UK retailers may not fully benefit from post-Covid consumer boom

It's now conventional wisdom that there is going to be a post-Covid boost to household spending. But how big will it be, and how much will it benefit retailers? The answers are mixed

Oxford Street, on the post Christmas Bank Holiday and in tier 4, London, UK

Source: Shutterstock

December retail sales disappointed

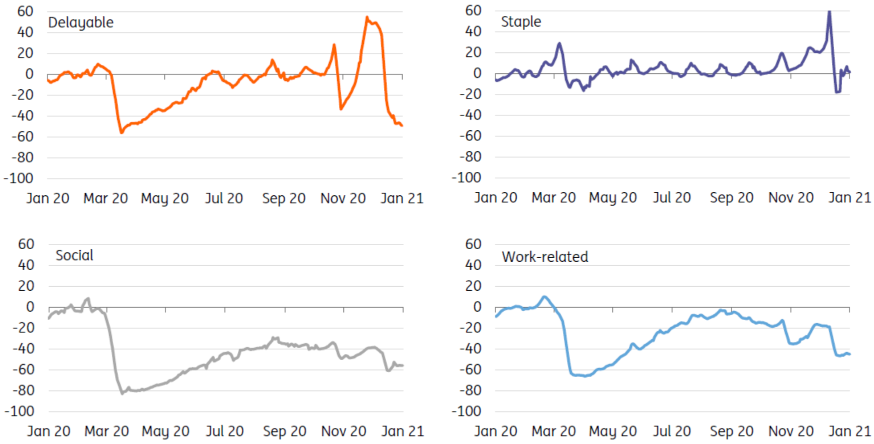
It wasn't quite the Christmas retailers were hoping for.

UK retail sales rebounded by a mere 0.4% in December after November's lockdown, although it's worth remembering shops were closed again in much of England before the new year. In level-terms, sales were back to where they were over the summer - which perhaps isn't so bad considering the level of new restrictions.

The jury's out on whether things are now significantly worse in the midst of a new strict lockdown.

Newly available payments data indicate that spending is lower than it was during the November restrictions, though the figures are volatile and not adjusted for the big seasonal swings in sales. Either way, the situation is almost certainly less acute than last spring, mainly because the big switch away from the high street to online never really reversed, but also because retailers are better geared up for click-and-collect services.

New CHAPS payments data show spending has fallen



Source: ONS

February 2020 = 100, percentage change on a backward-looking seven-day rolling average

History suggests retailers should expect a quick rebound in the spring

However, in spring, the figures should certainly look better. The current pace of infections and vaccinations suggests in-person shopping could resume at some point in mid/late March. And experience from the first lockdown showed that it won't take long for sales to regain lost ground.

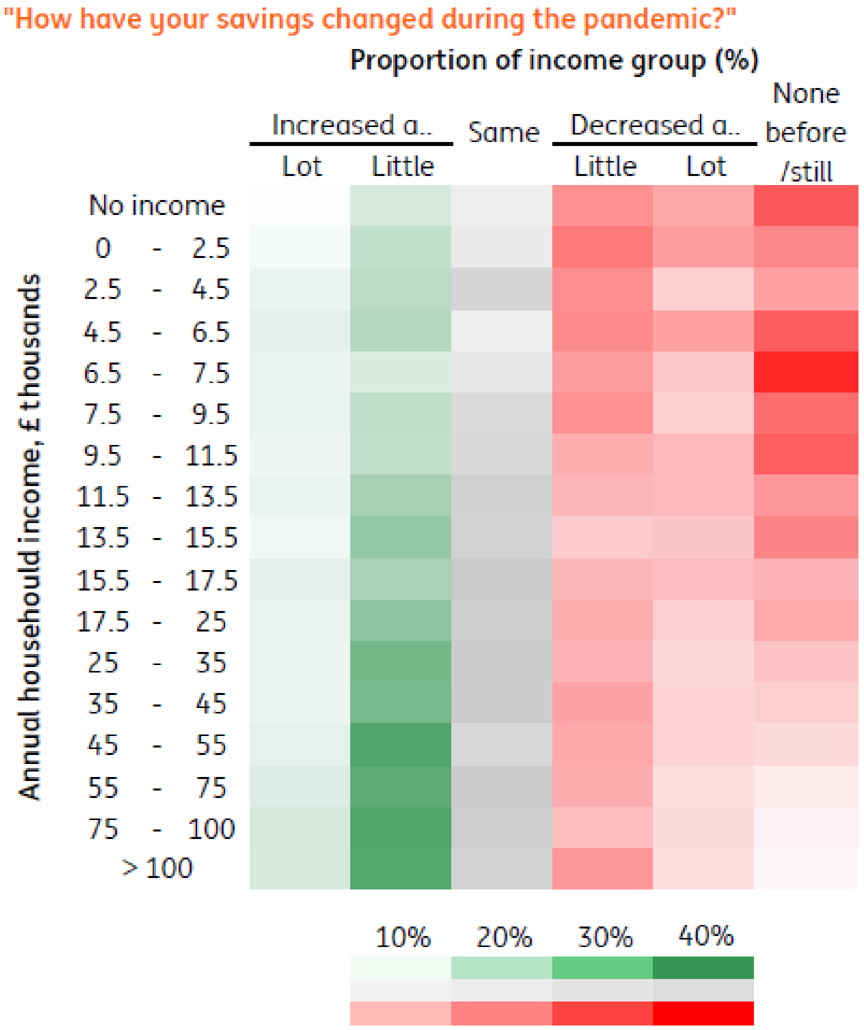
From there, assuming no further surprises to the virus it looks likely that consumer spending will benefit from some pent-up demand. The savings ratio has fallen since the peak of the crisis, but at 16% (as of 3Q), this is considerably above pre-crisis levels. That, combined with the positive accounting effect of reopening businesses on GDP, should lead to a decent rebound in activity later in the year.

That said, it is going to take much longer for the economy to return to it pre-virus size, and we see five factors likely to cap the pace of the recovery in consumer spending.

Firstly, the crisis has had a very unequal impact across income groups. Furlough rates are much higher among low-income workers, and they've been disproportionately affected by the rise in redundancies (and will likely to continue to be so if job losses mount when the scheme is unwound this year).

Unsurprisingly, that's meant households in the lowest wage brackets are more likely to have seen savings fall during 2020, according to Bank of England survey data. Those in higher income groups, who have been less affected, tend to have a lower marginal propensity to spend.

BoE survey from 2020 shows low earners more likely to have seen savings fall



Source: ING analysis of Bank of England NMG survey

Full question: "As a result of any changes in income or spending due to the coronavirus pandemic, would you say that your household's total savings have increased, decreased, or stayed the same?" Data is from the Bank of England/NMG survey, taken from 25 August-15 September 2020

Secondly, even where savings have built, there are tentative signs in the Bank's credit data that consumers have used the money to reduce debt levels. While not a negative story, it signals these consumers aren't planning to spend all of their newly acquired savings.

Thirdly, there's uncertainty. The underlying assumption at the moment is that uncertainty will fade during the recovery, but that may not be completely the case.

The UK's Chief Medical Officer recently said future restrictions, say next winter, can't be totally ruled out, depending on how the virus mutates. Depending on how that risk is perceived this summer, that could temper the recovery in spending if consumers are wary about a return to lockdowns and what that implies for incomes etc.

The general rise in unemployment that's likely on Brexit disruption and the removal of the furlough scheme will also dampen confidence.

Fourthly, and thinking about retailers specifically, the pent-up demand will inevitably be larger for services than goods - the latter having been much easier to consume during 2020. There are some exceptions - clothing really struggled last year, and that will likely get a boost as events and gatherings return.

Finally, high street spending is unlikely to recover its crisis losses. The sharp shift to online has only accelerated a trend that was already happening. That's a challenge for those businesses heavily reliant on physical retail space, particularly when the current moratorium on rental payments eventually ends.

Unfortunately it is likely that this part of the sector will see further job losses ahead.

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