

Retail sector report

Ireland, November 2023



What is the outlook?



Headlines

The Covid bounce back was short lived

The retail industry was heavily impacted by COVID and the closure of non-essential stores but has shown remarkable resilience upon reopening. There was a surge of demand for non-essential retail and hospitality upon the easing of restrictions as consumers' disposable income built up during lockdowns.

This Covid bounce back was short-lived when Russia invaded Ukraine and the beginning of inflationary pressures began to be seen across Europe and the cost-of-living crisis ensued.

Sector Key Highlights

Retailers' margins and profits affected

The industry has been massively affected by inflationary pressures. Imports and exports are subject to increased shipping and freight costs along currency volatility.

The constant fuel fluctuations are also playing a huge factor which is driving up input costs. These along with rising energy costs and increased interest rates are resulting in higher expenses for retailers who are struggling to pass these onto consumers in full without impacting competitiveness. As a result, we are seeing retailers' margins and profits being affected, small to medium sized retailers who would operate on smaller margins compared to their larger sized competitors. The long lasting effect of this on cash flow is a concern going forward.

Labour shortages is another challenge for the industry along with staff retention. Government policies are also affecting retailers

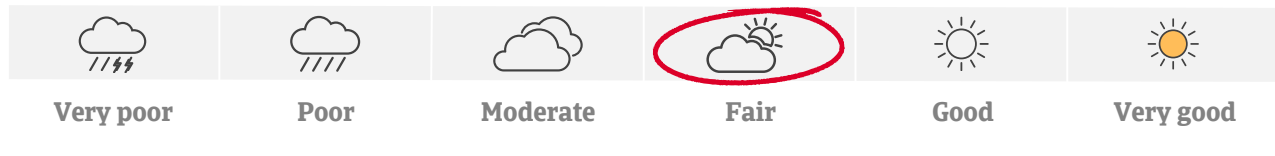
with the introduction of mandatory sick leave pay from 1st January 2023 where employers are required to pay employees 70% of their normal pay up to a maximum of €110 for 3 sick days in 2023, this increases to 5 days in 2024 and will reach 10 days in 2026. The Government has also announced a €1.20c rise in minimum wage to €12.70c from 1st January 2024 and this has increased from €10.50c in 2022.

Consumer sentiment has weakened as Europe battles inflation and the cost of living crisis which is resulting in more cautious spending and forecasts suggests that spending will be significantly lower this Black Friday and Christmas period. Demand may not reach expectation which could lead to the risk of retailers becoming overstocked. This will see cashflow tied up and increased storage costs incurred. This is a trend that affected furniture retailers post COVID as consumers prioritised travel and socialising over house renovations once restrictions eased.



Consumer behaviours are changing as we are seeing increased demand for online shopping which is reducing footfall on the high street. Physical stores incurred higher operating expenses, higher rents and rates and remaining competitive with online retailers will continue to be a struggle. Larger retailers will have the technological infrastructure and the warehouse capacity to operate on a larger scale online than a small to medium retailer.

What is the outlook?



The grocery sector has remained resilient and was valued at €13.5bn in 2022. The cost of living crisis has resulted in lower disposal income for consumers who are becoming more price conscious than brand loyal. Although the market share of the main 5 players in Ireland hasn't been overly impacted, we are seeing a shift from premium products to supermarket own brand products. These generated a higher margin for the supermarket compared to labelled products.

Grocery Sector Valued

€13.5
billion
in 2022

Subsectors Affected

Hospitality, fashion and service industry

All the issues are putting pressure of profit margins, this will in turn impact cash flow. The increase in the cost of borrowing will also affect working capital when cash flow comes under pressure.

The sectors that are heavily reliant of disposable income will be impacted by reduced demand such as hospitality, fashion and service industry who are already subject to higher input costs and staffing costs.

Atradius Approach

Looking for engagement, case-by-case

We are supportive of the sector we are seeing demand for increased credit lines to overcome inflation pressures. We are regularly seeking updated information and discussions to see how companies are mitigating inflationary pressures by implementing cost saving measures. We continue to assess on a case-by-case basis.

6-Months Outlook

Looking at a change in weather

Insolvencies are expected to rise in the latter half of 2023. In H1 2023, insolvencies increased by 30% compared to 2022, with a 30% increase from Q1 to Q2. The retail sector has seen a significant 53% rise since H1 2022, due to persisting inflation.