



THE DRINKS MARKET PERFORMANCE IN 2011

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Overview of 2011 Market

- The national economic environment continued to be weak in 2011. While GDP volume increased slightly by 0.7%, GNP volume declined by 2.5% and the volume of total national consumer expenditure declined by 2.7 %. National employment decreased by 2.1% and the unemployment rate was 14.4% compared with 13.6% in 2010. The pressure on discretionary and disposable incomes continued in 2011.
- The main feature of the 2011 performance is the continued decline of the on-licence sector and the growth of off-licence sales with consequent negative effects of employment and VAT receipts.
- The weak economic environment continued to take its toll on the on-licence sector with bar sales declining by 5.5% in volume and 7.2% in value. The larger value decline was because of the decrease in bar prices, especially food prices, in 2011.
- The weak on-licence performance was offset by an increase in off-licence sales volume of about 5% so that the volume of total alcohol consumption as measured by Revenue clearances increased very slightly by 0.17% in 2011.
- The volume of alcohol consumption as measured by Revenue clearances is now 42.256 million LPA.
- Per adult consumption (which is the main consumption indicator used by the NSMS), as measured by the Revenue clearances indicator and the new Census adult population data is lower than previously estimated and is 11.710 lpa (using the 5% cider coefficient).
- Per adult consumption decreased marginally by 0.14% % in 2011 using our unofficial allocation of part of the additional inter-censal period population increase to 2010.
- Average adult alcohol consumption in 2011 remains at the 1995/96/97 levels.

- Of the four alcohol drinks categories, beer and cider had volume declines and spirits and wine had increases. The cider decline was 0.5 %. Beer declined in volume terms by 1.9 %. Wine increased by 2.1 %. Spirits increased by 3.2 %.
- The individual product market volume shares in 2011 were wine 26.4%, beer 46.7 %, spirits 19.1% and cider 7.8 %.
- Alcohol prices declined by 0.8% in 2011 compared with 2010. Off- licence prices declined by 2% in 2011. On- licence prices decreased by 0.3% in 2011.
- The value of the alcohol market decreased slightly by 0.6% to €6.0914 billion in 2011.
- Bar sales volume, which includes food sales, soft drinks and off licence as well as bar sales of alcohol, decreased by 5.5% in 2011 following the large decline of over 10% in 2010. The value of bar sales decreased by 7.2 % in 2011. The volume of bar sales of alcohol declined by about 6% in 2011 and there was an estimated 5% increase in off licence sales volume.
- Due to the decline in the bar volume and the increase in off-licence volume the off-licence share of alcohol consumption has increased in 2011 compared with 2010 and now accounts for well over half of alcohol consumption.
- Prospects for the Irish drinks market in 2012 remain weak. GNP is currently forecast by the Central Bank to decline by 0.7% in 2012. The volume of consumer expenditure will decline by 1.5% according to the Central Bank.
- Based on the expected economic decline the employment intensive on-licence alcohol market will continue to decline in 2012 but by less than the 2011 experience while off-licence volume should continue to increase. This continues the broad pattern of recent years.

Introduction and 2011 Economic Environment

This report examines the performance of the drinks market in 2011. It deals with total and per adult consumption, product mix, prices, value and volume of sales and the distribution between on and off-licence sales.

The report is mainly based on official data sources from the Revenue Commissioners and the Central Statistics Office and is compiled by Anthony Foley, Dublin City University Business School. The emphasis on official data sources is designed to facilitate external scrutiny of the analysis. In some limited cases there is use of industry market research data where official data are unavailable.

The calculation of the change in average adult consumption levels, which is an important policy and market variable, between 2010 and 2011 is complicated by the new Census of Population figures for 2011 which show that there are more adults in the country in 2011 than previously estimated. This finding requires an upward revision of the 2007 to 2010 populations which is not yet completed by the CSO. The higher than expected population figures results in downward revisions to the previously published estimates of average consumption.

The overall volume of alcohol, as measured by the Revenue Clearances, increased marginally by 0.17% in 2011. The on-licence sector of the drinks industry continued to perform poorly in 2011, but not as poorly as the very weak performance in 2010. The off-licence sector experienced solid growth in 2011 but this was concentrated in the multiples sector and the independent sector continued to experience difficulties. The combination of on-licence decline and off-licence growth resulted in the overall alcohol marginal volume increase of 0.17% in 2011. Despite this small increase, which follows an increase in 2010, the 2011 total alcohol volume is still lower than each of the years between 2001 and 2008.

The volume increase of 0.17% was offset by a small alcohol price decrease of 0.8% resulting in a small decrease in the value of sales of 0.6%.

In 2011, GDP increased by 0.7%. This is the first increase in GDP since 2007 and follows decreases of 3.0% in 2008, 7.0% in 2009 and 0.4% in 2010. While this was a welcome return to growth, other macroeconomic aggregates performed poorly and even worsened relative to the 2010 performance. Overall, the national economy performed poorly in 2011. Real GNP declined by 2.5% in 2011 compared to an increase of 0.3% in 2010. Real consumer expenditure declined by 2.7% in 2011 compared to a decline of 0.8% in 2010. The nominal monetary value of total consumer expenditure declined by 1.8% in 2011. National employment declined by 2.1% and the average 2011 unemployment rate was 14.4% compared to 13.6% in 2010. Disposable and discretionary incomes remained under severe pressure. These negative economic factors contributed to the continuing substantial decline in the on-licence sector.

Exports were the only positive element in the 2011 macroeconomic performance. The overall growth was derived as follows; consumption -2.7%, Government expenditure -3.7%, investment -10.6%, exports +4.1%, and imports -0.7%.

Economic expectations are again quite weak for 2012. According to the Irish central bank (April, 2012), consumption volume will decline by 1.5% - the fifth year of decline in a row - Government expenditure will decline by 4.2%, investment will decline by 3.3% and exports will increase by 3.6%. GDP will increase by 0.5% but GNP will decline by 0.7%.

Volume of Alcohol Consumption

The most generally used domestic and international indicator of aggregate alcohol consumption is the quantity of pure alcohol contained in the various beverages. In this report, when calculating the aggregate alcohol volume, the alcohol content of wine was based on a 12.5% alcohol content and cider was based on a 5 % alcohol content. The Government and Dept. of Health use a 4.5% conversion factor for cider.

Revenue Commissioners' clearances data are not an exact indicator of consumption due to factors such as stock changes, consumption by tourists in Ireland and Irish people abroad and unrecorded legal and illegal external sourcing of alcohol.

Based on the Revenue Commissioners' data for the overall alcohol sector, the volume of alcohol increased marginally by 0.17% in 2011 compared with 2010. The 2011 total alcohol volume of 42.256 million LPA which, while higher than the 2010 and 2009 levels, is lower than in every year from 2001 to 2008.

Average alcohol consumption per adult is calculated with reference to the total volume of alcohol consumption and the total number of adults. The recently published 2011 Census of Population data (Census 11: This is Ireland: Part 1) on the number of adults shows that there are more adults in Ireland in 2011 than was previously estimated in the annual CSO Population and Migration Estimates. This complicates the estimation of the 2010 level of average consumption and the change in 2011 relative to 2010. The 2010 total volume of alcohol is unchanged from previous estimates but the population figure is subject to change when official revisions are published.

The higher than expected Census population and adult population will also require revisions to the previously estimated populations for 2007 to 2009 in addition to 2010 and 2011. The details of these will not be published until September 2012 but will result in changes in the previously estimated average alcohol consumption per

adult levels for the years 2007 to 2010. The impact on the average percentage change from one year to the next will depend on the adjustments made by the CSO to the individual years' adult populations in the 2007 to 2010 period.

For this market performance report, we have allocated the additional 2011 adult population evenly to each of the years 2007 to 2010 to calculate the revised 2010 average per adult consumption. The official revision of the populations is not yet finalised and will most likely differ from the method used here. However, there is no doubt that the higher 2011 Census population results in a lower average per adult consumption level for 2011 than has previously been believed to be the case.

Table 1 Volume of Total and Average Adult Alcohol Consumption 2010 and 2011

	1995/96/97 Average adult consumption	Peak average adult consumption 2001	2010	2011	% change (10/11)
Total Volume (MLPA)	Not applicable	Not applicable	42.183	42.256	+0.17
Per adult(LPA)	11.35(1995) 12.06(1996)	14.44	11.727	11.710	-0.14

Source: Derived from Revenue Commissioners and CSO.

Total volume increased by 0.17%. The 2011 average adult alcohol consumption is 11.710 LPA based on the new higher Census adult population figures. This is lower than the estimates previously used for 2011. Previous estimates reported an increase in average adult consumption between 2010 and 2011. Based on our adjustment of the population increase for 2010, there is a small decrease in average adult consumption, of 0.14%.

Product Mix

The official Revenue data divides alcohol into beer, cider, wine and spirits. Two of the four categories, beer and cider, experienced declines in 2011. The lowest decline in 2011 was cider at 0.5%. The volume of beer consumption decreased by 1.9%. The wine volume increase was 2.1% and the spirits increase was 3.2%.

The consumption shares of the four product categories in 2011 were: beer 46.7%; spirits 19.1%; wine 26.4% and cider 7.8%.

Table 2 Product Category Mix and Growth 2010 and 2011

	Beer	Spirits	Wine	Cider
% Share 2010	47.7	18.5	25.9	7.9
% share 2011	46.7	19.1	26.4	7.8
% Increase in volume 20010/11	-1.9	3.2	2.1	-0.5

Source: Revenue Commissioners

Prices

Alcohol prices decreased slightly in 2011. As measured by the Consumer Price Index (CPI), average alcohol prices in 2011 were 0.8% lower than in 2010. This compares with an overall CPI increase of 2.6 %. The price of the services element of the CPI increased by 3.6%. On-licence prices decreased by 0.3% and off-licence prices decreased by 2.0%. The low on-licence price decrease is more likely due to data collection issues rather than a uniform actual decrease of 0.3% in the price of on-licence alcohol.

Table 3 Alcohol Price Change 2011 compared with 2010

	% change
All Alcoholic Drink	-0.8
Off Licence	-2.0
On Licence	-0.3
CPI	+2.6
CPI services element	+3.6

Source: Derived from CPI, CSO

The price changes referred to above are average prices in 2011 compared with average prices in 2010.

Retail Sales in Bars

The volume of bar sales decreased by 5.5% in 2011 according to the CSO and the value of sales declined by 7.2%. The value decline is larger than the volume decline because of the decline in bar prices in 2011. The bar sales index published by the CSO covers all bar sales including food, soft drinks, cigarettes and any off licence sales as well as bar sales of alcohol. The industry view is that food sales volume performed a little better than drinks sales volume in 2011 but food prices decreased by more than alcohol prices. This was related to the decrease in VAT on serving of food in restaurants and bars as part of the Governments jobs initiative in May 2011. Consequently, the decline in alcohol sales volume in bars was a little higher than the overall bars Retail Sales Index figure compiled by the CSO. Based on industry information, it is estimated that the volume decline in alcohol sales in bars was approximately 6 % in 2011.

The difference between the value and volume changes in bar sales implies a price decrease of about 1.6% which is greater than the CPI figure of 0.3%. This difference is mainly explained by the larger food price reduction which is included in the retail sales figures.

Table 4: Retail Sales in Bars % Change 2011 compared with 2010

	Volume	Value
2010/11	-5.5	-7.2

Source: CSO

The 2011 volume of bar sales is only 71 % of the 2007 level. Since the end of the economic boom, the bar sector has lost almost 30% of its sales volume with a consequent substantial negative impact on employment. The 2011 sales value is only 72.8% of its 2007 level.

The recent annual volume decreases in bar sales were:

2008 - 6.9%

2009 - 10.0%

2010 - 10.4%

Off Licence Performance

The off licence share of alcohol consumption has increased over the medium term. All of this increase has been taken by the multiples sector and the role of the independent off-licence sector has decreased. The 2009 volume shares were estimated to be approximately 50% on-licence and 50% off-licence. By 2010, the off-licence share had increased to about 56%. Official comprehensive data on off-licence volumes are not available but it is possible to make a reasonable estimate using the Revenue data and the Index of Retail Sales.

Overall, bar sales volume declined by 5.5%. Allowing for a slightly larger alcohol decline, the alcohol volume decline was about 6%. The overall market (on- and off-licence sectors) increased by 0.17%.

The off- licence sales volume is estimated to have increased by 5% based on the official figures for overall clearances and bar retail sales (adjusted for non- alcohol sales).

Value of Sales

The volume increase was 0.17% in 2011 compared with 2010, with a price decline of 0.8%, which resulted in a value decrease of 0.6%. The CSO estimate of alcohol personal expenditure was €6.1282 billion in 2010. This suggests an expenditure level in 2011 of €6.0914 billion.

Table 5: Value and Volume Changes in the Alcohol Market 2009

	%
Volume change	0.17
Value change	-0.6
Value Estimate 2009	€6.0914B

Source: Revenue Commissioners and CSO

2012 Prospects

As already noted, the Irish economy will decline further in 2012. Overall consumer expenditure volume will decrease. Disposable and discretionary income will continue to be under pressure.

The April 2012 Central Bank economic forecasts indicate that total employment will continue to decline but at a rate of 0.8% which is lower than in 2010. The unemployment rate will remain unchanged at 14.4%.

The volume of GDP will increase by 0.5% while GNP will decline by 0.7%. The volume of personal consumption will decline by 1.5%. This is a significant determinant of on-licence consumption. This 2012 consumption decline will be the fifth successive year of consumption declines. Government expenditure will decline by 4.2%. Investment will decline by 3.3% and exports will again provide the bright spot with an increase of 3.6%.

The Central Bank forecast for 2013 includes the expectation that personal consumption volume will increase only marginally, by 0.2%.

Further decline in the employment intensive on-licence part of the drinks industry can be expected in 2012 but this should be at a lower level than in 2011. Unfortunately the early indicators for 2012 for bar sales from the Retail Sales Index are very disappointing. In January bar sales volume dropped by 8.5 % compared with January 2010 and in February the drop was 9.9 % compared with February 2010. Given the overall economic situation in 2012 compared with 2011 it is expected that this high early rate of decline will improve as the year progresses. Off-licence volume should increase. Overall, the alcohol market will decline slightly due to reduced average consumption and loss of consumers through emigration.