



DIGI

The Drinks Market Performance 2018

Commissioned by
Drinks Industry Group of Ireland (DIGI)

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Foreword by DIGI

The Drinks Industry Group of Ireland (DIGI) is pleased to present the latest edition of the Drinks Market Performance Report. Authored by DCU economist Anthony Foley, this report explores the sale, consumption and market mix of the Irish drinks industry in 2018 in the context of Ireland's robust and growing economy.

Despite the historical legacy and international renown of some of Ireland's oldest whiskey and beer, the phenomenal growth of the drinks industry in the last six years is a modern success story, contributing to the economic, social and cultural fabric of Ireland. In 2012, there were just 15 micro-breweries. Today the number is almost five times that. There were four active distilleries in Ireland in 2013; now there are 23 in operation with a further 24 in development.

Set against the backdrop of the crash and the post-recession doldrums, the success of the drinks industry is even more impressive. Indeed, from 2008 to 2014, the number of drinks manufacturing enterprises grew by 105%, compared to less than 1% in the overall manufacturing sector.

This economic activity, directly and indirectly, keeps more than 250,000 people in employment across the country. Indeed, many of the beneficiaries of this growth are drinks manufacturers, pubs and hotels in rural Ireland. Distillery and brewery visitor centres, be they in Donegal or Dublin, are fast becoming must-see attractions on tourists' itineraries.

Tastes are changing, too. Alcohol consumption has declined over the past two decades, suggesting that Irish adults are enjoying spirits, wine and beer in a more responsible manner. While beer still holds an indisputable market share, a result of it being produced primarily at a local level, the spirits market has also increased, pointing to the success of Ireland's new whiskey and gin products. The growth of our indigenous spirits reflects the exceptional innovation and investment that our sector continues to deliver. While there was a notable decline in wine consumption in 2018, the longer-term trend has been one of growth.

With regard the drinks market, increasingly we choose quality over quantity. We actively seek out new, premium taste experiences. We are loyal to the brands that we like and relish their heritage and provenance. Many of these brands are Irish brands. This is a global consumer phenomenon; capitalising on it requires the continued promotion and differentiation of Ireland's drinks products, and the micro-distilleries and micro-breweries that make them.

However, we cannot take the drinks industry for granted in such a complex and uncertain economic and political climate. Indeed, as we are experiencing a healthy economic environment, it is important to note that total alcohol consumption increased only very slightly, and bar sales volume declined overall – it is only three quarters of the 2007 level. As the Government sets its agenda for a post-Brexit future, creating a business environment that is conducive to continued innovation and entrepreneurship – particularly within Ireland's drinks and hospitality industry – must be its utmost priority.

A comprehensive review of Ireland's excise tax rates must be top of the agenda in order to support the continuing economic contribution of this sector. This industry must continue to innovate and invest in itself to sustain its development, realise its potential and drive Ireland's competitiveness on a European and international level. There is no room for complacency.



Rosemary Garth

Chairperson of the Drinks Industry Group of Ireland and Communications and Corporate Affairs Director at Irish Distillers

About DIGI

The Drinks Industry Group of Ireland (DIGI) is the umbrella organisation for the drinks and hospitality industry in Ireland. DIGI’s membership spans brewers, distillers, distributors and the retail sectors (both the on-trade – pubs, hotels, restaurants – and the independent off-licence sector).

Its members include:

- Alcohol Beverage Federation of Ireland
- Irish Hotels Federation
- Licensed Vintners Association
- National Off-Licence Association
- Restaurants Association of Ireland
- Vintners Federation of Ireland

Almost 90,000 jobs across the country are dependent on the drinks industry alone. It purchases over €1.1bn of Irish produce annually, exports goods worth over €1.25bn, and provides over €2.3bn worth of excise and VAT income to the state, as well as hundreds of millions in income tax, PRSI receipts and tax on profits every year. It is also a vital element of Ireland’s wider hospitality sector and internationally renowned tourism offering.

DIGI, through its Support Your Local campaign, seeks to highlight the positive economic, cultural and social contribution that the drinks and wider hospitality industry makes to Ireland nationally and locally. We work with stakeholders to create conditions that ensure the industry’s stability and continued growth. The campaign looks forward to engaging with the Government to ensure that policy measures continue to support the ongoing growth and development of a key industry and driver of economic activity in Ireland.

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Overview of 2018 market

When measured by the headline figures of GDP and GNP growth, there was an excellent national economic environment in 2018. GDP volume growth was 6.7% and GNP increased by 5.9%. However, the limitations of both GDP and GNP as indicators of real economic activity in the Irish economy are substantial. While the growth of real economic activity was lower than the headline GDP/GNP figures it was still substantial as the following indicators show.

Real consumer expenditure growth which is a better reflection of the environment for the drinks industry was relatively strong with a 2018 growth of 3.0% compared to 1.6% in 2017.

Other fundamental economic indicators performed well. National employment increased by 3.0% in 2018. Average weekly earnings increased by 4.1% between Q4 2017 and Q4 2018. Overall, despite Brexit, 2018 was a supportive economic environment.

The four main features of the 2018 drinks market performance are;

- a) the increase in the total market
- b) the very small increase in average consumption of alcohol per adult
- c) the increase in the off-licence sector volume and
- d) the small volume decline in the on-licence/bar sector.

Bar sales volume, including food and other sales as well as alcohol, decreased by 1.3% in 2018 compared to a total retail sales volume increase of 3.7%. The 1.3% overall decline includes an estimated 2% decline in alcohol volume and a small increase in food volume.

The weak on-licensed sector performance is a notable feature of the 2018 drinks market. It was a much weaker performance than the previous two years despite 2018 being a relatively good economic environment.

The 2018 volume of bar sales is still only three quarters of the 2007 level.

Off-licence alcohol sales volume increased by 4.3% in 2018.

The volume of alcohol consumption as measured by Revenue Commissioners' clearances increased by 1.8% in 2018 and is now 42.691 million litres of pure alcohol [LPA].

In 2007 the total alcohol volume was 46.605 million LPA compared to the 2018 42.691 million LPA, a decline of 8.6%.

Average per adult consumption in 2018, as measured by the Revenue clearances indicator, is 11.094 LPA.

Per adult consumption increased very slightly by 0.1% in 2018.

Average adult alcohol consumption in 2018 of 11.094 LPA compares to 14.44 LPA at its peak in 2001, 23.2 % lower, or 13.488 LPA in 2007, a decline of 17.7%.

Three of the four alcohol drinks categories, beer, cider and spirits increased in volume in 2018 and wine volume declined. Beer increased by 2.7 % in volume terms. Cider increased in volume terms by 0.4 %. Spirits increased by 5.6 %. Wine decreased by 2.0 %.

The individual product market volume shares [of pure alcohol] in 2018 were beer 45.2%, cider 7.5%, spirits 20.5% and wine 26.7%. In 2001 the wine share was 14.3% and the beer share was 54.9%.

Alcohol prices increased by 1.4% in 2018. Off- licence prices decreased by 1.1%. On-licence prices increased by 2.3%.

The value of the alcohol market increased by 3.2% to €7.540 billion in 2018, inclusive of excise and VAT. When indirect tax of €2.622 billion is excluded there was a market value of €4.918 billion.

The off-licence volume share of alcohol consumption now accounts for about 61% of alcohol consumption.

Introduction and economic environment

This report examines the performance of the alcohol drinks market in 2018. It deals with total and per adult consumption of alcohol, product mix, prices, value and volume of sales, and the distribution between on- and off-licence sales. It also presents information on the longer-term trends in average per adult consumption.

The report is mainly based on official data from the Revenue Commissioners and the Central Statistics Office. The emphasis on official data sources is to facilitate external scrutiny of the analysis. In some limited cases there is use of industry market research data where official data is unavailable. The figures presented in this report vary slightly to those obtained from market research statistics on the 2018 Irish alcohol market, notably in the respective performances of the on- and off- licence sectors.

However, market research volume data is based on the number of litres of beverage and not the alcohol content of the beverages which is the primary policy concern with alcohol consumption measurement. The 2018 alcohol market performance occurred in the context of a reasonably strong overall economy characterised by growth in earnings, consumption, employment and tourism numbers and expenditure. The 2018 economic growth performance is summarised in Table 1.

Table 1. Economic performance 2018, % growth, various indicators

Indicator	% growth 2018
GDP volume	6.7
GNP volume	5.9
Consumption volume	3.0
Consumption value	4.4
Employment	3.0
Average weekly earnings Q4 2018 compared to Q4 2017	4.1
Total domestic demand volume	4.7
Modified total domestic demand volume	3.3
Overseas trips to Ireland by non-residents	6.9

Sources: Central Statistics Office, Quarterly National Accounts, Q4 2018, March 2019. CSO, Earnings and Labour Cost Quarterly, Q4 2018, February 2019. CSO, Tourism and Travel Q4 2018, March 2019. Central Bank, Quarterly Bulletin Q1 2019, January 2019.

Volume of alcohol consumption 2018 and trends

In 2018 GDP volume increased by 6.7%. There was also high GNP growth of 5.9% in 2018. This might suggest an excellent economic environment for the drinks sector but the limitations of both GDP and GNP as indicators of real economic activity in the Irish economy are substantial.

While the growth of real economic activity was lower than the headline GDP/ GNP figures it was still substantial. There are various indicators which more accurately indicate actual economic performance. Modified total domestic demand volume grew by 3.3%. Real consumer expenditure volume, which is a major determinant of drinks market performance, grew by 3.0% in 2018 with a growth of only 1.6% in 2017, 4.0% in 2016 and 3.6% in 2015. Consumption expenditure increased by 4.4% in 2018 in value terms.

National employment increased by 3.0% in 2018. The unemployment rate declined. Average weekly earnings increased by 4.1% between Q4 2017 and Q4 2018. International tourism overall performed well in 2018 with a visitor increase of 6.9%, but UK tourism increased by a very small 0.8%.

The most generally used domestic and international indicator of aggregate alcohol consumption is the quantity of pure alcohol contained in the various beverages. Revenue Commissioners' clearances data, which are equated here with consumption, are not an exact indicator of consumption due to factors such as stock changes, consumption by tourists in Ireland and the consumption of Irish people abroad, and unrecorded legal and illegal sourcing of alcohol from outside the economy. However, it is the generally used measure of consumption.

The measurement approach follows standard international practice. The aggregate alcohol content of the different beverages are based on 5% alcohol by volume for cider, 12.5% alcohol content for wine and the actual alcohol estimates provided in the clearances data by Revenue for spirits and beer. Some international and national estimates use different alcohol contents for wine and cider. The international convention of defining the adult population as 15 years and over is used, although this is, of course, an inaccurate measure of the adult population. The CSO population data refer to April of each year. The data are presented in Table 2.

Table 2. Average per adult alcohol consumption 2017 and 2018

	2017	2018	% change 2017/2018
Litres of pure alcohol (LPA), total consumption	41,944,582	42,691,031	+1.8
Adult population (aged 15 and over), millions	3.7855	3.8482	+1.7
Litres of pure alcohol per adult (LPA)	11.080	11.094	+0.1

Sources: CSO Population and Migration Estimates, August 2018. Revenue Commissioners, Alcohol Clearances data, 2018. Website, 2019.



Total alcohol consumption volume as measured by clearances increased by 1.8% in 2018. The number of adults [as defined by 15 years and over] increased by 1.7%. This resulted in a very small increase of 0.1% in average alcohol consumption per adult in 2018. It was 11.080 LPA in 2017 compared with 11.094 LPA in 2018. Average per adult consumption is now slightly above 11 LPA. By comparison, it was at around 11 LPA in 1994 and peaked at 14.44 LPA in 2001. Since 2001 the average per adult alcohol consumption has declined by 23.2%.

Table 3. Recent trends in alcohol consumption, 2012 to 2018

	Adult population total, million	Litres of pure alcohol	Average per adult consumption, litres of pure alcohol
2012	3.6057	41,703,160	11.566
2013	3.6208	38,472,435	10.625
2014	3.6478	39,838,460	10.921
2015	3.6862	39,711,197	10.773
2016	3.7340	41,969,676	11.240
2017	3.7855	41,944,582	11.080
2018	3.8482	42 691, 031	11.094

Sources: CSO Population and Migration Estimates, August 2018. Revenue Commissioners, Alcohol Clearances.

In 2007, just over a decade ago, total alcohol consumption was at its maximum at 46.605 million litres of pure alcohol. The current 2018 level is 42.691 million litres of pure alcohol, which is 8.4% lower.

Since 2012 the overall alcohol market, as measured by Revenue clearance data, has increased only slightly by 2.4%, while the adult population increased by 6.8%. The difference is explained by the decline in average per adult alcohol consumption levels in this period.

Over the past six years, average per adult alcohol consumption has decreased from 11.566 LPA in 2012 to 11.094 LPA in 2017, a decline of 4.1%. The decline was not continuous over the period. There was a substantial decline in 2013, an increase in 2014, a decline in 2015, an increase in 2016, a small decrease in 2017 and a small increase in 2018. As already noted, average consumption in 2018 is 23% lower than the peak of 2001.

Product mix

The official Revenue clearances data divides alcohol into beer, cider, spirits and wine. Total spirits consumption volume increased by 5.6% between 2017 and 2018, which was the largest increase of the four beverages. The volume of beer consumption increased by 2.7%. The volume of cider consumption increased by 0.4%. Wine volume decreased by 2.0%.

The consumption shares of the four product categories in 2018 were beer, 45.2%; cider, 7.5%; spirits, 20.5%; and wine, 26.7%. This current product mix compares with the 2001 mix of beer, 54.9%; spirits, 21.4%; wine, 14.3%; and cider, 9.5%. The significant increase over the long term of the wine share of total alcohol consumption is one of the key features of developments in the alcohol market.

Table 4. Product category mix and change 2018

	2016	2017	2018	% change 2017/2018	% share 2016	% share 2017	% share 2018
Beer [LPA]	19,217,135	18,811,364	19,310,783	+2.7	45.8	44.8	45.2
Cider [LPA]	3,153,432	3,201,089	3,214,983	+0.4	7.5	7.6	7.5
Spirits [LPA]	8,009,948	8,300,811	8,763,390	+5.6	19.1	19.8	20.5
Wine [LPA]	11,589,161	11,631,318	11,401,875	-2.0	27.6	27.7	26.7

Sources: Based on Revenue clearances data

In 2007 beer consumption was 22.896 million litres of pure alcohol. By 2018 this had declined to 19.311 million litres of pure alcohol, a decrease of 15.7%. In contrast, wine consumption in 2007 was 10.371 million litres of pure alcohol. By 2018 this had increased to 11.402 million litres of pure alcohol, an increase of 9.9%.

Prices

As measured by the Consumer Price Index [CPI] average alcohol prices in 2018 were 1.4% higher than in 2017. This is higher than the overall CPI increase of 0.5% and the same as the services component of the index, 1.4%.

The average alcohol price change was composed of two different changes in the on and off sectors. On-licence prices increased by 2.3% and off-licence prices decreased by 1.1%.

Table 5. Alcohol price change 2018 compared with 2017

			% change
All alcoholic drink			1.4
Off-licence			-1.1
On-licence			2.3
CPI			0.4
Services			1.4

Sources: Derived from CPI, CSO.

Retail sales in bars

The volume of bar sales decreased by 1.3% in 2018 compared to an increase of 3.6% in 2017 and an increase of 3.2 % in 2016, according to CSO retail sales data.

The weak on-licensed sector performance is a notable feature of the 2018 drinks market. It was a much weaker performance than the previous two years despite 2018 being a relatively good economic environment. This decrease is probably partly due to the new drink driving regulations and likely to be most concentrated in rural areas due to public transport limitations. Changing lifestyles are also a contributory factor in the on-licensed sector's 2018 decline.

The 2018 bar volume decrease was transformed into a small value growth by a price increase. The value of bar sales increased by a marginal 0.6% in 2018 compared to an increase of 5.2% in 2017. The CSO volume and value changes suggest an implicit price increase of about 1.9%. This implicit price change is different to the CSO consumer prices-based estimate of 2.3% because it is derived from different sources and uses estimates of the on- and off-licence volume shares. In addition, the bar sales include non-alcohol sales such as food.

The Bar Sales Index published by the CSO covers all bar sales including food, soft drinks and cigarettes, as well as bar sales of alcohol. Based on the limited available data it is possible that food sales volume performed better than drinks sales volume in 2018. Consequently, the alcohol volume decrease in bars would be a little higher than the overall bar sales volume decrease.

Bord Bia's Foodservice Market Insights report of November 2018 reported a small increase of 2.4% in the value of food sold in pubs in 2018. This would suggest a smaller increase in volume than 2.4% due to price increases. On the assumption of a small increase in food volume, the alcohol decline would have been 2% instead of the Index figure of 1.3%.

Table 6. Retail sales in Bars, % change 2018 compared with 2017

	Volume	Value
2016/17	-1.3	0.6

Sources: CSO

The 2018 volume of bar sales is still only about three-quarters of the pre economic collapse 2007 level.

All retail sales volume increased by 3.7% in 2018. Bar sales volumes decreased each year from 2008 to 2014. There were annual increases in the three years from 2015 to 2017 and a decrease occurred in 2018.

These and other figures in this report refer to the national performance. There are substantial differences in performance depending on location. At the extreme, public houses in the centre of Dublin performed much better than rural public houses. Regional data on sales performance are not available but employment figures give an indication of regional differences. Discussions with industry participants also suggest a stronger Dublin market performance than the rest of the country.

Between Q4 2017 and Q4 2018 (unadjusted for seasonal factors), accommodation and food services employment grew by 3.6%. However, Dublin employment in this sector increased by 7.1%, from 47.6k persons to 51k, while the rest of the country had an increase of only 2.2%, from 121.1k persons to 123.8k. Over the same period, total employment in the economy grew by 2.3% but Dublin total employment grew by 3.8% compared to 1.6% for the rest of the country.

Value of sales

The overall alcohol volume increase was 1.8% in 2018 compared with 2017. There was an average alcohol price increase of 1.4%. This resulted in a value increase of 3.2%.

The CSO estimate of alcohol personal expenditure was €7.306 billion in 2017. The CSO estimated the 2016 alcohol sales at €6.803 billion in the 2016 National Income and Expenditure Annual Results. The 2017 National Income and Expenditure revised the 2016 estimate to €7.060 billion.

This estimated value increase of 3.2% in 2018 generates an estimated expenditure level in 2018 of €7.540 billion, including excise and VAT. VAT was estimated relative to the €7.540 billion expenditure with a small downward adjustment to reflect the possibility that not all expenditure had VAT levied. The VAT and excise total in 2018 was €2.622 billion, of which €1.240 billion is excise and an estimated €1.382 billion is VAT. When indirect tax is excluded, the 2018 market value decreases to €4.918 billion.

Table 7. Value of sales in the alcohol market 2018

Price change 2018 %	1.4
Volume change 2018 %	1.8
Estimates value change 2018 %	3.2
Value Estimate 2017 [CSO]	€7.306 billion
Value estimate 2018 [author]	€7.540 billion
VAT and excise 2018 [estimate]	€2.622 billion
	(€1.240 billion in excise and €1.382 billion in VAT)
Value excluding excise and VAT 2018	€4.918 billion

Sources: Revenue Commissioners and CSO, and own estimates

Summary

The overall alcohol consumption volume, as measured by Revenue clearances data, increased by 1.8% in 2018. The average alcohol price increase was 1.4%, made up of an on-licence price increase of 2.3% and an off-licence price decrease of 1.1%. The total value of the alcohol market increased by 3.2% in 2018. Average per adult volume of consumption increased slightly by 0.1% and is now at 11.094 LPA.

The bright aspect of the market was the volume growth of 4.3% in the off-licence sector. Partly offsetting this, however, was a volume decline of 1.3% in the on- licence sector, with an estimated alcohol volume decline of 2%. 2018 bar volume is still well below the 2007 [pre-economic collapse] level. The weak on-licensed sector performance is a notable feature of the 2018 drinks market. It was a much weaker performance than the previous two years, despite 2018 being a relatively good economic environment.

Wine accounted for over a quarter of alcohol consumption volume in 2018. The consumption shares of the four product categories in 2018 were beer, 45.2%; cider, 7.5%; spirits, 20.5%; and wine, 26.7 %. Wine volume declined in 2018 while beer, cider and spirits each increased.

The 2018 alcohol market is €7.5 billion. VAT and excise account for €2.6 billion of this total. Excluding excise and VAT the alcohol market is almost €5 billion.

This performance was against a background of a relatively strong economic environment despite the problems generated by Brexit. Total consumption volume, modified domestic demand volume, employment and earnings all performed well.

The report examines the national market. There are likely to have been substantial differences between regions. For example, between Q4 2017 and Q4 2018, unadjusted [for seasonal issues] accommodation and food services employment grew by 3.6%, but Dublin employment in this sector increased by 7.1% compared to a 2.2% increase in the rest of the country. Dublin city centre pubs performed much better than rural pubs.

The overall market performance was moderate considering the national economic environment. The national bar/on-licence performance was weak with a volume decline and the off-licence sector had good volume growth. The national performance masks significantly weaker performance in several regions.



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