Economic and Financial Update for Pharmacy Sector

From the perspective of the Irish economy, the external backdrop has become more challenging this year. In the second half of 2018, growth in China slowed due to the tightening of policy aimed at curtailing the growth of the shadow banking system; Euro Zone growth was hit by problems in Italy due to the activities of the right-wing Government; the impact of new emissions standards on auto production in Germany, in particular, and the export performance was damaged by slower Asian growth; a number of emerging market economies were hit by political turmoil, such as Venezuela, Turkey, Brazil and Argentina; and trade tensions as a result of President Trump's anti-globalisation policies undermined business confidence in general.

Global developments

These trends have continued in 2019 and global growth prospects for this year have deteriorated. The latest official forecasts from the International Monetary Fund (IMF) project that global growth will slow from 3.6% in 2018 to 3.3% in 2019. A modest recovery is anticipated later in 2019 and into 2020, with global growth projected to pick up to 3.6% next year. This recovery is predicated on policy stimulus in China, a working out of the unique problems that afflicted the Euro Area in 2018, a stabilisation of emerging market difficulties, and an improvement in global financial market conditions. The strong growth in the US economy in 2019 was due to the once-off stimulus from Trump's tax cutting package. This stimulus will wane in 2019 and 2020 and slower US growth is anticipated.

One of the biggest changes to occur in recent months relates to interest rate expectations. Between December 2015 and December 2018, the US Federal Reserve increased official interest rates from 0 to 2.5%. The expectation last year was that rates would rise by a further 1% during 2019. Any rate increases are now off the agenda due to slower global and US growth and it wouldn't come as a shock if US rates were eased later in 2019 or into 2020.

In the Euro Area, any risks that the European Central Bank (ECB) might tighten policy later in 2019 have totally dissipated. With Euro Zone growth slowing, there would appear to be zero possibility of any interest rate increase in 2019 and indeed the zero-interest rate policy could well persist for the duration of 2020.

Trends in the domestic economy

The year that was

The Irish economy performed strongly in 2018. The latest official data suggest that Gross Domestic Product (GDP) expanded by 6.7%. This comprised growth of 3% in personal consumption expenditure; investment increased by 9.8%; and exports of goods and services expanded by 8.9%.

The growth rate in GDP is indicative of an economy experiencing very rapid economic growth, but that was not quite the reality in the real economy. GDP as a measure of economic activity has become particularly distorted since 2015. Consequently, the Central Statistics Office (CSO) has developed an alternative measure of economic activity, which excludes globalisation effects such as trade in intellectual property products and trade in aircraft by leasing companies. This measure is called Modified Domestic Demand (MDD) and is regarded by the CSO as a more realistic indicator of underling changes in demand in the economy.

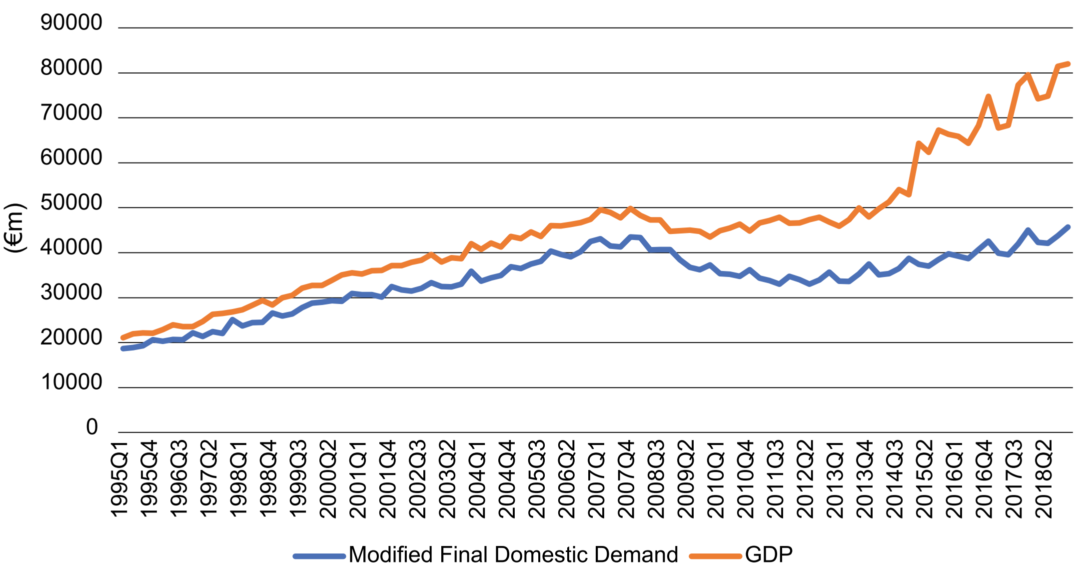
Modified Domestic Demand expended by 3.3% in 2018, and this is more reflective of the economic environment – Ireland is doing well, but not quite as well as official GDP data would suggest.

Figure 1 shows the divergence between GDP and MDD over recent years.

So far in 2019

The majority of Irish economic indicators have continued to evolve in a positive manner in 2019, although consumer caution is still evident. No surprises there, given the uncertainty around Brexit. In the first two months of the year, the volume of retail sales was 2.3% ahead of the same period in 2018 and the value of sales was 1.2% higher. This relatively subdued retail sales performance is not exactly indicative of a consumer on a spending binge and the gap between the value and volume metrics shows the ongoing difficulty for retailers to turn volume growth into monetary value. It is still a challenging environment for consumer-facing businesses as the personal sector is pressurised due to a combination of high and rising housing costs, an onerous personal tax burden, subdued wage growth over the past decade and Brexit is an overhanging dark cloud that is creating major uncertainty and caution in the psychology of consumers and businesses across the economy. Consumer confidence has been quite fragile in recent months due to a variety of the aforementioned factors, but Brexit is currently the biggest source of uncertainty. In February, consumer confidence fell to the lowest level since 2014.

Figure 1: **Alternative Indicators of Economic Activity**



Source: CSO

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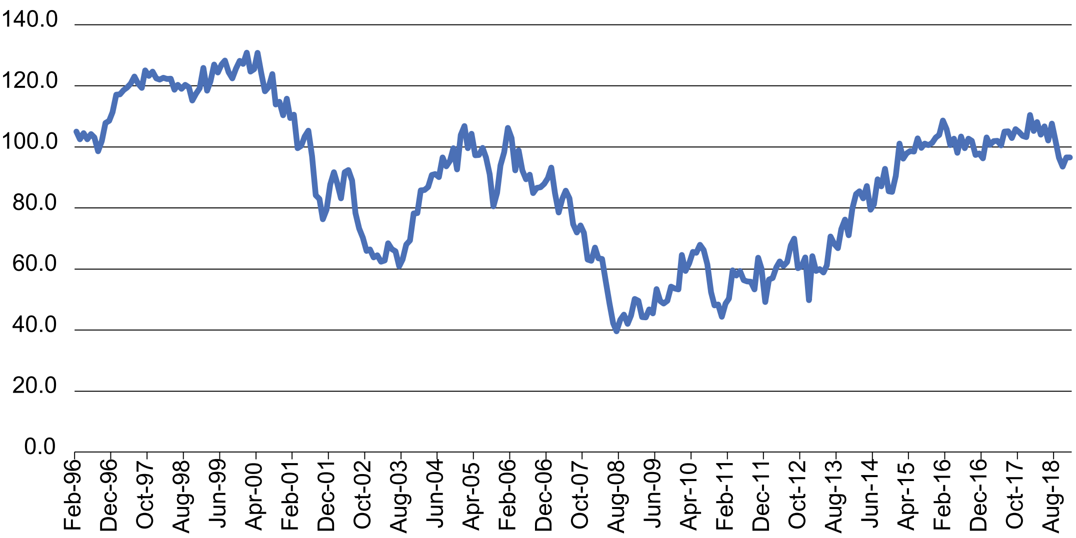
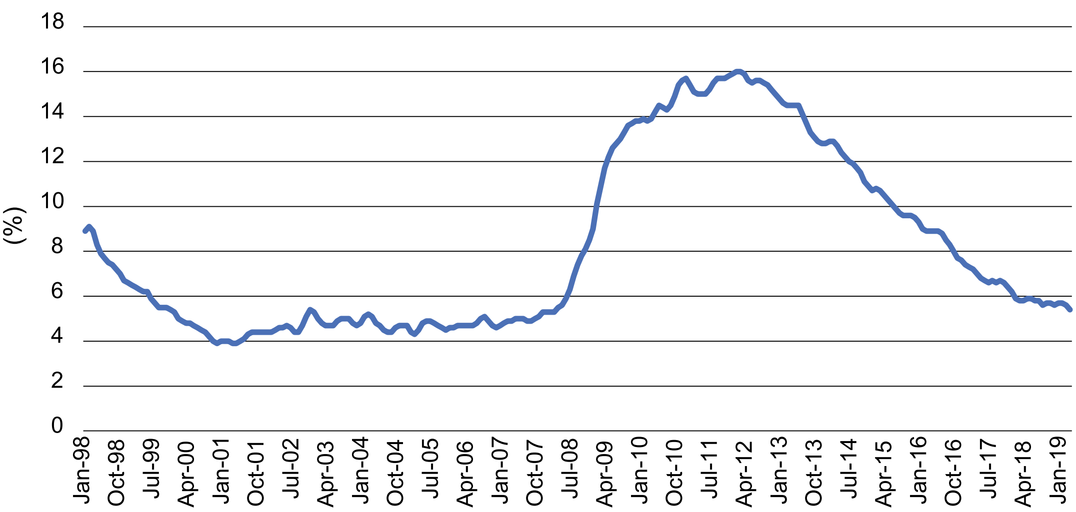
Figure 2: **Consumer Confidence**



Source: ESRI

Figure 3: **Unemployment Rate**



Source: CSO

Table 1: **Tax Revenues Q1 2019**

Heading	€ (M)	Profile (€M)	Year-on-Year (%)
Agriculture	110.1	104.9	-5,200
Industry	232.8	284.6	+51,800
Income Tax	4,973	-171	+6.5%
VAT	4,986	-22	+6.6%
Corporation Tax	524	+267	-1.6%
Excise	1,375	+30	+11.5%
Stamps	324	-24	+7.5%
Capital Gains Tax	175	+24	+25.6%
Capital Acquisitions	47	+5	+17.0%
Customs	90	+82	+13.4%
Motor Tax	266	+3	+3.6%
Unallocated	35	+35	-
TOTAL	**12,795**	**+157**	**+7.1%**

Source: Department of Finance, 2 April 2019

In the year to March 2018, the number of people officially registered as unemployed declined by 6,200 to reach 131,300. The unemployment rate fell to 5.4% of the labour force, which is down from 16% at the beginning of 2012.

The Exchequer finances continue to improve on the back of tax revenue buoyancy, reflecting the ongoing solid growth in the economy. An Exchequer deficit of €966 million was recorded in the first three months of the year. This compares to a deficit of €1.1 billion in the first quarter of 2018.

Tax revenues totalled €12.8 billion, which was €157 million ahead of profile and 7.1% ahead of the first quarter of 2018. Income tax was €171 million lower than expected, but was still 6.5% higher than a year earlier. Corporation tax receipts continue to outperform and €267 million more than expected was collected in the first three months of the year.

House price growth is moderating at a significant pace at the moment, with the Dublin market moderating at a more significant pace than the rest of the country. This reflects the fact that a combination of high prices and the prudent mortgage lending restrictions imposed by the Central Bank of Ireland are squeezing affordability. These affordability pressures are causing the housing market to moderate. Supply is also increasing somewhat. This is positive, but greater supply will be necessary to satisfy unmet demand in the market.

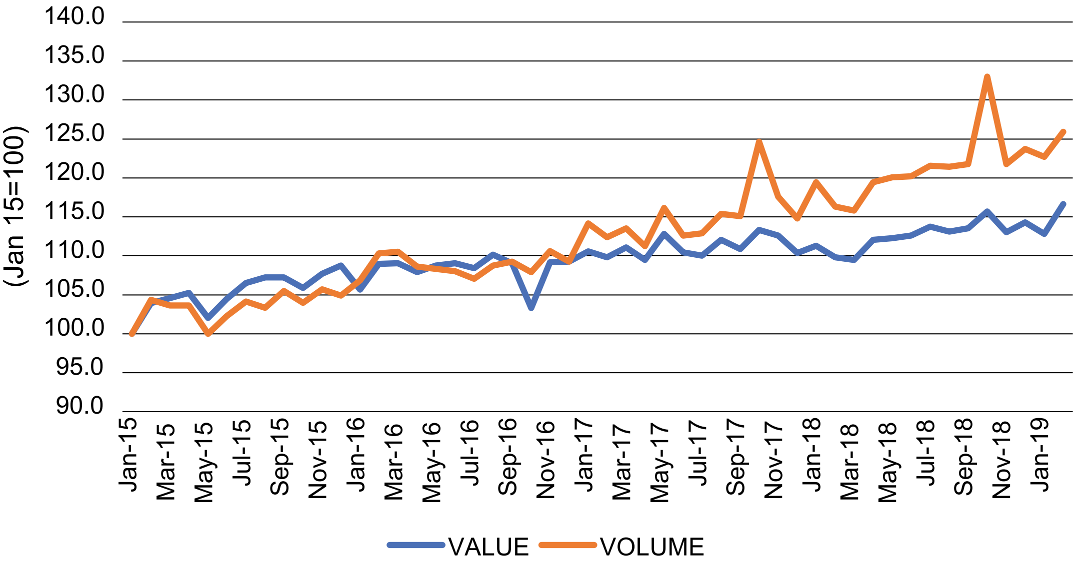
- National average residential property prices in February were 4.3% higher than a year earlier. Between October 2018 and February 2019, national average property prices declined by 1.3%;
- In the Rest of Ireland (excluding Dublin), average residential property prices in February were 7.5% higher than a year earlier. Between October 2018 and February

2019, average property prices outside of Dublin declined by 0.1%; and

- In Dublin, average residential prices in February were 1.4% higher than a year earlier. Between October 2018 and February 2019, average property prices in Dublin declined by 2.5%.

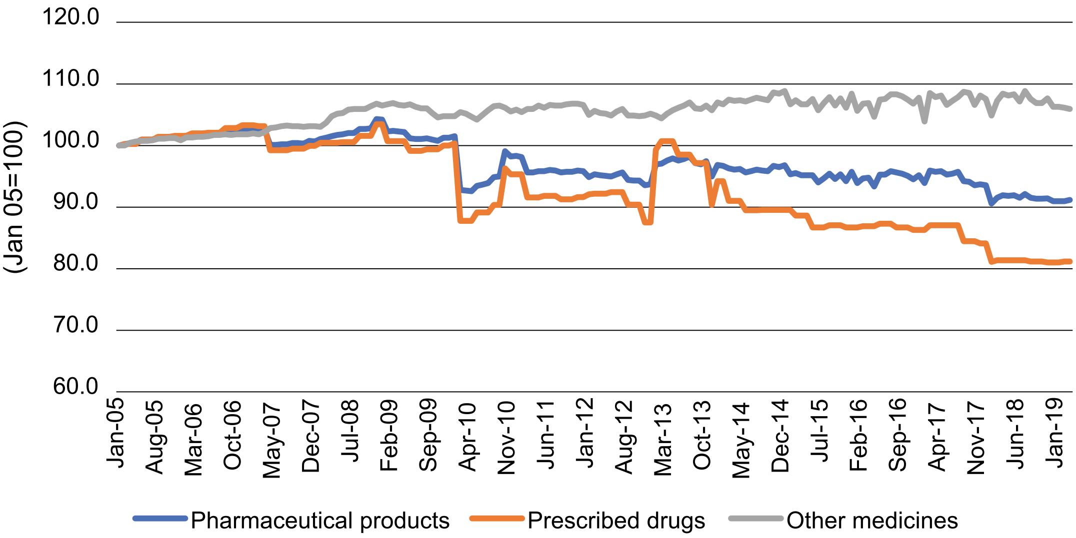
Looking out over the remainder of 2019, domestic activity is likely to remain quite vibrant, although Brexit uncertainty and global economic clouds are likely to take some toll. The economy is likely to expand by around 4% in underlying terms in 2019. Consumer prudence is likely to remain a feature of the environment.

Figure 4: **Retail Sales of Pharmaceutical Products**



Source: CSO

Figure 4: **Retail Sales of Pharmaceutical Products**



Source: CSO

Trends in the pharmacy sector

In line with the general economic recovery and the inherent improvement in consumer spending, sales from the pharmacy sector are recovering. In the first two months of 2019, the volume of sales was 5.4% higher than the same period in 2018. The growth in value terms was lower at 3.8%. Despite the gap between the value and volume metrics, the sales environment for pharmacies is steadily improving.

Consumer price trends

Consumer price inflation in the pharmacy sector is still very subdued, in line with most other sectors in the retail economy. In the first quarter of 2019, the average price of pharmacy products was 0.3% lower than the first quarter of 2018. The average price of prescribed medicines was 0.2% lower and the average price of 'other medicines' was 0.6% lower. Consumers are still chasing value for money. This has been the consistent trend over the past decade. It imposes considerable margin management pressures on the sector.

You can catch Jim at the IPU National Pharmacy Conference, taking place this month in the Galmont Hotel in Galway on 10 – 12 May. Jim will be delivering a session on *Economic Trends in 2019 and How they May Affect the Pharmacy Sector* on Saturday 11 May at 12.30pm. Find out more and book your place on www.pharmacyconference.ie.