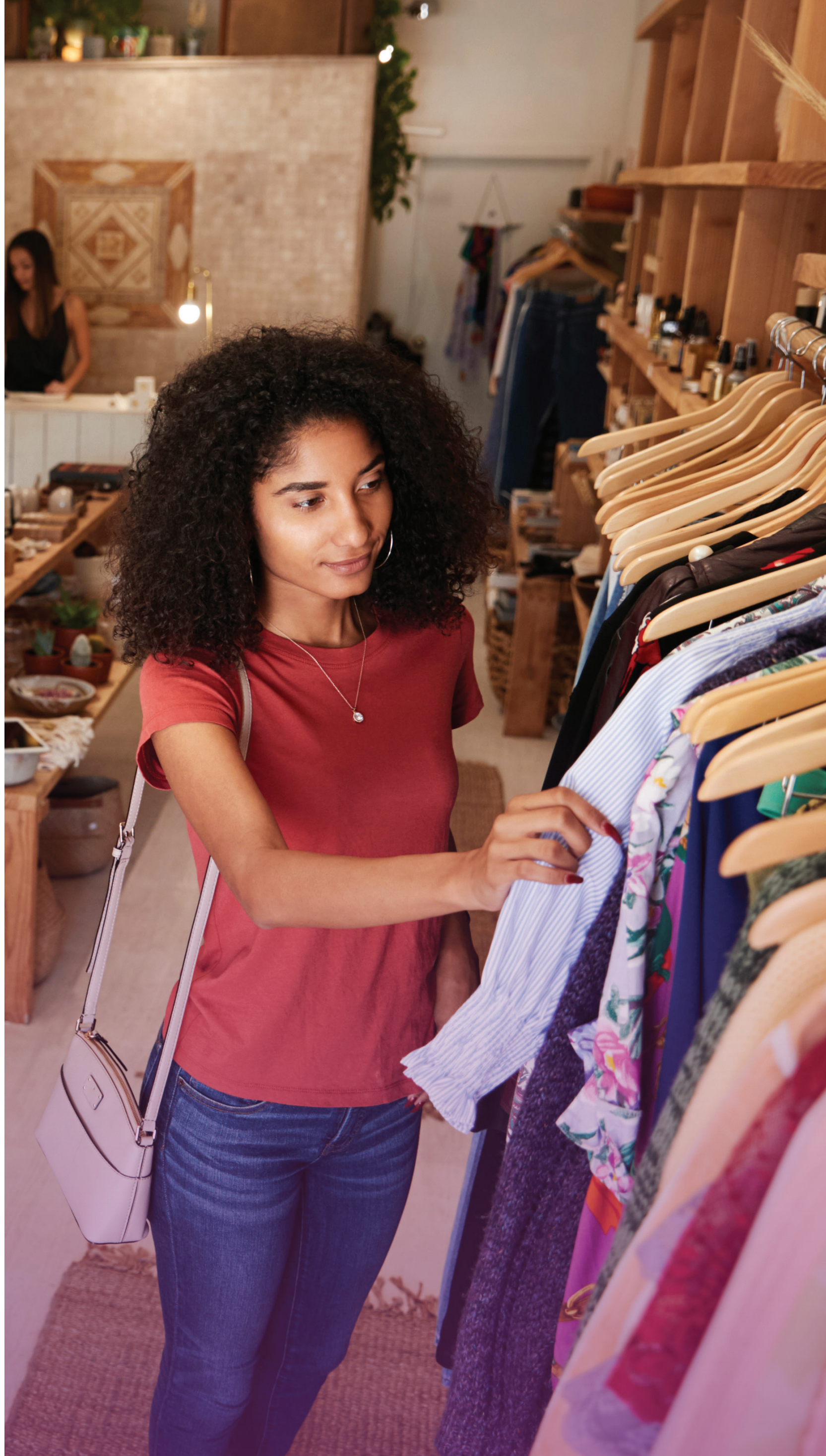
Overall Retail +3.8%

Year on year sales increased by +3.8% in value for the wider retail sector, driven by increases in both instore sales of +4% and online sales of +2.9% against the same period in 2021. Retail sales increases must also be considered given the backdrop of rising consumer prices, which were more than +8.6% up on average in Q3 2022 versus Q3 2021.

CHANNEL	YOY
Total	3.8%
Instore	4%
Online	2.9%

Category	Value(€)	Instore	Online
Groceries	4%	3%	22%
Electrical Goods	-9%	-4%	-12%
Homeware / Hardware / Garden Centres	-18%	-22%	1%
Pharmacies	4%	5%	-4%
Clothing	-4%	-3%	-5%

The largest sector by spend continues to be groceries, which saw a +4% increase overall in Q3. Viewed in tandem with increases to pharmacy sales of +4%, consumer non-discretionary spend in Q3 was up versus the same period in 2021, while in contrast, discretionary spending subsectors of clothing (-4%) and homeware / hardware (-18%), experienced like for like declines. Subsector performance is explored in more detail in the following pages.



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Grocery

Overall Groceries +4%

The overall grocery sector showed a sales value increase of +4% in the quarter, with both instore and online sales channels seeing increases of +3% and +22% respectively. The year on year increase versus the same period in 2021 continues to point to a robustness in the sector post removal of all Covid restrictions, however grocery price inflation remains a significant factor. A number of grocery subsectors are broken out in the first table.

Category	Overall	Instore	Online
Grocery Stores, Supermarket	4%	3%	29%
Florists	-9%	-1%	-16%
Bakeries	12%	12%	9%
Off Licence	-9%	-12%	2%

	Instore	Online
Under 35	0.4%	1.5%
35-54	2.2%	15.6%
Over 55	8.4%	10.7%

The bakery subsector, in similar fashion to Q2, saw the largest increase in sales, potentially influenced by increased socialising and social events. The return of consumers to bars and restaurants has likely negatively impacted the off-licence performance.

Looking at the demographics, each of the three age groups split out saw increases across both online and instore channels, with the over 55 group seeing the biggest instore increases.

Homeware/ Hardware

Overall Homeware/Hardware -18%

Overall, this group of subsectors (including homewares, hardware and garden centres) saw an -18% reduction in value sales in Q3, with a -22% reduction in the instore channel versus a +1% increase in the online channel. The biggest reduction has come in the hardware stores subsector at -22%, while the other subsectors in this group have seen relatively marginal value declines of between -1 & -2% versus the same period last year in 2021.

Category	Overall	Instore	Online
Furniture, Home Furnishings	-1%	-3%	4%
Hardware Stores	-22%	-26%	-1%
Nurseries, Lawn and Garden Stores	-2%	-5%	+6%
Floor Covering Stores	-1%	3%	-7%

	Instore	Online
Under 35	-1.8%	-1.4%
35-54	-2.5%	+2.0%
Over 55	1.8%	5.2%

At the beginning of Q3 2022, a post-Covid restrictive period, consumers were provided with more spending choice, which would be a factor to explain the reduction in sales across the subsectors of this group.

In terms of customer age profiles, over 55's sales increased for both instore and online sales channels.

* Combined sub-sector data

Clothing

Overall Clothing -4%

This group of subsectors (including department, sports, shoe and jewellery stores) saw a -4% reduction in sales values versus Q3 2021, with a -5% decline in the online channel versus a -3% reduction in the instore channel. From the data, there was a consistent trend in Q3 with each of the discretionary spend subsectors all registering declines versus the same period last year.

Category	Overall	Instore	Online
Shoe Stores	-3%	1%	-11%
Sports Stores	-6%	-8%	-2%
Jewellery	-5%	-7%	0%
Department Stores	-6%	-4%	-10%

From a channel perspective, the only subsector to see contrasting performance was shoe stores, where instore saw a modest increase of +1%, however online sales decreased by sales -11%.

	Instore	Online
Under 35	-5.6%	-10.3%
35-54	-3.8%	-2.2%
Over 55	4.3%	6.3%

In Q2 2022, the decline in online sales was more pronounced at -18% and spread across each age cohort. This trend continues for the Under 35's and 35-54 age cohort while the Over 55's are reporting a year on year increase.

* Combined sub-sector data

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