



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

DEVELOPMENTS IN THE WHOLESALE AND RETAIL SECTOR

BOX 1: DEVELOPMENTS IN THE WHOLESALE AND RETAIL SECTOR¹

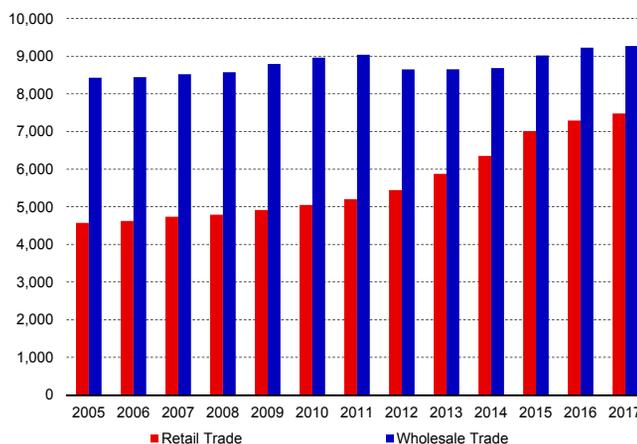
The wholesale and retail sectors are major employers in the Maltese economy. Although their share in total value added is declining due to the stronger growth in other service-related industries, activity in these sectors has remained quite robust and continues to have significant indirect effects on the rest of the economy. This Box aims to better understand long-term trends in wholesale and retail activities and their role in the Maltese economy, using various data sources.²

Business structure³

According to business demographics data published by the National Statistics Office (NSO), there were almost 7,500 registered legal entities within the wholesale trade sector and over 9,000 entities within the retail trade sector in 2017 (see Chart 1). Together, they amount to around 16% of the total business units registered in Malta that year. The majority of the firms in both areas are considered micro enterprises, as they employ less than 10 employees.

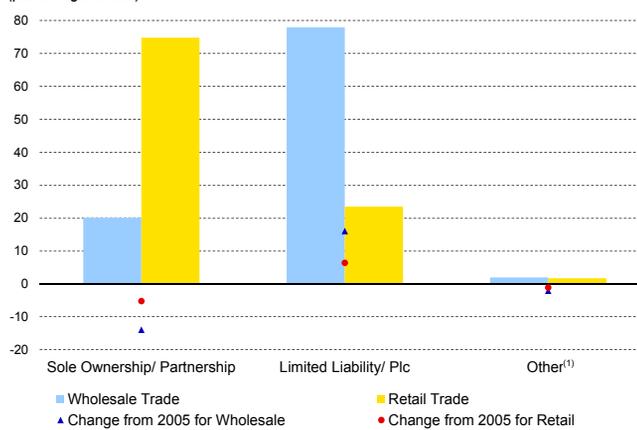
Slightly more than three quarters of businesses within the wholesale sector in 2017 were limited liability companies or public limited companies (see Chart 2). These accounted for 86% of employment in wholesale

Chart 1
NUMBER OF REGISTERED LEGAL ENTITIES
(number of business units)



Source: NSO.

Chart 2
BUSINESS STRUCTURE IN WHOLESALE AND RETAIL TRADE IN 2017
(percentage of total)



⁽¹⁾ Other type of enterprise legal structures may include corporations, cooperatives and joint ventures.
Source: NSO.

¹ Prepared by Joanna Borg Caruana. The author is a senior economist in the Economic Analysis Department of the Central Bank of Malta. The views expressed are those of the author and do not necessarily reflect those of the Central Bank of Malta.

² In this Box, data for the Wholesale and Retail sector include the firms operating in Wholesale Trade and Retail Trade, except of Motor Vehicles and Motorcycles (G46 and G47), unless specified otherwise. The cut-off date for information is 15 October 2018.

³ According to the NACE Rev. 2 classification by Eurostat, the difference between wholesale and retail trade is based on the type of customer. "Wholesale is the resale (sale without transformation) of new and used goods to retailers, business-to-business trade, such as to industrial, commercial, institutional or professional users, or resale to other wholesalers, or involves acting as an agent or broker in buying merchandise for, or selling merchandise to, such persons or companies." Retailing is "the resale (sale without transformation) of new and used goods mainly to the general public for personal or household consumption or utilisation, in shops, department stores, stalls, mail-order houses, door-to-door sales persons, hawkers, consumer cooperates auction houses etc."

activities. Around one-fifth constituted of sole traders or partnerships and these generated slightly more than one-tenth of employment in the sector.

In contrast, within the retail trade sector, three quarters of entities operated as sole proprietors or were in a partnership agreement, while less than a quarter were limited liability or public liability companies. In this

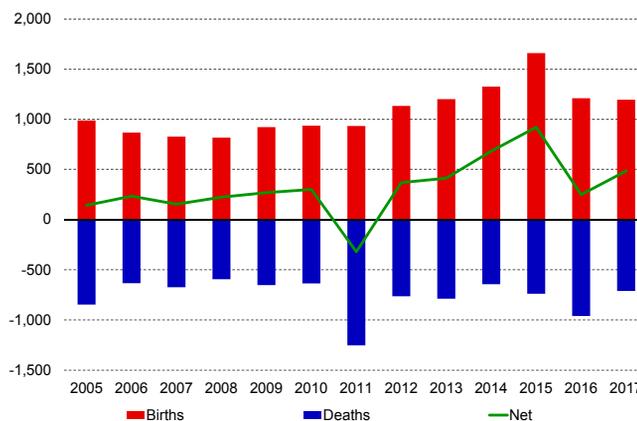
sector, employment was more evenly distributed between different business types. Sole proprietors and partnerships generated 43% of employment, while companies employed the remainder. The structure of these businesses has evolved over the years. Since 2005, the importance of corporate organisations has increased in both wholesale and retail.

Data on the number of births and deaths within the wholesale and retail trade sectors show that in general, since 2005 the number of newly registered entities was higher than deregistered ones.⁴ In 2017, there were 1,281 new firms in these two sectors, while 759 units were deregistered, giving a net increase of 522 businesses during that year (see Chart 3).⁵

Developments in activity

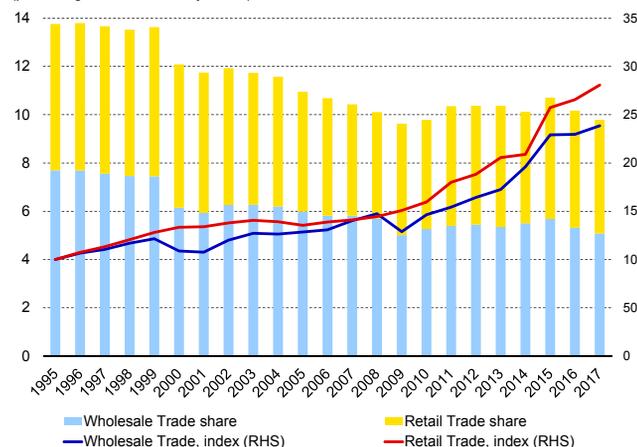
National accounts data show that GVA in the wholesale and retail sectors more than doubled since 1995 (see Chart 4).

**Chart 3
BUSINESS BIRTHS AND DEATHS IN THE WHOLESALE AND RETAIL SECTORS**
(number of business units)



Source: NSO.

**Chart 4
GROSS VALUE ADDED IN THE WHOLESALE AND RETAIL SECTORS**
(percentage of total economy; index)



Source: NSO.

⁴ Business demographic data from 2011 exclude units with a turnover of less than €7,000, in line with a new VAT Regulation that came into force on 1 January 2011, as notified in Legal Notice 524 of 2010. Additionally, data from 2015 include new or re-activation of registrations according to another new VAT Regulation that came into force on 1 January 2015, as notified in Legal Notice 67 of 2015 and revoking the 2010 Regulations exempting VAT registration. Therefore, data for 2011-2014 may not be strictly comparable with data for other years.

⁵ NACE G constitutes of sector G45 (wholesale and retail trade and repair of motor vehicles and motorcycles) together with sector G46 (wholesale trade, except of motor vehicles and motorcycles) and sector G47 (retail trade, except of motor vehicles and motorcycles).

The absolute increase over the years was larger in retail, where the level of GVA almost tripled.

Both wholesale and retail activities increased strongly in the late nineties. In 2000 and 2001, though, GVA slowed down in the retail sector and fell in the wholesale sector. The wholesale sector managed to recover the losses in the following years, before registering another dip in 2009 as the global financial crisis unfolded. In contrast, GVA in retail trade remained resilient and was almost unaffected by the recent global turmoil. GVA in wholesale and retail trade grew by 16.9% and 23.2%, respectively, in 2015 before moderating slightly in the following two years. In 2017, both registered a rate of growth of around 5%.

The wholesale and retail sectors were important contributors to economic activity during the nineties, together generating around one seventh of the whole economy GVA in 1995. However, over the next two decades their share in GVA declined, standing at around 10% in 2017, as the Maltese economy became more diversified, and other sectors, such as remote gaming and business services, grew more rapidly. Additionally, the retail sector in particular faced strong competition from overseas online retailers. According to a 2016 study published by PwC Malta, online competition was the second most major concern for local retail businesses, and was particularly important for firms selling ICT equipment.⁶ Sales lost to online shopping was also the factor cited most frequently by members of the General Retailers and Traders Union (GRTU) which reported a decrease in sales in recent years. The rapid increase in online purchases is confirmed by payments data. The value of online transactions by means of cards issued by the major domestic credit and payment institutions that operate in Malta reached almost €600 million in 2017, equivalent to around 12% of nominal private consumption. This share was broadly double that recorded two years earlier.

Although relatively small in terms of GVA, the wholesale and retail sectors have linkages with other sectors of the economy. This can be seen from the latest, albeit dated, input-output tables, which refer to 2010 (see Table 1).⁷ To generate an output worth €1 billion, the distribution sector, which includes wholesale trade, retail trade and repair of motor vehicles and motorcycles, utilised more than 80%, or €355 million, in domestic production, mainly services, particularly those related to transport, as well as financial and insurance services.

On the other hand, the distribution sector has a very low import content, with imports (€65 million) constituting only 15% of intermediate consumption in 2010. This share is lower compared with those for the construction and manufacturing sectors, which in 2010 amounted to 27% and 70%, respectively. This may reflect the lower capital intensity of operations in wholesale and retail as well as a higher dependency on certain domestically-generated services such as transport and advertising.

⁶ PwC Malta Middle Market Barometer, available at <https://www.pwc.com/mt/en/publications/assets/barometer-march-2016.pdf>

⁷ The input-output data refer to the wholesale and retail trade, including the repair of motor vehicles and motorcycles (sectors G45, G46 and G47).

Table 1
INTERMEDIATE CONSUMPTION IN THE DISTRIBUTION SECTOR (G45-47), 2010

EUR millions

	2010
Output as basic prices	1,047
Total intermediate consumption	428
Domestic Production	355
Agriculture, forestry and fishing	0
Mining and quarrying; utilities	33
Manufacturing	20
Construction	16
Services	287
<i>some of which:</i>	
Wholesale and retail; repair of motor vehicles	21
Transport	95
Financial and insurance	69
Real estate	28
Professional services	34
Imported products	65
Taxes less subsidies on products	8
Gross value added at basic prices	618

Source: NSO.

Table 2
OUTPUT IN THE DISTRIBUTION SECTOR (G45-G47), 2010

EUR millions

	2010
Intermediate demand	345
Final demand	701
Final consumption	501
Gross capital formation	71
Exports	130
Output at basic prices	1,047

Source: NSO.

Around 70 per cent of the output generated in the wholesale and retail trade sectors during 2010 was in the form of final demand, largely final consumption (€501 million) (see Table 2). Exports and gross capital formation together constituted less than 30% of the final demand generated during that year. The rest of output, or €345 million, was used as intermediate demand by the economy, primarily by the transport sector.

A study by the Central Bank of Malta, using the 2010 input-output framework, puts forward industry-specific accounting multipliers (see Table 3).⁸ The wholesale and retail trade sector as a whole generated the fifth highest output and income multipliers, and the third highest value added and employment multipliers. This shows that although the sector is relatively

⁸ The industry-specific accounting multipliers consists of Type I and Type II multipliers that capture the direct and indirect impact (on output, income, value added and employment) of an increase in final demand in one industry on the rest of the economy, whilst also taking into account the size of the sector that is generating the final demand.

Table 3
ACCOUNTING MULTIPLIERS FOR SPECIFIC SECTORS OF THE ECONOMY

	Accounting Multipliers			
	Output	Income	Value added	Employment
Wholesale and retail trade, including repair of motor vehicles and motorcycles	6.0	8.8	9.3	10.6
Wholesale and retail trade and repair of motor vehicles and motorcycles	0.7	1.0	1.0	1.2
Wholesale trade, except of motor vehicles and motorcycles	2.2	3.3	3.4	3.5
Retail trade, except of motor vehicles and motorcycles	3.1	4.6	4.9	6.4
Manufacturing	14.9	13.7	14.1	14.2
Transportation and storage	4.8	5.3	5.1	4.5
Accommodation and food services	6.1	7.5	7.0	10.7
Real Estate	2.6	0.7	5.3	0.7
Information and communication	3.9	4.0	4.9	3.3

Source: Rapa, N. (2017).

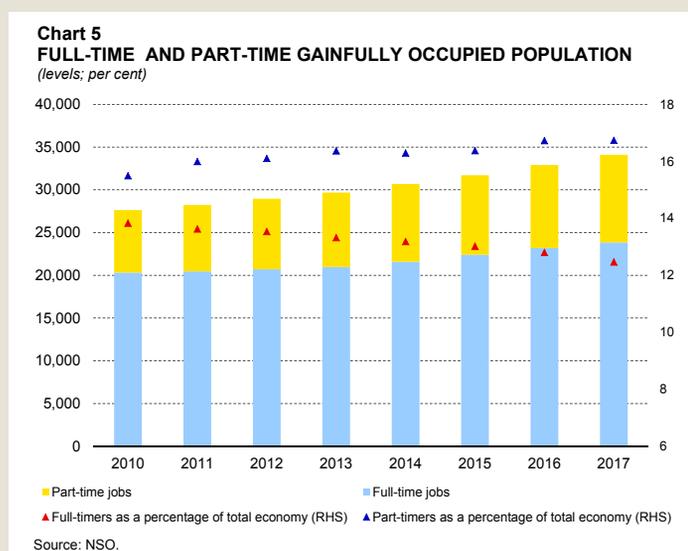
small in GVA terms, it creates strong direct and indirect effects in the Maltese economy. In fact, the accounting multipliers in the wholesale and retail sector exceed those generated in sectors comprising of transportation and storage, real estate as well as information and communication.

Developments in the labour market, wages and productivity

Gainfully occupied data show that there were 34,101 jobs in the wholesale and retail sector in 2017, of which 23,850 persons held full-time jobs and 10,250 were in part-time jobs (see Chart 5). This accounted for 12.5% and 16.7% of full-time and part-time employment in the economy, respectively. Retail activities generated the majority of employment, accounting for three-fifths of the full-timers and slightly more than the 70% of part-timers in wholesale and retail.

From the mid-nineties to 2017, full-time employment in wholesale and retail trade increased by almost 50% with the sector remaining the largest full-time employer in Malta, accounting for almost 13% of full-time employment. Part-time jobs more than doubled since 1995, and in 2017 the sector offered the largest number of part-time jobs in Malta according to administrative data.

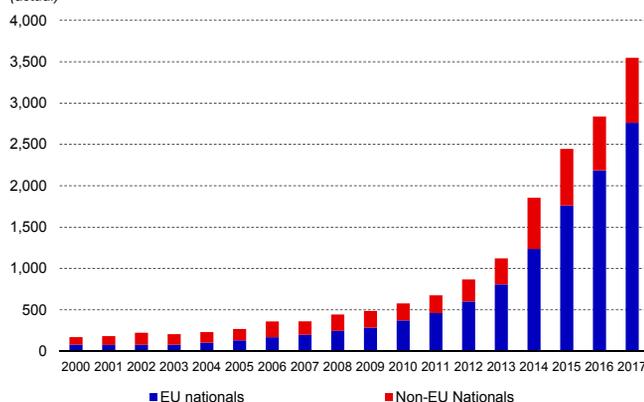
In line with other sectors of the economy, wholesale



and retail trade activities registered an increase in foreign workers in the last few years. Data from Jobsplus show that the number of foreigners working in full-time and part-time jobs in the sector almost doubled since 2014, slightly exceeding 3,500 persons in 2017 (see Chart 6). This was equivalent to almost 10% of total employment in wholesale and retail. Around 78% of these foreign workers come from countries within the European Union.

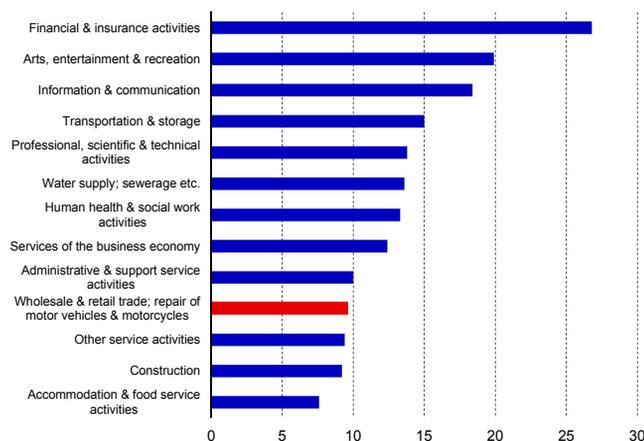
Labour costs (wages and salaries) in the wholesale and retail sector stood at €9.6 per hour in 2017 (see Chart 7). This stood well below the hourly costs in other sectors, such as arts and entertainment, which includes remote gaming, as well as the sector comprising of professional, scientific and technical activities. On the other hand, the wholesale and retail trade sector offered a higher rate per hour than construction as well as accommodation and food activities. Labour costs of Maltese wholesalers and retailers stood towards the lower end of the range for the euro area. In 2017 the rate in Malta was almost half of the euro area average (see Chart 8).

Chart 6
NUMBER OF FOREIGN WORKERS IN THE WHOLESALE AND RETAIL SECTORS⁽¹⁾
(actual)



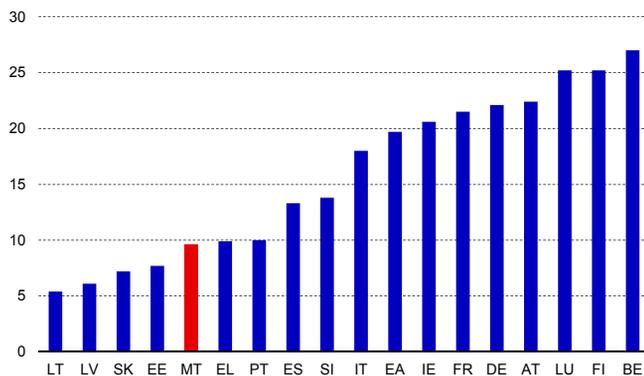
⁽¹⁾ This sector also includes data on the repair of motor vehicles and motorcycles.
Source: Jobsplus.

Chart 7
AVERAGE LABOUR COST PER HOUR IN 2017
(EUR)



Source: Eurostat.

Chart 8
AVERAGE LABOUR COST PER HOUR IN THE WHOLESALE AND RETAIL SECTORS IN EURO AREA COUNTRIES (2017)^{(1), (2)}
(EUR)



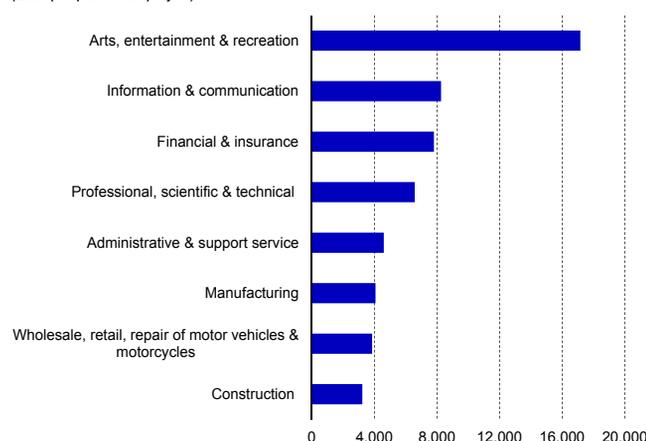
⁽¹⁾ Data for Cyprus were not available.
⁽²⁾ Data include sectors G45, G46 and G47.
Source: Eurostat.

A similar conclusion is drawn on the basis of compensation per employee data. In 2017, average compensation per employee in sector G, which includes wholesale and retail as well as repair of motor vehicles and motorcycles, was around €20,156. This is almost 30% less than the whole economy average of €27,818.

In terms of productivity per worker, which is here being approximated by nominal GVA per person employed, the wholesale and retail sector shows relatively weak results when compared with other sectors, especially those in high value added services (see Chart 9). Sectors that are characterised by higher productivity include those specialising in arts, entertainment and recreation, information and communication, financial and insurance, administrative services as well as the manufacturing sector. On the other hand, the construction sector registered a lower productivity than the wholesale and retail sector during 2017.

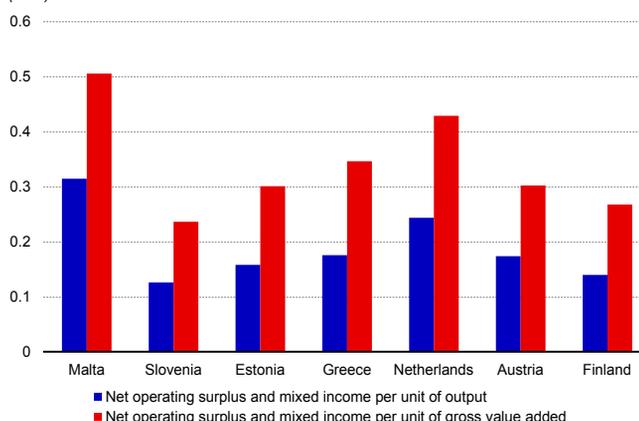
While wholesale and retail activities are characterised by relatively low labour costs per person and low productivity,

Chart 9
PRODUCTIVITY IN 2017
(EUR per person employed)



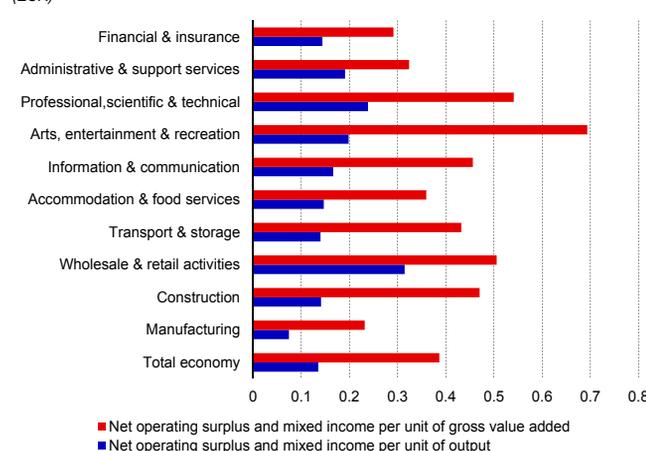
Source: Author's calculations.

Chart 10
PROFITABILITY IN THE WHOLESALE AND RETAIL SECTORS IN SELECTED COUNTRIES IN 2017
(EUR)



Source: Eurostat.

Chart 11
PROFITABILITY IN SELECTED SECTORS IN 2017
(EUR)



Sources: Eurostat; NSO.

the two sectors jointly exhibit a relatively high degree of profitability. National accounts data show that net operating surplus and mixed income in these sectors is relatively high when compared with that in other countries (see Chart 10).⁹ It is also relatively high when compared with other domestic sectors (see Chart 11). This suggests that the rather low productivity in this sector is being cushioned partly by high mark-ups.

The confidence indicator for retail trade, published every month by the European Commission, has been positive for three consecutive years. Although the indicator has been easing, it remains well above the historical average (see Chart 12).¹⁰

In recent years, respondents have continued to see positive business conditions, as both the business activity indicator and the business activity expectations index have been positive in the last three years, although they dropped in each consecutive year. However, respondents continued to report above normal stock levels, which has a negative impact on the sentiment indicator.

The survey also reveals that both employment and price expectations remain positive but have also decreased in 2017, possibly reflecting an increasingly tight labour market as well as mounting price competition from other sources.

Confidence among domestic retailers has generally been above that in the euro area. This may reflect the stronger growth in private consumption in Malta in recent years and the more favourable economic environment generally (see Chart 13).

Chart 12
SUB-SECTORAL CONFIDENCE INDICATOR FOR RETAIL TRADE
(seasonally adjusted; percentage points)

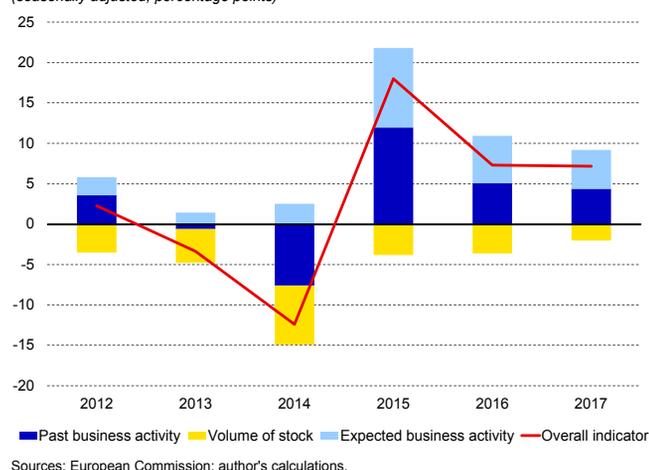
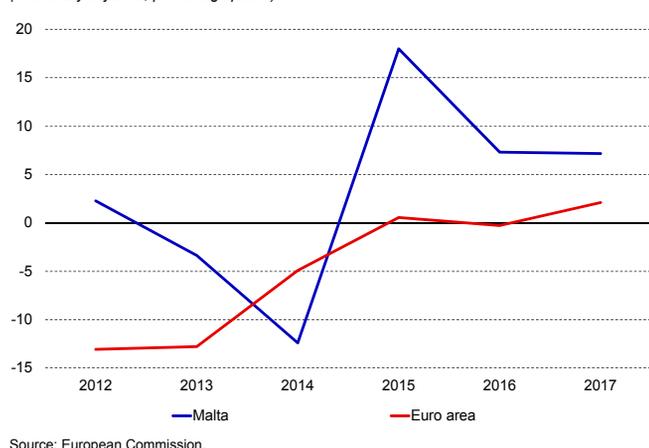


Chart 13
RETAIL TRADE CONFIDENCE INDICATOR IN MALTA AND THE EURO AREA
(seasonally adjusted; percentage points)



⁹ Data for the euro area and for euro area countries other than those shown in Chart 10 are not available for 2017.

¹⁰ This is a sub-sectoral indicator for retail trade which excludes retail trade for motor vehicles and motorcycles. The indicator is composed of questions related to business activities in the past three months, current level of stock volume as well as business activity expectations. Data for Malta starts in May 2011 and excludes retail trade for motor vehicles and motorcycles.

Conclusion

The wholesale and retail sectors were among the strongest contributors to economic activity during the nineties, and were very resilient during past economic shocks. In fact, both wholesale and retail activities managed to recover very quickly from the softening observed in 2000 and 2001 and from the more recent global recession, with the retail sector showing greater resilience than the wholesale sector.

Although activity increased over the last two decades, the share of GVA in the whole economy declined as other sectors in the Maltese economy increased at a faster pace, while growth in wholesale and retail was constrained by competition from overseas online retailers. Nevertheless, the wholesale and retail sector almost doubled the number of jobs generated and has continued to offer the largest amount of full-time jobs in the Maltese economy. It also contributes significantly through part-time employment. Labour costs remained relatively low, which might be explained by the low productivity per worker, especially when compared with other fast-growing industries. In contrast, profitability is relatively high, which is indicative of high mark ups in these sectors.

Sentiment indicators available for the retail sector turned positive in 2015 and remained higher than that generated for the euro area. Nonetheless, the index moderated in the last two years indicating an expected moderation in the sector, both in terms of activity and pricing power.

Measures offered by Malta Enterprise, such as support for start-ups and technology upgrades, have assisted firms in the wholesale and retail sector in the last years. These incentives and other kinds of support offered by public entities should be encouraged as this sector plays an important part in the labour market. Companies in this sector may also need to invest more in online portals that enable them to reach out more efficiently to existing customers and tap foreign markets as well as in long-term business planning.¹¹ A faster integration of technology could help reduce costs and raise productivity within the sector, while also contributing to make the sector less labour-intensive and allow firms to improve wage levels and bring them closer to those in the European Union.

¹¹ The 2016 and 2017 Annual Surveys by the GRTU reveal that around 80% of its members do not sell online. Although this might reflect the nature of products and services traded by the union's membership, it may also reflect barriers that can be overcome by means of better information and business support.