



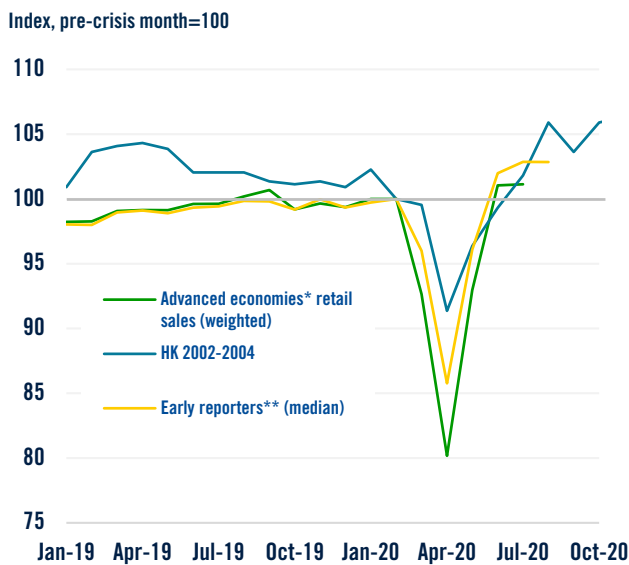
# Will there be a V-shaped Consumer Recovery?

Recent retail sales data suggest a V-shaped recovery in consumer spending, like that seen in Hong Kong after the SARS outbreak in 2003-2004. But these data do not tell the whole story. Recoveries are uneven across economies, with sales still depressed in some. Retail sales are also a poor guide to overall consumer spending in the current environment. They only cover a fraction of services activity and do not pick up trends in some of the sectors worst hit by coronavirus-related restrictions, such as hospitality, recreation, and culture. These vulnerable sectors are also sensitive to any renewed viral outbreaks and related tightening of restrictions.

Can we look forward to a V-shape consumer spending recovery after the collapse resulting from the coronavirus outbreak and the measures introduced to contain it?

There are some encouraging signs, most notably recent retail sales data. Looking at July and August reports for a sample of advanced economies, the average sales level has rebounded to slightly above where it was before the virus hit. This raises hopes for the kind of strong and sustained recovery that Hong Kong enjoyed in the aftermath of the SARS outbreak in 2003-2004 (see fig. 1).

Fig. 1: Global retail sales



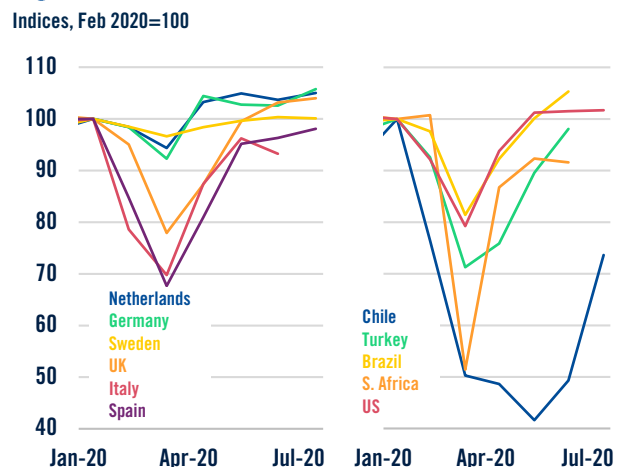
Source: Oxford Economics/Haver Analytics \*17 advanced economies  
 \*\* US, UK, NZ, Germany, Spain, Sweden, Denmark, Norway

The rebound in retail sales is far from even, however, as is revealed by looking in detail at a wide range of economies. Retail recoveries have generally been relatively strong in

Europe, with solid V-shaped rebounds in Germany and the Netherlands (where the initial dips were also below the regional average) and the UK. Sweden, where lockdown measures were more modest than in most of the continent (and social distancing was more voluntary), shows a broadly flat pattern. Partial V-shaped recoveries are visible in Spain and Italy, which saw very steep declines in sales in March-April.

In the rest of the world, patterns of retail recovery are very mixed. The US has also seen a V-shaped rebound, but this seems to have flattened out in recent months. In emerging economies, Brazil has seen a strong recovery, while Turkey and South Africa have seen less complete upturns. In Chile, August retail sales were still more than 20% down from their pre-crisis peak – recovery there still looks a long way off (see fig. 2).

Fig. 2: Retail sales, different economies



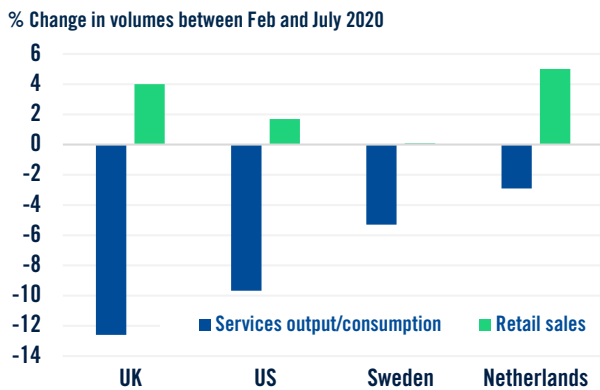
Source: Oxford Economics/ Haver Analytics

This patchy pattern of upturns implies that even as retail sales in Europe stabilise, growth may be dragged down by weak demand abroad.

Overall, the retail sales pattern is encouraging, if patchy. But retail sales are not a very good indicator of broader consumption trends. Across economies, retail spending accounts for only 25%-50% of total consumer spending, and some of the areas it misses are those especially damaged by the coronavirus crisis.

Available monthly data illustrate the problem. For the UK, US, Sweden, and the Netherlands, services output or total consumption fell by 3%-12% from February to July, a much worse outcome than for retail sales (see fig. 3).

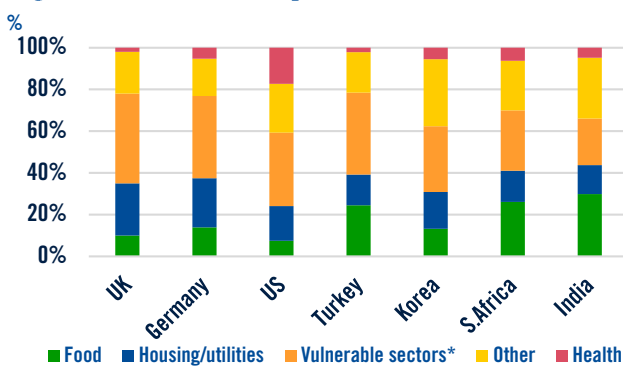
Fig. 3: Retail sales and services output



Source: Oxford Economics/ Haver Analytics

Overall consumer spending (and services output) is being dragged down by weakness in several sectors which are very vulnerable to social distancing and lockdowns. Sectors like hospitality, recreation and culture, transport, clothing, furniture, and household goods rely heavily (or entirely) on in-person consumption in social settings and typically account for 30%-40% of consumer spending in normal times (see fig. 4).

Fig. 4: World consumption structure



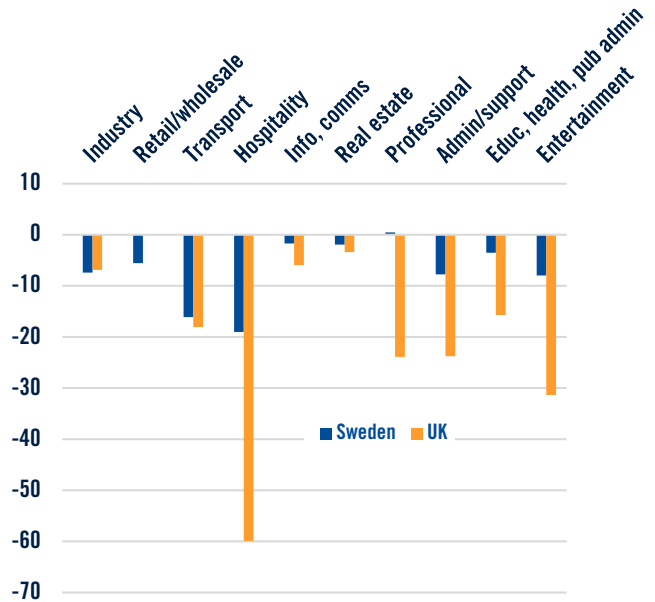
Source: Oxford Economics/Haver Analytics \*Recreation/culture, hospitality, transport, clothing, furniture, and household goods

Spending in these sectors represents a major drag on the economic recovery. In the UK, for example, even after some reopening of the economy, hospitality output was down almost 60% in July on its January-February levels, and entertainment spending was 30% down.

Even where lockdowns and restrictions have been at the milder end of the spectrum, such as in Sweden, a similar pattern prevails, although the extent of the declines is less extreme. For example, hospitality output fell 19% in Sweden from January-February to July (see fig. 5).

Fig. 5: UK & Sweden output by sector

% Change, Jan-Feb to July



Source: Oxford Economics

\*Average ratio 2019 minus average of 2014

The Swedish evidence implies that even voluntary social distancing, linked to continued fears about infection (or a lack of confidence in the information available), could hold back the recovery in key sectors for some time.

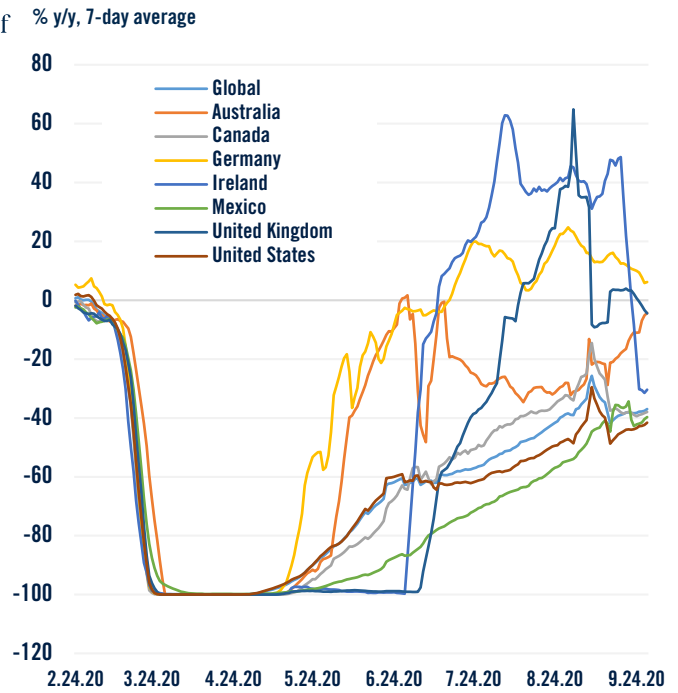
This effect is likely to be partly offset by substitution of spending between sectors – for example, food store sales rising in place of restaurant spending, streaming TV and film subscriptions climbing as cinema sales fall, and online purchases replacing in-store buying. Detailed data shows some evidence of this, including in the UK, US, and emerging economies like Brazil.

What this implies is that the consumer upturn seen so far has a relatively narrow basis. Moreover, the recent recovery pattern also flags up another risk to a V-shape rebound: the possibility of renewed flare-ups in the virus reversing spending gains. This may happen either due to people becoming less confident about consuming in

person or renewed restrictions on the opening of some sectors. In practice, both effects are likely in the absence of effective medical responses to the virus threat.

Data on restaurant bookings over recent weeks illustrate this. Bookings have staged a robust recovery in Germany, but the Irish and UK recoveries have tailed off, as fresh restrictions have been put in place. The same pattern was visible earlier on in Australia. In the US, an initial rebound in bookings has tailed off with bookings still languishing 40% down year-over-year (see fig. 6). So, what might start as a V-shape recovery could end up having a W-shape or even a sawtooth pattern. Rising unemployment in the medium-term, linked to declines in some services sectors, could also weigh on the rebound.

Fig. 6: World restaurant diners



Source: Oxford Economics/IMF\* ex-interest

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