

UK: Lockdown to seriously dent retail's remarkable rebound

Lockdown will inevitably hit retail hard with most shops forced to close again. But there are some reasons to think the sector will recover fairly quickly, albeit with a heavy divergence between online retailers and the high street



Lockdown a further blow for the high-street

The lockdown across England, coupled with stricter restrictions across the remainder of the UK, has put a serious dent in what has been a remarkable recovery for UK retail. Unlike the wider economy, which remains 8% below its pre-virus size, the retail sector returned to 'normal' spending levels in weeks, and the latest 1.3% rise in October means sales (ex-fuel) are now 7.8% higher than a year earlier.

The question now is whether the retail sector can pull-off an equally rapid rebound after this second lockdown. The answer, we suspect, is mixed.

The bad news for the high street is that the latest restrictions are only likely to further amplify the gulf that has opened up between online retailers and physical stores. The former was the main beneficiary of the first lockdown, where sales are still around 40% higher than pre-virus. Clothing

and footwear retailers, by contrast, are still experiencing sales 14% below January levels. High street footfall is 40% below normal levels following the imposition of lockdown.

There are some silver linings for retail

Having said that, the retail sector is likely to be better prepared for this lockdown than it was in March. Shops that have been forced to close will have spent much time and energy planning for this outcome, and many will be more geared up for online or click-and-collect services.

We also suspect that the retail sector stands a better chance of re-opening at the start of December than hospitality. Government scientists reportedly believe the impact of closing non-essential retail on virus spread to be minimal, and that means retailers may well be able to open in the crucial pre-Christmas period.

Finally, consumer fundamentals are, for the time being, OK - at least not nearly as bad as you'd expect them to be given the circumstances. Admittedly confidence is heavily depressed, while redundancies through the latter part of the third quarter mean the unemployment rate has risen (perhaps to around 6% by year-end).

However, the furlough scheme continues to protect incomes, while many of those more fortunate to have worked through the pandemic will have seen savings levels rise involuntarily. One interesting consequence may be that people are inclined to spend more on gifts this Christmas than normal, as shoppers look to treat themselves/others after a turbulent few months, and that's something retailers will be hoping for.

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 www.ing.com.