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.

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