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# THE INVESTOR'S COMPASS

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## SPECIAL REPORT

### How COVID-19 Has Changed Consumer Behavior and the Future of Retail

U.S. retail sales suffered in the spring of 2020 due to safety concerns, government-mandated lockdowns, and economic uncertainty wrought by the coronavirus

pandemic. Sales — including purchases at stores, restaurants, and online — plunged from \$483.95 billion in March to \$412.77 billion in April, a record 16.4% drop.<sup>1</sup>

Fortunately, retail sales rebounded sharply after the economy began to reopen in May, matched pre-pandemic levels in June (\$529.96 billion), and continued to rise steadily from July through September. But sales softened in October, ticking up just 0.3% to \$553.33 billion.<sup>2</sup>

The arrival of an effective vaccine could inspire some holiday cheer, though it probably won't be widely available until next spring.<sup>3</sup> Until then, consumers will likely spend more time at home.

U.S. consumer spending accounts for about two-thirds of all economic activity, so it's good news that many businesses and consumers have adapted quickly to the new normal

created by the pandemic.<sup>4</sup> Here's a look at recent changes in consumer behavior, the state of the retail industry, and what these trends could mean for the broader U.S. economy.

#### Stay-at-Home Spending Shifts

Some workers with stable incomes have been able to save money they would normally spend on transportation, gym memberships, restaurant meals, and expensive "experiences" such as vacations, concerts, sporting events, and other live shows. On the other hand, many households are spending more on home improvements, household goods, fitness equipment, and other lifestyle purchases that make sheltering in place more tolerable.<sup>5</sup>

For example, huge demand for bicycles resulted in surprising shortages.<sup>6</sup> And with offices closed and most special events cancelled or postponed, a preference for casual and comfortable clothing has decimated consumer demand for more formal attire like business suits and dresses.<sup>7</sup>



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PRACTICAL INSIGHTS FOR YOUR FINANCIAL GOALS

A swift expansion of e-commerce was also unleashed. New online habits were created in the first three months of the pandemic, accelerating the adoption of digital technologies that might have taken 10 years to achieve otherwise.<sup>8</sup>

When lockdowns and social distancing measures were put in place, many consumers were compelled to shop online and use other digital services (e.g., video chat, virtual doctor visits, and online classes) for the first time. Surveys suggest that a vast majority of new users found online services to be useful and convenient; many said they will continue to use them permanently.<sup>9</sup>

But anxious consumers have also been boosting their savings. The personal saving rate — the percentage of disposable income that people don't spend — hit a record 33.6% in April before falling to 14.1% in August, far above February's 8.3% rate.<sup>10</sup> When consumers prioritize saving, it may help individual households build financial stability and prepare for retirement, but it can also hold back the nation's economic growth.

### Traditional Retailers on the Ropes

Big-box retailers that sell groceries and other goods in one place and home-improvement stores were deemed "essential" in the spring. Regardless of local virus conditions, these businesses have remained open for a steady flow of customers eager to stock up on food and other necessities. As a result, they have generally been able to book healthy profits.<sup>11</sup>

Meanwhile, temporary closures, capacity limits, and a drop-off in overall customer

traffic have taken a toll on nonessential retailers that couldn't offer a convenient online shopping experience with home or curbside delivery. The pandemic may land the blow that knocks out some familiar brick-and-mortar retailers, many of which were already buckling under excessive debt and fierce competition from e-commerce giants.

Retail bankruptcies and store closings are on track for a record year in 2020. By mid-August, 29 U.S. retailers had filed for Chapter 11 protection, including several long-standing department-store chains. More than 10,000 permanent store closings have already been announced in 2020, vacating roughly 130 million square feet of physical retail space.<sup>12</sup>

### A Holiday Season Like No Other

Higher unemployment and wage cuts might have had a more severe impact on consumer spending from March to October were it not for the expanded unemployment benefits and stimulus checks delivered to consumers by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. At the time of this writing, Congress had not passed a follow-up stimulus package, and consumers were facing new challenges going into the holiday season.

More than 11 million U.S. workers were still unemployed in October, before a nationwide surge in virus cases and hospitalizations sparked a new round of business restrictions and closures in mid-November.<sup>13-14</sup> CARES Act provisions that offer financial support for affected consumers and small businesses expire by the end of December.

Holiday sales figures are often considered an economic barometer, reflecting consumer confidence and funds for discretionary spending. In 2019, holiday spending in November and December rose 4.1% over 2018, suggesting that economic growth was picking up steam.<sup>15</sup> But holiday shoppers were blissfully unaware that a pandemic was on its way.

Black Friday holiday deals are designed to create a frenzy and lure throngs of shoppers into stores. But retailers seemed to agree that a different approach was needed in 2020: Promotions were offered online and earlier; store hours were shortened and capacity was limited; and unlike in past years, most stores stayed closed on Thanksgiving.

The prospects for holiday retail sales in 2020 are murky, but consumers are expected to purchase more gifts online than ever before — and possibly too many for shipments to be delivered on time. To be on the safe side, the National Retail Federation is recommending that consumers get their shopping done early and take advantage of curbside pickup.<sup>16</sup>

1) *The Wall Street Journal*, May 15, 2020

2) U.S. Census Bureau, 2020

3) *The New York Times*, November 17, 2020

4) U.S. Bureau of Economic Analysis, 2020

5) *The Wall Street Journal*, November 17, 2020

6) *The New York Times*, June 18, 2020

7) *The Wall Street Journal*, August 27, 2020

8-9) *The Wall Street Journal*, November 15, 2020

10) *The Wall Street Journal*, October 25, 2020

11) *The Wall Street Journal*, November 18, 2020

12) *The Wall Street Journal*, September 29, 2020

13) U.S. Bureau of Labor Statistics, 2020

14, 16) Associated Press, November 11 and 17, 2020

15) National Retail Federation, 2020

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