

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.

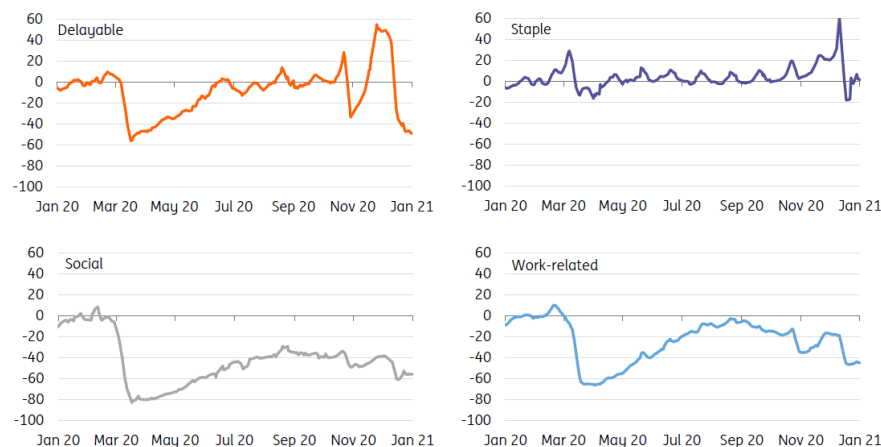
UK retail sales rebounded by a mere 0.4% in December after November's lockdown, although it's worth remembering shops were closed again in much of England before the new year. In level-terms, sales were back to where they were over the summer - which perhaps isn't so bad considering the level of new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

"How have your savings changed during the pandemic?"



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.

Author

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.