

Irish Retail Sales (May Provisional)

Thursday, 8 July 2010

The latest retail sales figures released this morning by the CSO were again quite positive, and a further indication that things are improving on the economic front. Although we still have some way to go on the road to recovery, the risks in our view are now tilted to the upside, notwithstanding the current Eurozone 'debt' crisis which has embroiled Euroland's 'peripheral' countries, including Ireland. Indeed, the indications are now that both consumer spending and GDP will post positive annual changes for 2010 as a whole.

The volume of retail sales (i.e. excluding price effects) increased by 3.5% in May compared with May 2009 and there was a small monthly rise of 0.1%. The annual increase in the volume of headline retail sales in February was the first recorded since January 2008, and the March, April and May figures have carried that trend on, which is very encouraging. That said, the year-on-year increase in May was below that of the two previous months, suggesting the recovery in spending remains uneven at this juncture.

The annual rise in retail spending in recent months can be primarily explained by strong new car sales, with annual growth of 21.9% recorded in the Motor Trades sector in May. But, encouragingly, a number of other retail sectors posted healthy annual rises in the month apart from the motor industry. Excluding motor trades, the volume of retail sales rose by 0.1% month-on-month in May, with a similar increase year-on-year, and the second consecutive annual rise. The year-on-year increase in April was the first rise since March 2008.

Other than Motor Trades, the most significant year-on-year increases in May were recorded in Furniture and Lighting (up 19.5%); Clothing, Footwear & Textiles (up 13.2%), Department Stores (up 7.4%) and Hardware, Paints & Glass (up 6.5%).

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. Although 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 has picked up in recent months. Indeed, consumer confidence in June was at its highest level since October 2007. There now appears to be a general feeling out there that Ireland is over the worst and the economy is on the road to recovery. This is now being reflected in reduced savings and increased spending. A strong sterling exchange rate against the euro is also helping to reduce the numbers from the Republic crossing the border into Northern Ireland to do their shopping.

Quite clearly, the big winner this year as regards consumer spending will be the motor industry. Already new car sales in 2010 to date are higher than for the whole of 2009. However, other retail sectors are also likely to see positive gains. Assuming the Eurozone 'debt' crisis issue doesn't drag on for a prolonged period and seriously dent consumer sentiment in the process, then there is every chance in our view that overall personal spending and in turn GDP, will be higher in real terms this year than in 2009.

S.A. (Indices 2005=100)	Total Volume Index	% Change Month	% Change Year	Excl. Motor Trades Index	% Change Month	% Change Year
2009 May	92.8	3.0	-14.0	104.2	0.6	-8.7
2010 March	94.3	2.2	3.8	104.5	1.9	-0.6
2010 April	96.0	1.8	6.5	104.3	-0.2	0.7
2011 May	96.0	0.1	3.5	104.4	0.1	0.1

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8/7/10