

WINTER 2020 | RETAIL REPORT

RETAIL RALLIES ON, BACKED BY CONSUMER RESILIENCE



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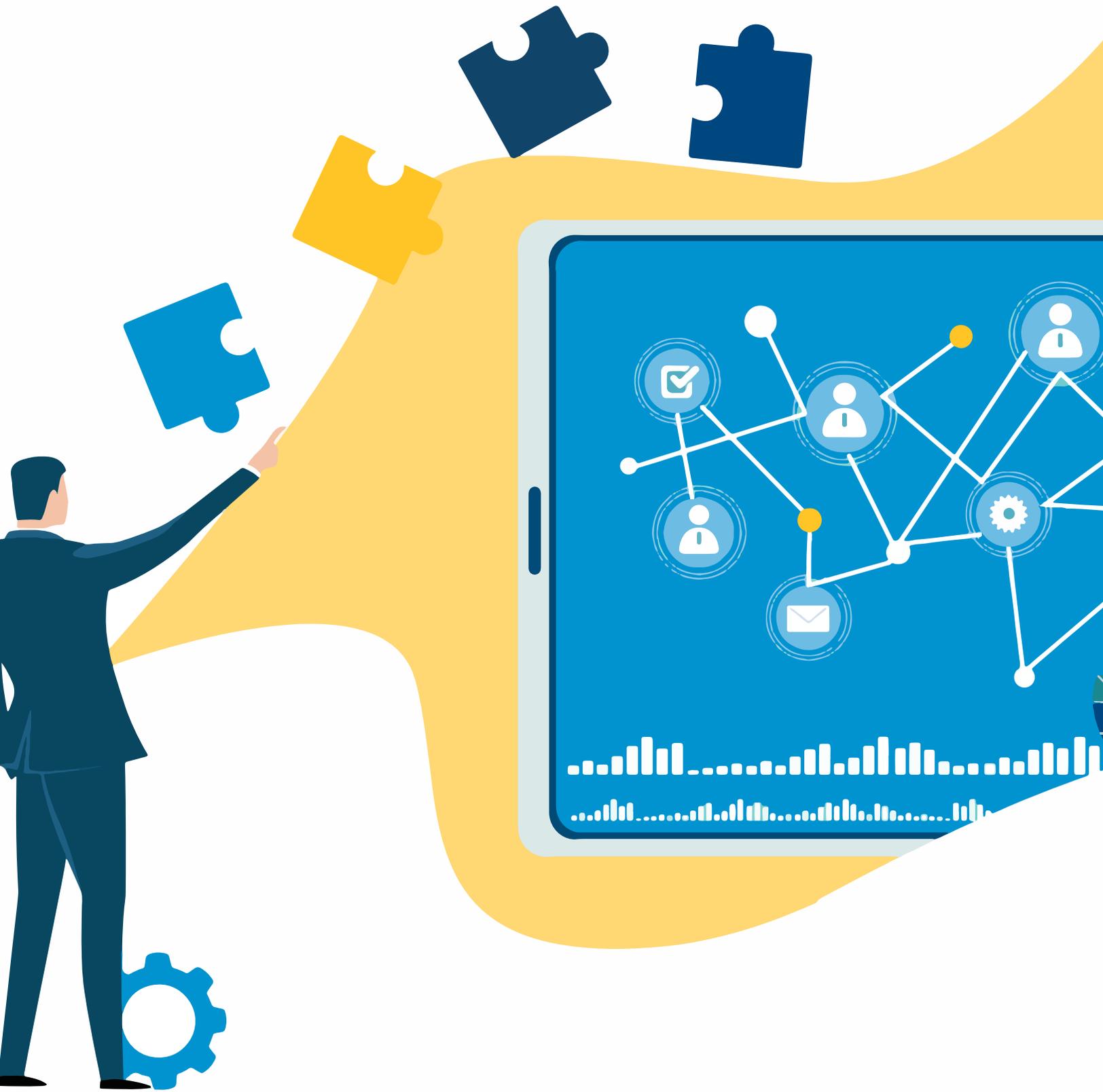
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INTRODUCTION

Commerce is a mainstay of all industries and one which changes organically or is accelerated as we have seen this year due to the unforeseen circumstances, we have all experienced. Our normal day-to-day activities may have temporarily changed; however, we have quickly adapted, adjusting our preferences but still spending.

The great pause was not seen in certain retail categories, nor was shopping halted in any way. Instead, we saw commerce move online, spiking in March, April and May, binge spending when stores reopened, ques outside of lux stores, and increased spend on electronics plus home improvements as we shifted to working and learning from home. Is this a short-term blip? Let's read on...

Retail Makes a Comeback

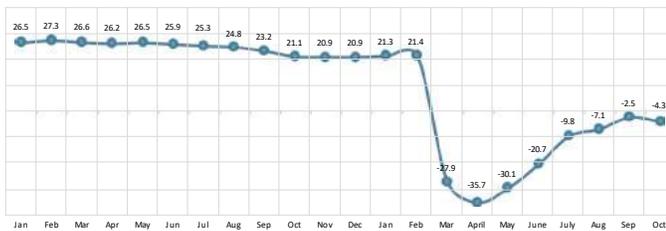
Consumer confidence is on the mend

During the early part of the pandemic, consumers' views on their personal finances leaned into strong negative territory attributed to the uncertainty from the economic slowdown and layoffs in the hospitality sector. Although consumer confidence has not returned to pre-pandemic levels, it has seen an upswing, climbing its way into neutral territory and managing to stabilize retail spending.

The University of Michigan's consumer confidence index edged higher to 81.2 in October, a steady increase from Q3's 75.6 average, confirming a stronger-than-expected consumer recovery. Despite the lack of additional unemployment benefits and the latest surge in coronavirus cases, confidence continues to trend higher exhibiting a level of hardiness in the market.

How people feel their finances will change

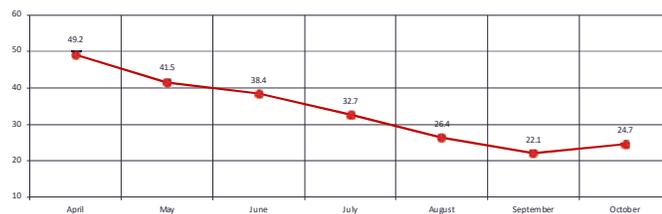
(index, percentage saying better minus percentage saying worse)
Source: GlobalData analysis



In April, almost half of consumers expressed concerns about their health and safety in visiting physical stores. That number has dropped by half as the economy has reopened and retailers are taking precautions to address consumer concerns. The increased footfall to stores reflects an underlying desire for a fast-track recovery. Nearly 89% of American consumers view physical stores as a driver of sales. As such, many retailers have proactively adjusted their shopping environments to accommodate safety protocols, including hand sanitizer dispensers in-store, plexiglass at checkouts, and extended return policies. These tactics have given consumers greater confidence to shop.

Percentage each month who say they are not confident, from a health perspective, to go out and shop in physical stores

Source: GlobalData analysis



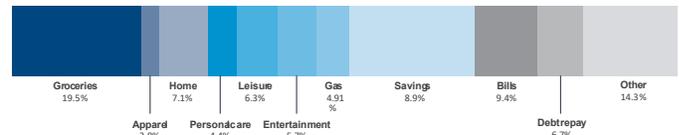
The stimulus infusion

Congress allocated \$290 billion in the form of one-time \$1,200 stimulus checks that provided buoyancy to consumer finances. While many of those funds were used to pay down debts, about one-third were directly spent on retail goods. The balance of those funds was deposited into bank accounts pushing the U.S. personal saving rate to an all-time high in April. Since then, consumers have slowly been siphoning these funds into the retail sector, boosting spending.

The hesitation of whether or not to bank on another stimulus package has consumers hustling to make extra cash. E-commerce marketplaces like eBay, and other online consignment platforms, experienced a surge as users sell their wares online, and spend it elsewhere to stretch their dollars. [The gross value of goods sold on eBay's U.S. marketplace grew 33% to \\$9.79 billion in the third quarter, up from \\$7.33 billion in the prior year. New buyer growth rose at its fastest pace in several years, gaining 5% compared to 2% in each of the last two quarters, and introducing approximately eight million new customers to the platform.](#) eBay is on target with organic sales gains between 14% and 17% compared to its initial forecast of a flat result.

Average proportion of stimulus spent on...

Source: GlobalData analysis and consumer research

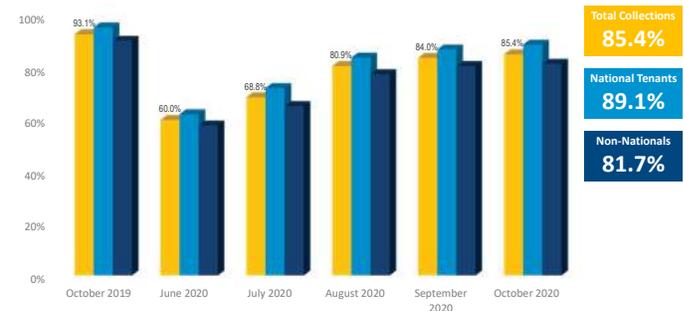


Retail rent collections on the rise

Retail rent collections have increased by more than 50% since the beginning of the crisis, with 85% of total retail rent collected in the U.S. at the end of October. [Among the categories making a comeback are fitness, where retailers were able to pay 76% of rent, and salons, where retailers paid 85%.](#) Compared to the year prior, 93% of total retail rent was received thus currently bringing the retail market closer to pre-pandemic levels and demonstrating a speedy recovery for retail tenants.

Percentage of Retailers Paying Rent On-Time

Source: Datex Property Solutions

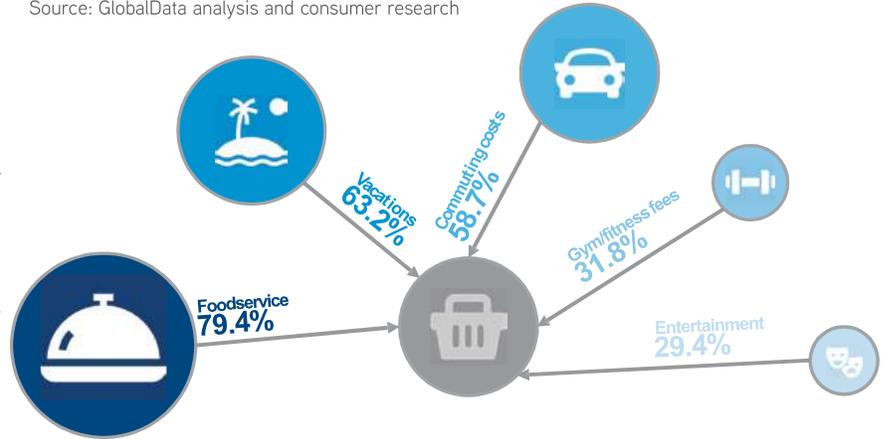


The Shift from Services to Goods

Diversion of spend

Change in habits and spending fueled retail spend as consumers diverted funds from experiential expenses to household essentials and self-care. Curtailed due to the crisis, consumers typically spend on foodservice, vacations, commuting and other areas. For example, 79% of those who cut back on eating out diverted some of that spend into retail – buying more groceries and kitchen supplies to make meals at home. Of those consumers stockpiling funds for vacations, 63% have diverted the money toward decor and design improvements to better their homes.

Percentage of people who diverted spending from ... into retail
Source: GlobalData analysis and consumer research



Total retail sales

The bounce back in consumer confidence, coupled with the stimulus support, and the benefit of diverted spending suggest that 2020 retail spending will hold up much better than expected. U.S. retail sales minus motor vehicles, auto parts and gas grew 10% year-over-year in September on a seasonally adjusted basis, the greatest year-over-year increase for a single month since tracking began in 1992, and is a direct result of consumers' inability to spend on services and travel.

As some physical shops were closed this year due to lockdowns, store sales will decline by 3%. This dynamic has also pushed up online spend by 36%. However, both factors will rebalance next year. In total, retail sales will grow by 2% in 2020. This will be followed by a reasonable recovery in 2021 when growth will accelerate to 3% as the sector laps some soft comparatives.

Retail sales growth 2020 and 2021

Source: GlobalData analysis

	2020	2021
Total retail sales growth	+2.2%	+3.2%
Store retail sales growth	-3.2%	+5.9%
Online retail sales growth	+36.3%	-8.5%

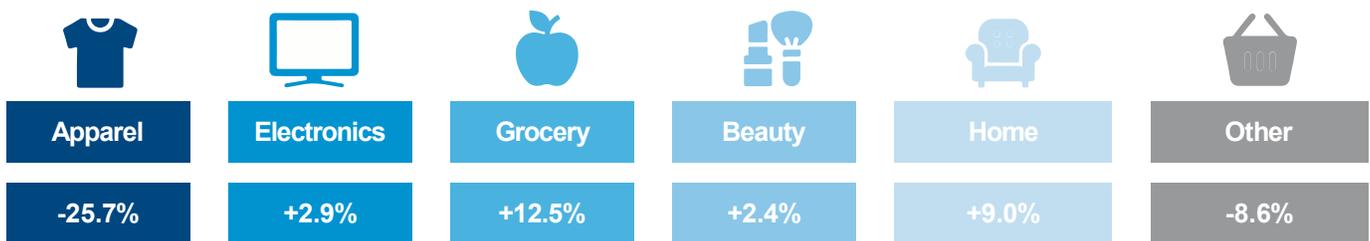
The sector view

Retail is performing reasonably overall, but there is variance within the individual sectors. Grocery is the top-performing category, largely thanks to the transfer of spending from foodservice. Homewares, furniture, and home improvement have also benefited as consumers spend more time in their homes and undertake various projects. Apparel felt the most significant impact, with sales down by 26%, as people bought fewer items of clothing for work and social occasions.

Positive sales momentum is expected to carry into the last few weeks of the year as consumers look to the holidays as a moment of normalcy after an incredibly challenging year. Back in June, Pinterest reported a significant uptick in users searching for Christmas gift ideas, with search volume for Christmas up 77% in April over regular yearly levels. Key holiday gifting categories expected to see an increase include apparel, jewelry, and beauty.

2020 growth or shrink of spending in retail categories (year-over-year change on 2019)

Source: GlobalData forecasts

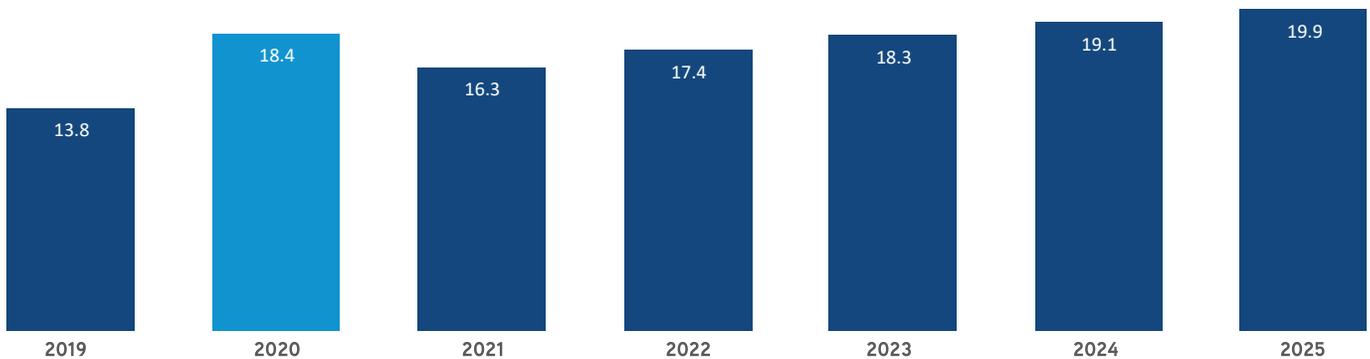


Online penetration

Inspired by consumer circumstance and imposed lockdowns, e-commerce sales steadily increased. Even with these trends, we expect most purchases to happen in stores. As consumers revert to more normalized shopping patterns, we predict that online penetration will remain constant. [There has been a surge in store openings in the U.S., as reported by Coresight Research, with more than 3,000 new retail openings announced year-to-date despite several retailers shuttering earlier this year.](#)

Online sales as a percentage of all retail sales (2019-2024)

Source: GlobalData analysis and forecasts



The Shift from Services to Goods

Omnichannel retail leads the way

Delivering a seamless retail experience, from online to curbside is the way to win back shoppers. Retailers will continue to integrate multichannel options as part of the consumer shopping event, leveraging the brick-and-mortar environment into the sales funnel, i.e. buy online pickup or return in-store. [During Target's Deal Days shopping event, consumer's usage of their contactless same-day services nearly quadrupled.](#)

[According to the Rakuten Ready 2020 Time Study, there was a 200% increase in Order for Pickup volume since the pandemic hit in March and 85% of customers plan to continue to use these services post-COVID-19.](#) Furthermore, most consumers expect to use these types of omnichannel services more once the pandemic ends. This will strengthen the place of stores in the retail ecosystem, not just as places to sell, but as locations to fulfill and service online demand.

Compared to before the pandemic, which of the following will you do more of once things have returned to normal? (%)

Source: GlobalData analysis



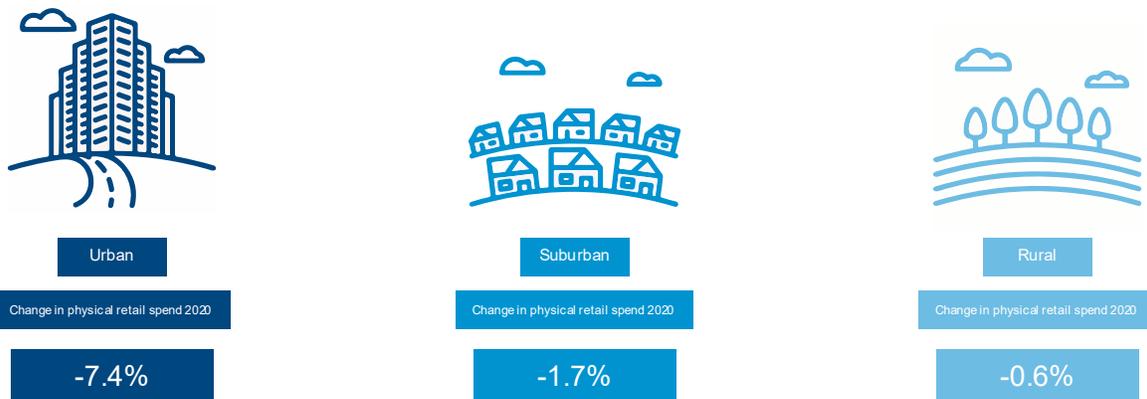
The changing landscape of finding consumers where they are

Spending by location in-store has experienced shrinkage, with urban areas adversely affected by consumers' outflux and much lower numbers of tourists and commuters. Suburban areas have held up better as consumers moved into these areas and commuters have transitioned to working from home. Rural areas, where spend has been more focused on food as well as home improvement products, have also seen a spending decrease on apparel and beauty segments.

The pandemic has accelerated the redevelopment of the retail landscape as we begin to see more and more retail properties re-purposed. Currently the [U.S. is overretailed with an estimated 23 square feet per person](#). In comparison, places like France, Germany, Japan and the United Kingdom average less than five square feet per person. Though a significant amount of brick-and-mortar space will stay due to necessity-based retailers such as grocery stores and drug stores, retail space will begin to transform as e-commerce continues to expand.

Changes in total retail spend by location 2020 over prior year

Source: GlobalData analysis





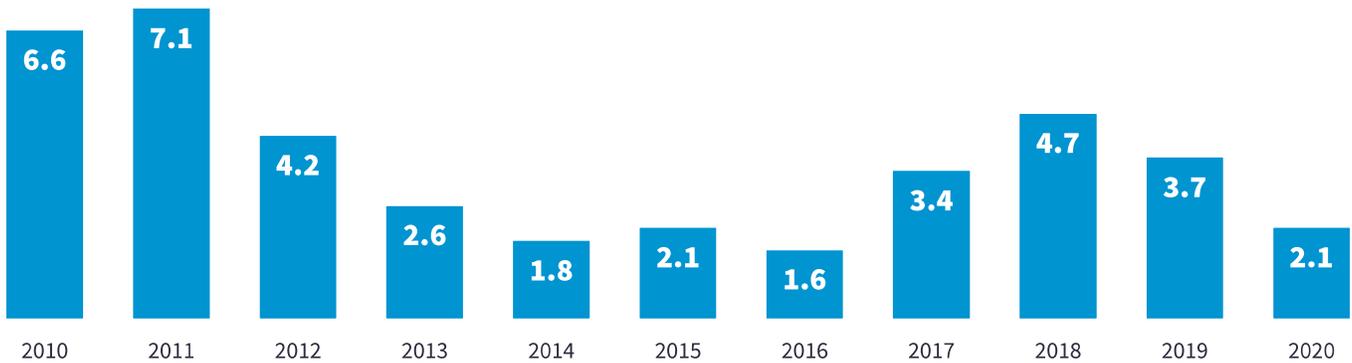
Black Friday Spending Hits New Record

Despite an abnormal Black Friday shopping experience, spending grew by 2.1% this year, bringing the total spend in the months leading up to and including Thanksgiving Day weekend to \$62.5 billion. Holiday shoppers benefited from a longer than usual shopping season as sales kicked off with Amazon's rescheduled Prime Day in October. In addition, other big-box retailers such as Target, Walmart and Home Depot launched a series of pre-Black Friday sales to create a safe and convenient shopping environment. Although the growth rate is more muted than in recent years, it is still a solid performance given current economic and social circumstances due to the pandemic.

Overall, we predict that total holiday spending will grow by 4.3% this year and will top \$317 billion. Most of this growth is projected to stem from Thanksgiving and Christmas due to a higher than usual spend on food. Black Friday, which is more focused on non-food, shows more sluggish growth.

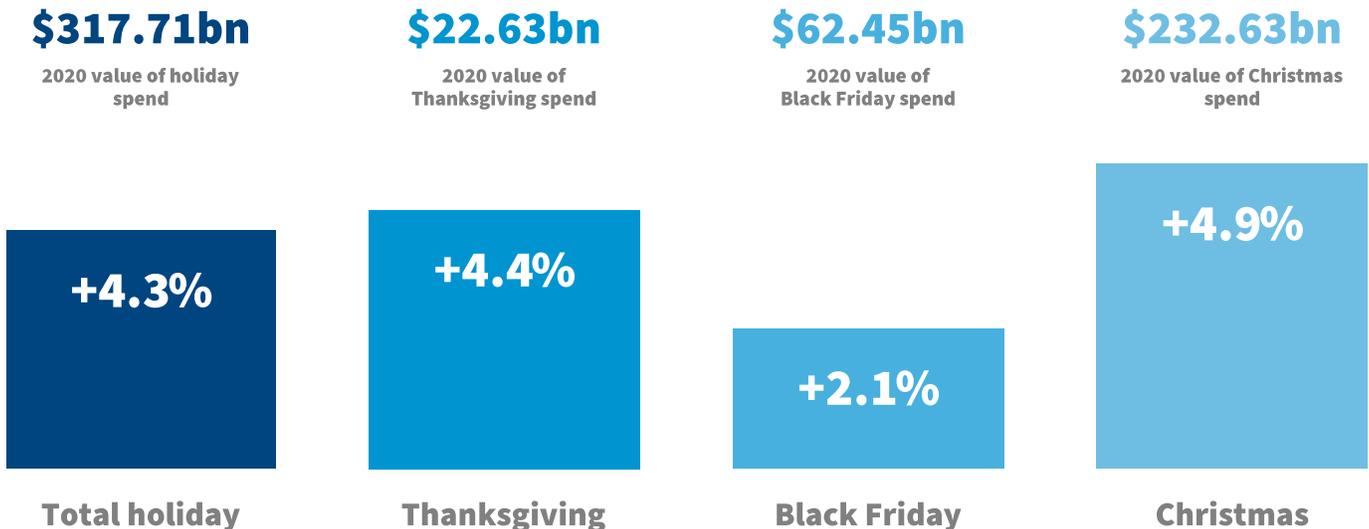
Black Friday growth rate 2010-2020

Source: GlobalData analysis



Holiday 2020 spending growth rates and values

Source: GlobalData analysis

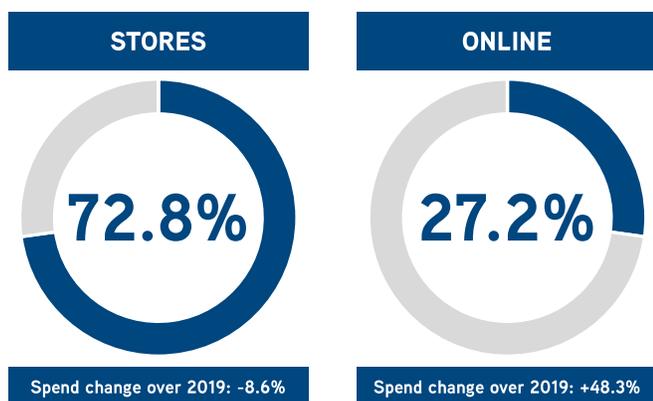


Black Friday spending by channel

Online Black Friday sales grew by over 48% from 2019 to \$17 billion, giving online a 27% share of sales – the highest level ever attained. While physical stores still accounted for the bulk of sales, total spending was down by almost 9% over the same period in 2019. Physical stores suffered as many consumers, particularly those over 65, were concerned about visiting shops during the pandemic. In addition, the widespread closure of stores on Thanksgiving Day also pushed more shoppers online.

Proportion of sales via each channel

Source: GlobalData analysis



Black Friday multichannel growth

With a recent surge in COVID-19 cases, it is no surprise that multichannel was the fastest-growing online sales component. Compared to last year, the number of online orders with curbside collections grew by 241%. Consumers also favored ordering online and picking up in-store, which by 146%. Meanwhile, the number of orders where products were shipped from the store rose by 79%. All of this underlines the vital role that stores play in the overall success of online sales.

Growth rates for various multichannel Black Friday Options

Source: GlobalData analysis

Total online growth	+48.3%
In-store collection (BOPIS)	+146.2%
Curbside collection (BOPCS)	+241.3%
Ship from store	+78.7%

CONCLUSION

In the second half of 2020, we have seen consumer confidence grow and retail on the comeback trail. Retailers have quickly adapted to consumer's comfort levels by adjusting their shopping environments to accommodate safety protocols. Retailers are also recovering from the months-long-lockdowns as rent collections are on the rise with collections increasing by more than 50% since the beginning of the pandemic.

The shift from services to goods backed the sentiment that retail spending held up much better than expected in 2020. Although store sales growth was negative, major online sales growth is anticipated to boost total retail sales by 2.2% by the end of this year.

Looking forward to 2021, we forecast total retail sales to grow by 3.2% as consumers become more comfortable with shopping in-store and spending less, online even though online sales are expected to represent 16.3% of all retail sales next year. Consumers will expect omnichannel services to continue to be available to them in a post-pandemic world. Thus, brick-and-mortar will fuse together with e-commerce to fulfill customer needs online and offline and further expanding the retail ecosystem.



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