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The New Normal

How Covid-19 is influencing Consumer Trends
Report Summary



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The New Normal: Key Consumer Trends Post Covid-19

Introduction

The spread of Covid-19 across the world has significantly altered the lives of consumers. In order to stem the spread of the virus, many governments shuttered non-essential retail, food services, and sports and entertainment facilities, in addition to advising consumers to stay at home and/or engage in social distancing. The Covid-19 pandemic has also resulted in travel restrictions, both internationally and in some cases also domestically, curtailing the movement of consumers around the world. Therefore, consumer behaviour and purchasing habits have drastically shifted, and Covid-19 is not only having an impact in the short term, it also has the potential to affect key consumer trends in the longer term.

Even as nations gradually ease out of lockdown and non-essential retail reopens, relieving the pressure on retailers from the supply side, we at Fitch Solutions have identified four demand-side risks that will weigh on consumer spending over the remaining quarters of 2020.

Short-Term Consumer Demand Side Risks In A Post-Lockdown World
Economic Reality, Purchasing Triggers, New Normal And Residual Fear



Economic Reality Hits



Purchasing Triggers Diminished



New Normal Lacks Appeal

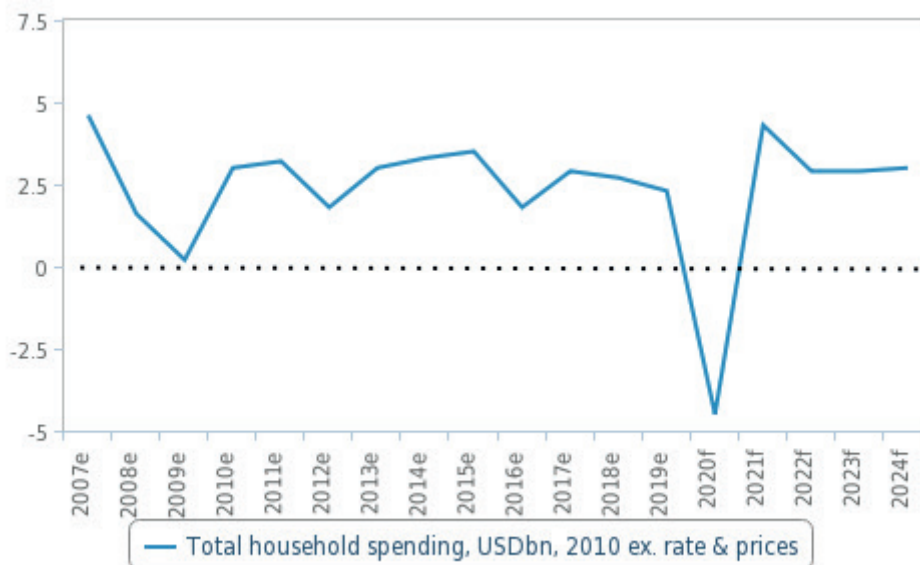


Residual Fear

Source: Fitch Solutions

- Economic Reality Hits:** Nationwide lockdowns and travel restrictions are having an adverse impact on the global economic outlook and by extension consumers' propensity to spend. We project the global economy to contract by 3.7% y-o-y in 2020. We note that the Covid-19 recession will be deeper than that recorded during the global financial crisis, when the world's economy contracted by 0.5% y-o-y in 2009. As a result, wage growth will dip into negative territory and unemployment in many nations across the globe will increase. In this environment, consumer spending will face downward pressure, as consumers will focus spending on essential and priority (food and health) purchases over the short term, while they cut back on spending on non-essential goods and services. Therefore, we forecast total household spending globally to shrink by 4.5% y-o-y in 2020.

Consumer Spending Plummets During Great Lockdown
Global - Total Household Spending (2007-2024), USDbn, 2010 Excluding Rate & Prices



e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

- Purchasing Triggers Diminished:** Even when lockdown measures are eased, we note that social distancing and travel restrictions remain in place in most countries around the world. As a result, working from home will remain widespread over the short term, and travel restrictions and a cap on social gathering sizes will alter the way consumers traditionally socialise. We believe that continued post-lockdown disruption to work patterns and social lives of consumers will impact specific retail segments over the short term, with spending on fashion, cosmetics and hospitality most exposed.
- 'New Normal' Of Shopping Lacks Appeal:** As countries emerge out of lockdown and gradually reopen non-essential retail and food services, strict hygiene and social distancing measures are being implemented. Temperature checks, health checks, store and restaurant wipe-downs, queues and social distancing are the 'new normal', but they do not make for a conducive environment for consumers to shop or dine out. It will take time for consumers to get used to the 'new normal'. During that time, we believe the retail segments that will be most exposed are fashion, homeware, cosmetics and food services.
- Residual Fear Of Infection:** Lockdowns (which lasted well over a month in some countries), social distancing that remains in place and fears of a second wave of infection will all be feeding into consumer behavior. Having been told to limit social contact and remain indoors during lockdowns, it will take time for consumers to actively seek more crowded settings, such as shopping malls and restaurants, especially when the virus is still in circulation. Therefore, footfall for non-priority retail will remain subdued compared to pre-Covid-19 times over the short term.

We at Fitch Solutions believe that the Covid-19 pandemic has the potential to influence consumer behaviour and spending patterns in the longer term. We have produced this special report to explore the impact of the pandemic on key global consumer trends that have defined consumer and retail developments and investments in recent years. These trends are Healthification, Digitalisation, Sustainability and Premiumisation.

Our definitions of the trends we assess in this report are as follows:

- Healthification:** consumer awareness about health benefits and dangers associated with certain types of food.
- Digitalisation:** increasing significance of e-commerce (online retailing) within the retail sector.
- Sustainability:** the environmental consciousness of consumers and the demand for sustainably sourced, manufactured and packaged products.
- Premiumisation:** the demand for higher-quality consumer products and services, typically sold at higher price points.

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