



Oifis an Cheannasaí Airgeadais, An Roinn Airgeadais
Oifigí na Cathrach, An Ché Adhmaid, Baile Átha Cliath 8, Éire

Office of the Head of Finance, Finance Department,
Civic Offices, Wood Quay, Dublin 8, Ireland

T. 01 222 2102/3 E. finoff@dublincity.ie

Report to the Finance Strategic Policy Committee

Impact of online trading on physical trading

Introduction

The Finance SPC identified the issue of the impact of on-line trading on physical (bricks and mortar) trading.... "The Finance SPC will examine how changing retailing and digital trends might impact on Dublin City Council and consider policy recommendations that would secure the best outcome for Dublin City" as agreed in the Committee's Work Programme. The trend in trade moving from physical (bricks and mortar) to digital (online) trading is of particular interest as it may have consequences for physical shop based trading and so as a result for Commercial Rates. *Dublin City Council services are funded by many income sources, with Commercial Rates accounting for just over one third of all funds*

The coronavirus pandemic has significantly changed many aspects of the economy including online and physical trading. This report is intended to provide a synopsis of trading trends thus far based on available information.

Mary MacSweeney, Senior Executive Officer, and Juliet Passmore, Economist, of Dublin City Council's Economic Development Office, have provided the data sets, graphs etc. as referenced and included in this report.

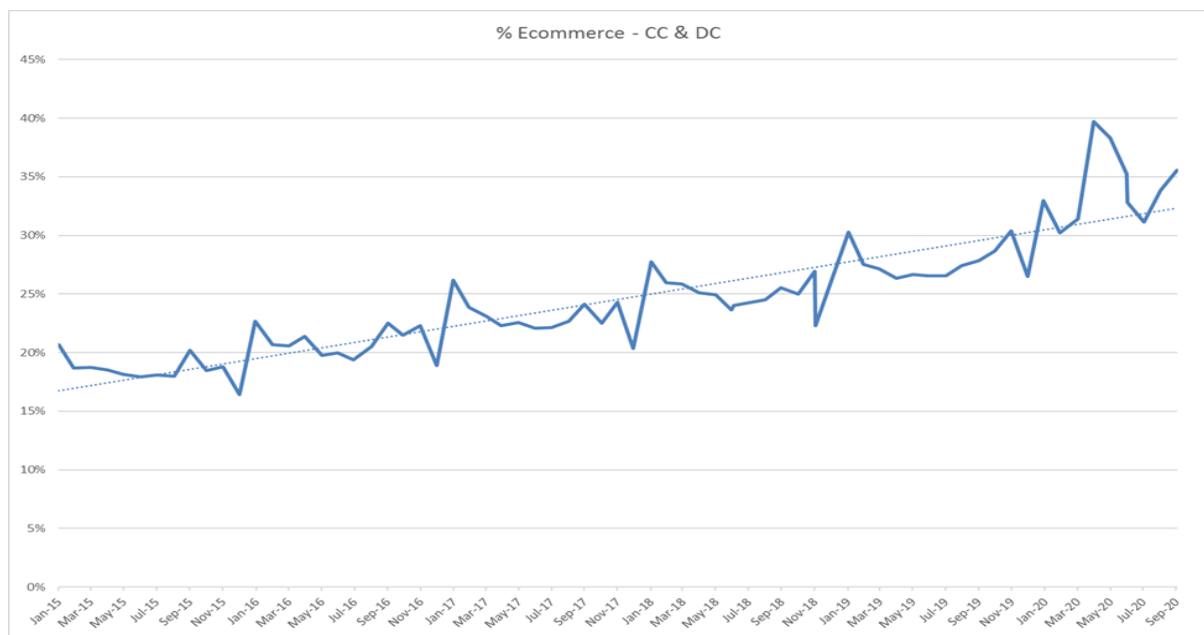
Central Bank Credit & Debit Card Spend Data

The Central Bank compiles data on credit and debit card spend on a monthly basis. This includes spend at point of sale (POS), ATM withdrawals, and use of credit cards on-line (eComm). In 2019 the total value of eComm was estimated to be €20.5bn in comparison to the GDP measure of total consumer spend of €109bn or around 19%, i.e. the proportion of consumer spending (as measured by GDP) that is online spending (as reported by the Central Bank).

For quarters 1 to 3 of 2020, that proportion of eComm to total consumer spend (GDP) is around 24%.

The Central Bank data indicates that since January 2015, there has been an upward trend in the proportion of all card spending transacted as eComm. In 2015 eComm averaged 19% of all card spending, while in 2019 eComm it averaged 28%. From January to October 2020, the average eComm proportion of all spending on cards is 34%. This includes a high of 40% in April 2020 and a return to pre pandemic levels in July and August of 33% and 31%, when trading restrictions eased and shops reopened.

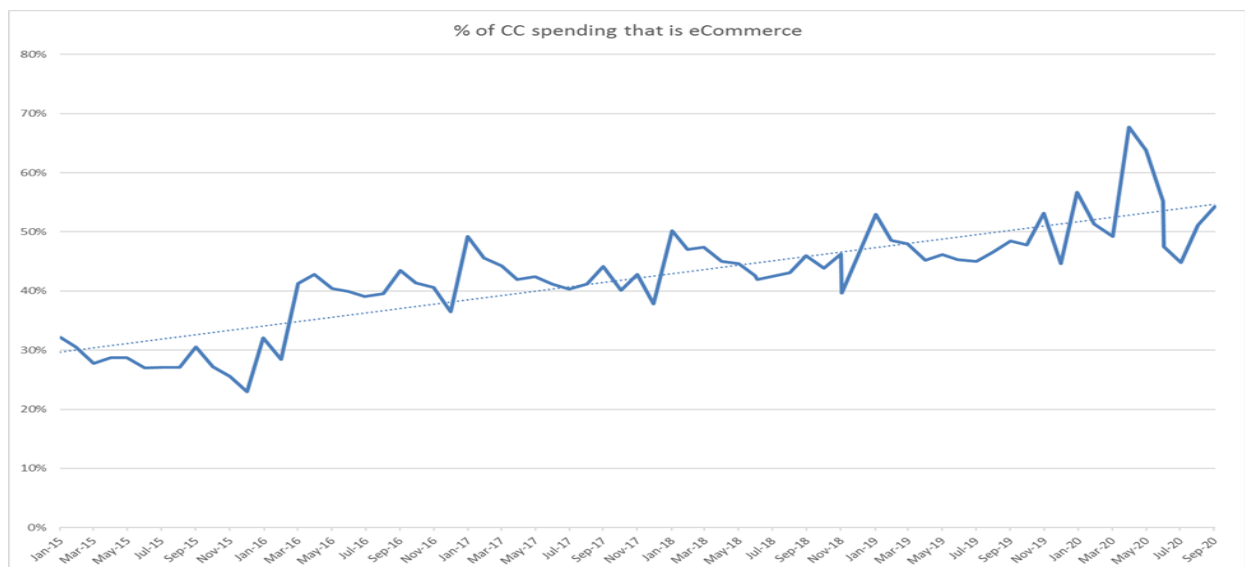
Graph 1 - % eComm chart, below, illustrates this upward trend over the period 2015 to date



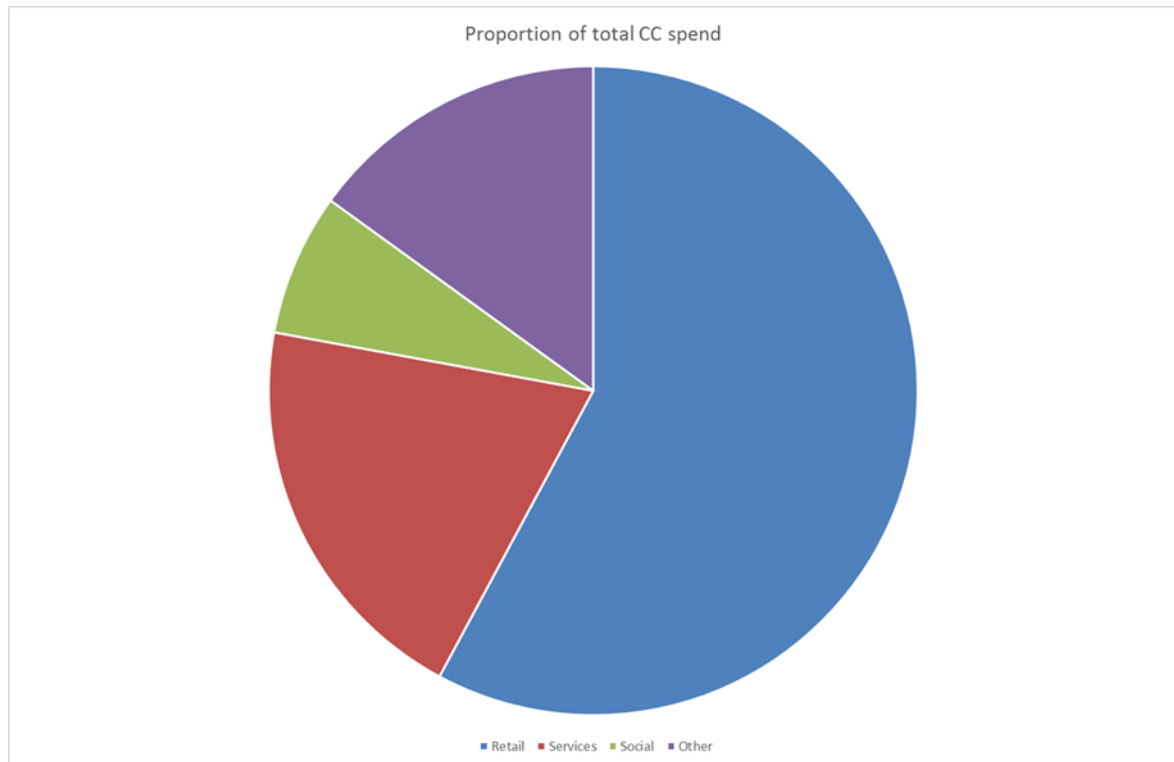
Graph 1

In looking solely at credit card spend that can be described as eComm, **Graph 2** - % of CC spending that is e-Commerce, see below, illustrates the rising trend from 31% in January 2015 to 54% in October 2020. The highest value is recorded for May 2020 at 64% while the value for August reduced to 45%.

Graph 2



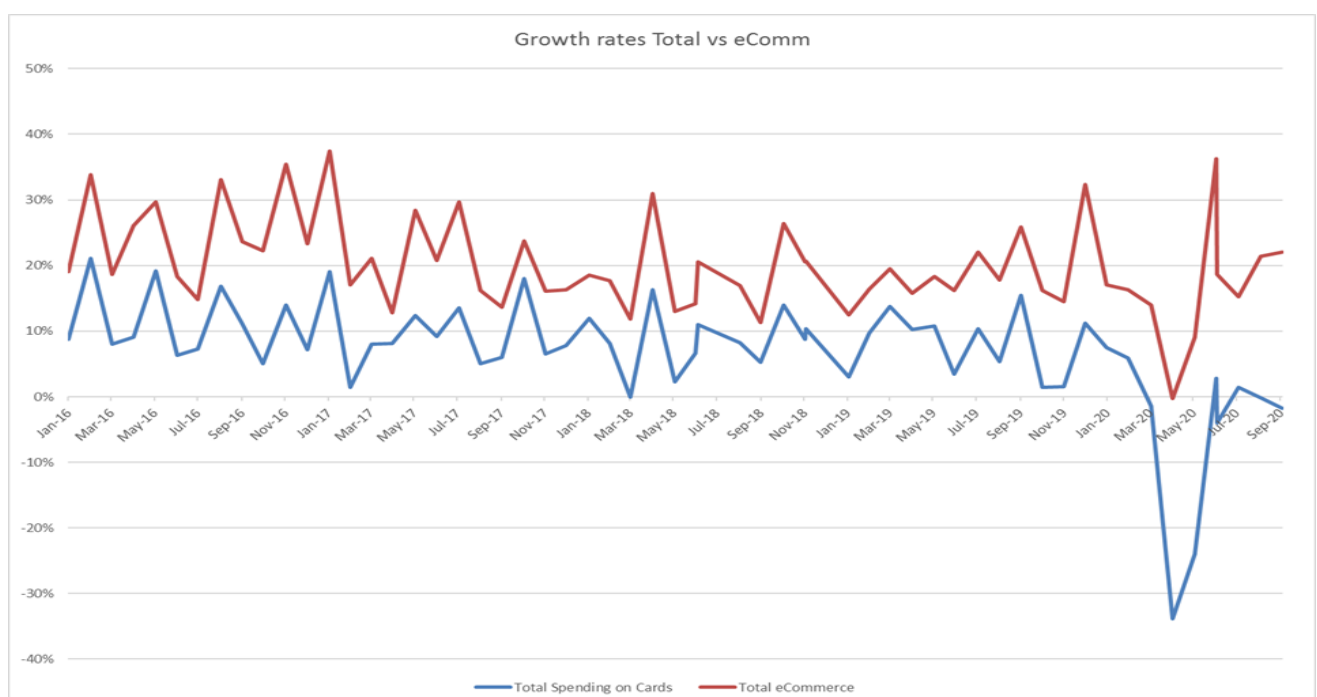
Graph 3 - proportion of total CC spend, demonstrates that the retail sector is most exposed to changes in on-line trading trends. See below.



Graph 3

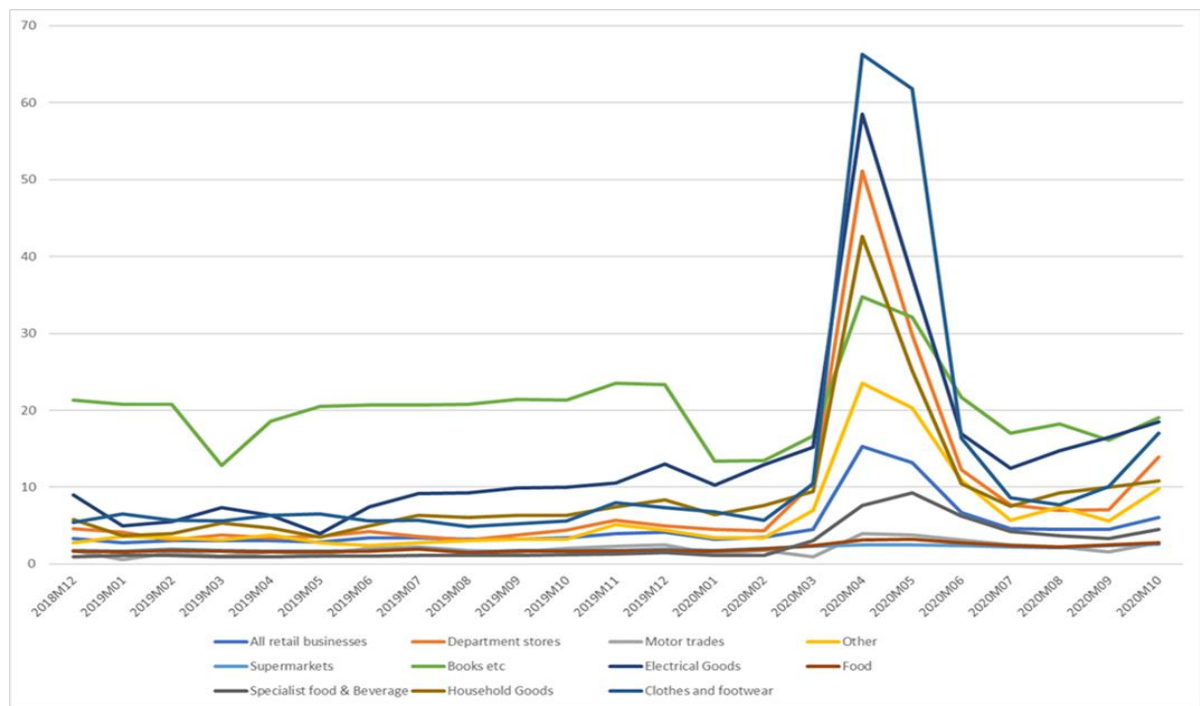
Graph 4 - shows the pattern of growth rates between total spending on Cards and eComm. This shows a more severe dip on total spending on cards than for eComm over the period March to July 2020, reflecting the trading restrictions for bricks and mortar outlets in that period. See below.

Graph 4



Graph 5 - Summary CSO Chart gives details on the proportion of turnover generated on-line by all Irish retail businesses per month, based on the various retail sectors, as described below. The graph points to a sharp increase in on-line sales over the first lockdown between March and May 2020 with a subsequent reduction to levels comparable to activity prior to the pandemic.

Graph 5



CBRE Outlook 2021

CBRE issued its annual Ireland's Outlook report for 2021 on 12th January. The report takes a wide view across the property landscape. The analysis of the retail environment is of particular interest. The CBRE report notes:

- The severe disruption to trade since the onset of Covid-19 highlighted structural trends that were already evident in the retail sector and exposed fundamental weaknesses in the traditional retail business model.
- Typical leasing arrangements are now likely to be more aligned to tenants' ability to pay and their turnover, which is the norm in Europe.
- Shorter lease lengths are likely to be sought and granted, with greater flexibility built into typical retail leases.
- The significant restructuring that has characterised the 2020 retail market is likely to continue in 2021, meaning there is now in a tenant's market. Increased vacancy rates saw rental declines in 2020.
- A thinner pool of occupiers seeking to secure stores coupled with greater availability and flexibility means that rental values will have to rebase to new (lower) levels to prove attractive to retailers. The magnitude of rental decline in the Irish market is likely to be more aligned to rental falls experienced in mainland Europe as opposed to the very dramatic declines already witnessed and anticipated in the UK.

- A resurgence in activity in the retail sector will occur in 2021 (H2), but this will not be a 'return to normal'. Rather, the retail landscape will look considerably different from this point forward.

Conclusions

The data sets referenced above point to

- An increasing trend in the value of trade moving from physical trading or non eComm to online trading or eComm
- This trend spiked at the period of the first lockdown i.e. March to May 2020
- Following the easing of restrictions and the reopening of retail, the value of online /eComm spend reduced with a corresponding increase in physical/non eComm spend
- Retail is most impacted by changes in online/physical trading patterns above other sectors
- 2021 will not bring about a return to the previous 'normal' retail trading conditions.

Issues for further consideration

The focus of this report has been on retailing activity. There are other variables relevant to understanding the impact of online trading on physical trading. The numbers of retail outlets continuing to trade physically is a relevant indicator. The levels of liquidations / receiverships is also of interest. In addition, because of the pandemic, footfall has sharply reduced in Dublin City centre, specifically through staff from offices based in the City centre, now working remotely. The degree to which office staff return to office accommodation will influence for trading for some businesses.

It may be useful for the SPC to consider the issues below, in seeking to establish the consequences for physical retailing and Commercial Rates, for further analysis.

- Changes in the quantum of retail outlets operating physically only, online only, combined physical and online
- Changes in the quantum of office units occupied
- Changes in the working pattern of office workers from mostly office based to remote
- Changes in the demand for rateable space falling from the above and resultant impact on total commercial rates liability

Kathy Quinn

Head of Finance

With responsibility for ICT

12th January 2021