

FOCUS

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Has the global retail sector returned to normal?

Executive summary

The retail sector's activity has been affected by COVID-19 through social distancing measures and closure of stores. However, the effect of the pandemic on the retail sector varies across countries. Using a Bayesian structural time-series model, Coface estimated the effect of the COVID-19 pandemic on retail sales in 2020 for a sample of countries: while some countries did experience lower retail sales in 2020, the effect was null in some economies and even positive in Northern European countries.

The impacts are different according to the segments, clothing stores being the most affected. Despite the higher use of e-commerce and after having peaked in Q2 2020, the impact of the pandemic on this segment is difficult to assess as it varies across countries: while e-commerce did increase in 2020, its share seems to have partially decreased in Canada and in the U.S. in early 2021. Overall, COVID-19 should have a limited impact on the retail sector and the most impacted segments are expected to recover as soon as the situation eases. However, maritime freight disruptions, which cause supply issues and higher inflation, could be an obstacle to the recovery of the retail sector in 2021.



I - Various effects of the pandemic on the retail sector

1 - The retail sector was affected by COVID-19 in 2020, but to different scales from one country to another

During the first lockdown, many countries experienced a decrease in their retail sales: in April 2020, the deflated turnover of the retail sector decreased by 19% year-on-year (YoY) in the Eurozone, and the retail sales and food services turnover (in current prices) decreased by 17% in the U.S. However, the situation is more contrasted when looking at the impact of COVID-19 on retail sales in 2020 as a whole. To figure out the impact of the COVID-19 pandemic on retail sales, we used the method developed by Brodersen et al. (2015)¹. The idea is to build a counterfactual series² (“what would have happened without the COVID-19 pandemic”) for each country and to compare the observed values with the counterfactual. One might think that comparing sales in 2020 vs. 2019 would be enough to measure the COVID-19’s impact. However, such an indicator would be a very poor estimate: if we imagine a variable whose growth rate is constant at -15% per year, and if this series decreased by 20% in 2020, it would be wrong to say that COVID-19 caused a 20% decrease as the variable would probably have decreased by about 15% anyway.

Chart 1 shows the estimated causal impact of COVID-19 on retail sales by country. If the 0% line crosses the 95% confidence interval, we cannot conclude that COVID-19 had a significant impact on retail sales. We noticed three key points:

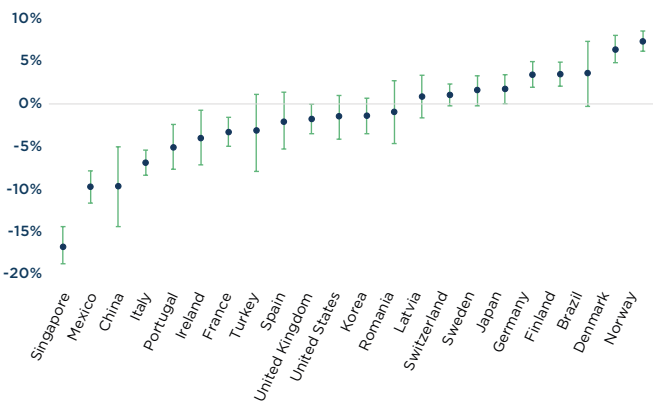
- As expected, COVID-19 did have a negative impact in some countries, but this impact appears to be weaker than expected in most cases. Most countries experienced a drop in their retail sales in Q2 2020, but they then recovered and the impact was generally weaker during the following lockdowns.
- In some countries, we cannot conclude at a significant impact on the retail sector, for the same reasons than above.
- Surprisingly, some countries seem to have benefited from COVID-19, notably in Northern Europe. The main reason is that Northern European countries usually have a “tourist deficit” during summer (there are more people going out the country than entering it). However, last year, travelling was much more complicated and these countries had more consumers than usual during summer.

2 - Some segments, such as electronics, increased their sales, while others were strongly impacted

As observed in **Chart 1** the effect of COVID-19 on retail sales seems to be limited in 2020. However, this chart is hiding strong heterogeneity across segments. Textile and apparel retailers were amongst the most severely affected by the pandemic. First, apparel stores were considered as non-essential and were thus often closed during lockdowns. Second, as people were forced to stay at home and contacts with other people were limited, there were fewer incentives to buy clothes. Therefore, sales in clothing stores decreased by 24% in EU-27 and by 29% in the U.S. in 2020. However, these sales are expected to improve as soon as the situation eases. On the one hand, the effect of COVID-19 on clothing retailers will depend on the efficiency of government support measures and on when those measures will be lifted. On the other, the effect on clothing retailers is directly linked to companies’ policies on remote working: if remote working remains important after the pandemic, the sales of suits, shirts, etc. will not fully recover. On the other end of the spectrum, food stores are amongst those that registered the highest growth in 2020 (+4% in Eurozone, +11% in the U.S.). This is due to food stockpiling in early 2020 and to the closure of restaurants, which led to higher demand from households. This increase is therefore unlikely to remain once the situation has eased and restaurants reopen.

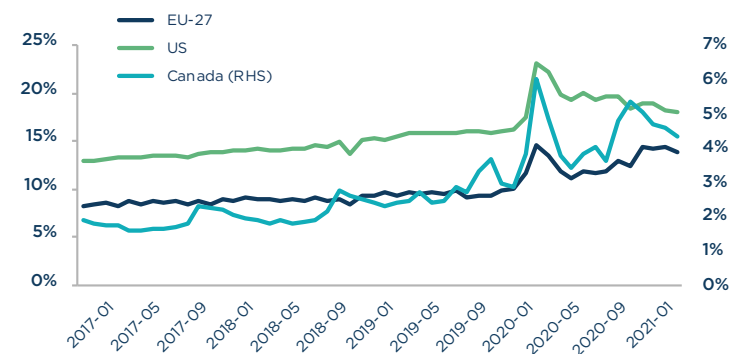
Although usually more resilient to economic crises than other markets, the COVID-19 pandemic created a serious challenge for global luxury, notably due to the closure of luxury stores and travel restrictions. In 2018, Chinese consumers accounted for 46% of global luxury purchases, about ¾ of which were made outside China (mainly in Europe and in the U.S.). Furthermore, the need to buy luxury goods may be weaker because of social distancing measures, as one of luxury’s main purposes is social recognition. In H1 2020, the revenue of LVMH, Kering and Hermès fell by 27%, 30% and 25%, respectively. Sales then rebounded to decrease by “only” 17%, 18% and 7% in 2020, respectively. Those companies even increased their revenue in H1 2021 compared to H1 2019, by 14%, 5% and 33%, respectively. However, the previous figures are not representative of the whole market and the recovery might be more difficult for smaller companies as consumers are more attracted to well-known brands³. For those smaller groups, the recovery should take longer and should be difficult until tourism recovers, since an important part of luxury purchases in Europe and North America comes from Chinese consumers.

CHART 1
Impact of COVID-19 on retail sales in 2020



Source: National data, Coface

CHART 2
E-commerce share in total retail sales



Sources: Eurostat, US Census Bureau, Statistics Canada, Coface calculation - Last point: April 2021

1 - Kay H. Brodersen, Fabian Gallusser, Jim Koehler, Nicolas Remy, Steven L. Scott, Inferring causal impact using Bayesian structural time-series models, Annals of Applied Statistics, vol. 9 (2015), pp. 247-274

2 - The counterfactual is built in two steps. In the first one, the variable (retail trade for a given country, here) is modeled using a Bayesian structural time-series model. In the second step, the variable is forecasted from January to December 2020. This forecast is the estimate of the counterfactual scenario.

II - In the short-term, some uncertainties remain in the sector

1 - The impact of COVID-19 on online sales is difficult to assess and varies according to the countries.

Since the beginning of the crisis and due to social distancing measures, consumers have increased their online purchases. The higher use of e-commerce at the expense of brick and mortar stores is not new, but the growth was much stronger than usual in 2020 and thus benefited e-commerce companies, such as Amazon, or "traditional" retailers that had invested in online sales infrastructure, such as Walmart. In 2020, net sales of Amazon increased by 38% to USD 386 billion. For Walmart, total sales rose by 6.7% during FY 2021 (which ended on 31 January 2021), while e-commerce sales increased by 79% in the same period. In the Eurozone, the volume of online sales was 23% higher on average in 2020 than in 2019.

Before trying to assess the effect of the pandemic on online sales, one has to be aware that the share of e-commerce in the retail sector had been increasing for years before the pandemic started. Thus, while the share of e-commerce is higher now than in 2019, it does not necessarily mean that this increase was entirely caused by the pandemic. Hence, we will rather look at the evolution of the difference in the share of e-commerce. In EU-27, the share of e-commerce increased by 2.4 percentage points (pp) in 2020 after +0.6 pp in 2019, +4.8 pp after +1.6 pp in China, +2.7 pp after +1.3 pp in the U.S. and +4.1 pp after +2.7 pp in Canada. Therefore, online sales accelerated in 2020, but part of this acceleration was due to the first lockdown (see Chart 2), when online retail sales peaked in EU-27, U.S. and Canada. Then, the share of e-commerce decreased more in the U.S. and Canada than in Europe.

Furthermore, the share of online sales in the U.S. retail sector peaked at 19% in April 2020, but then decreased to 15% in December and even 14% in June 2021, while the average stood at 13% in 2019.

Therefore, although the gradual shift towards online shopping will probably continue and even if the COVID-19 pandemic actually led to an acceleration in the use of e-commerce (mostly during lockdowns), the effect on the share of e-commerce will probably be limited in the long-term.

2 - Inflation is a threat for the retail sector

The increase in freight rates⁴ (see Box) is expected to pressure consumer prices, as producers and retailers are passing part of the cost increase on their prices (depending on the price elasticity of demand⁵). The retail sector could thus be impacted by transport sector disruptions and higher commodity prices, however, the effect may not be homogenous across retailers. Clothing sellers may suffer more than other retailers, as their demand is strongly elastic, but food and electronic retailers might be more resilient, for instance. Nonetheless, inflation can weigh on consumer sentiment, like in the U.S., where the consumer sentiment index of the University of Michigan fell to 80.8 in July 2021 (preliminary figure) after 85.5 in June, and where inflation increased by 5.4% YoY in June 2021, the highest since 2008. Although part of this inflation is due to a base effect and to the reopening of the economy (and should not last), the other part can be explained by disruptions in the transport sector and could continue until late 2021, thus hurting the retail sector.

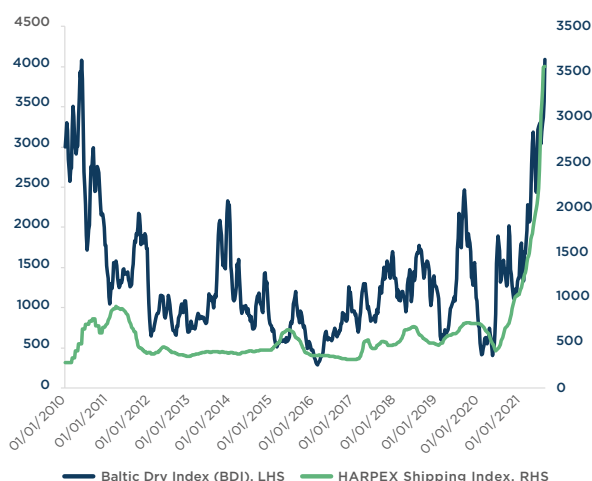
INFLATION DUE TO TRANSPORT SECTOR DISRUPTIONS MIGHT BE A THREAT FOR THE RECOVERY OF THE SECTOR

The transport sector was strongly impacted by COVID-19 in 2020⁶ and has to face new challenges in 2021, especially the maritime freight segment. Since H2 2020, sea freight rates have strongly increased (see Chart 3), due to a conjunction of factors:

- High commodity imports from China and rebound of global economic activity after Q2 2020.
- As container shipping decreased in the first half (H1) of 2020, many empty containers were left on site in Europe and the United States. Then, when the demand for Asian goods from western markets rebounded, a lack of empty containers in Asia pushed prices up.
- Lower workforce in ports and longer loading/unloading time increased waiting periods in ports and diminished global shipping supply. This lower workforce is partly due to COVID-19 outbreaks in ports, like in Yantian port in China, where several workers were tested positive to COVID-19.
- More and more ports around the world are requiring sailors to be vaccinated in order to disembark or be moved around to staff new ships, but there is no international consensus on procedures. Additionally, there are vaccine supply tensions in some regions and there are fewer vaccines available in developing economies, which have the highest number of sailors worldwide. Moreover, some shipping companies do not want to bear the cost of vaccinating their employees on their own.

These factors are leading to higher rates, for both commodities and intermediate and final goods: the Baltic Dry Index (BDI), which tracks rates for dry bulk freight⁷, increased by 199% YTD and by 176% YoY on 20 August 2021. The Harpex index, which measures the average shipping cost of a Twenty-foot Equivalent Unit (TEU, the standard size of a container) increased to USD 3560 on 20 August, i.e., a rise of 243% YTD and of 468% YoY. Furthermore, a steep increase in commodity prices (observed since Q4 2020) is contributing to the rising costs. This increase is due to adverse weather conditions for agricultural commodities and the rebound of economic activity for others.

CHART 3
Sea Freight rates are soaring



Source: Harpex exchange, Baltic exchange, via Refinitiv Datastream
Latest point: 20 August 2021

3 - Aboud, L. (22 April 2021). Sales at biggest luxury groups set to recover as early as this year, Financial Times. <https://www.ft.com/content/7f9dd5f1-d883-4ee1-b262-75c665dba822>

4 - Mainly maritime freight, but road, river, and rail cargo rates in regional and local transport are also increasing.

5 - If the price increases by 1, how will the demand decrease? The more the demand decreases, the more it is sensitive to price variations. Therefore, if the demand of a good has a strong price elasticity, its producers will try not to pass the cost increase on prices too much. Typically, the demand of substitutable goods tend to be more sensitive to price variations.

6 - Coface (2020), "Global Transport, What does the future hold beyond COVID-19"

7 - Dry bulk includes transport of commodity under solid form (such as cereals, metals, coal...). It is opposed to liquid bulk that carries liquid commodities (oil, LNG ...)

DISCLAIMER

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