

COVID-19 INSIGHTS

IMPACT ON CONSUMER BEHAVIOUR

WHITE PAPER 2.0



COVID-19 INSIGHTS



Aims of this document

This document has been prepared to:

- Provide an update on the ways in which the COVID-19 pandemic is shaping customer behaviours, particularly as we move into the second wave
- Help us understand predicted recovery scenarios, and how customer behaviour may change again.
- Discuss the implications of the above for marketing planning and customer experience, including key touchpoints and interactions, media and digital choice, and brand.

Reference material

This document uses insights from proven sources of economic and behavioural science research:

- Bank of England Monetary Policy <https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2020/august/monetary-policy-report-august-2020>
- Deloitte Consumer Tracker <https://www2.deloitte.com/uk/en/pages/consumer-business/articles/consumer-tracker.html>
- KPMG UK Economic Outlook September <https://assets.kpmg/content/dam/kpmg/uk/pdf/2020/08/uk-economic-outlook-sep-2020.pdf>

COVID-19 MARKET INSIGHTS



Summary – Key points (KPMG UK Economic Outlook Sept 2020)

KEY ISSUES

The current situation and future risks point towards a downward trend. This is due to the threats posed by a second wave in 2020, no deal with the EU in 2021, and limited progress in eradicating the pandemic. However, there are elements to be optimistic about too...

- Advancements in vaccine developments for COVID-19 imply there is a high chance that the pandemic will be overcome by mid-2021. Combined with planned mass testing through the government's Operation Moonshot, this will allow the economy to resume normal operations, after contracting by 10.3% this year.
- While the recession will generate permanent change in some sectors, as online and e-commerce are embraced for good, overall the economy could grow by up to 8.4% next year.
- The government's Job Retention Scheme (Furlough) has been greatly effective in keeping unemployment down during the peak of the crisis. However, as the scheme unwinds, and the economy continues to operate below capacity, unemployment could rise to just over 9% in the fourth quarter of 2020 (prediction made pre Job Support Scheme announcement).
- On the other hand, a combination of lower oil prices, temporary tax cuts and weaker demand will keep inflation well below the Bank of England's 2% target.
- That should help keep the base interest rate at 0.1% or below until at least the end of 2021.
- The pandemic will exercise a heavy toll on public finances, with the deficit remaining above pre-COVID levels in the medium term.

COVID-19 MARKET INSIGHTS



State of the nation

UK GDP grew by 6.6% in July 2020

Figure 1: Gross domestic product (GDP) grew by 6.6% in July 2020, the third consecutive monthly increase. That said, it has still only recovered just over half of the lost output caused by the COVID-19 crisis.

May – July post-lockdown growth

- As the country emerged from lockdown, we saw a very sharp bounce in GDP. In July, the economy made up nearly half of the GDP lost since the pandemic started in March.
- Production, Manufacturing, Construction and Agriculture all saw significant increases, while Services experienced a slower recovery: remaining 12.6% lower than February.
- The property market saw a record growth in house prices, driven by stamp-duty-free purchases and pent up demand due to lockdown.
- The recovery was considered to be more rapid than expected (BoE MPC Report August 2020).

August - September

Given the rapid escalation of the second wave of infections from early to mid/late September, many of the forecasts and predications from August (when the economy was experiencing a sharp positive bounce) should be treated with caution.

Monthly GDP index January 2007 to July 2020



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Consumer Summary

- Despite falling to a low of -40% during lockdown, in July, Consumer spending recovered to -10% below the level at the start of 2020.
- Thanks to pent up demand from lockdown, domestic summer holidays, the government's Eat Out to Help Out scheme, and the confidence boost that came from more widespread mask wearing, we saw an early recovery during the summer. There seemed to be a softening of fear towards the virus, and an acceptance that life must go on.
- However, local lockdowns imposed on some parts of the UK will inevitably become more widespread - limiting social interactions and leisure visits, and putting more emphasis on 'hunkering down for winter'.
- A rise in unemployment and even the impact of shorter working hours will put pressure on household budgets through the winter, push back larger purchases, and may also drive consumers to become increasingly price conscious.
- Many of the ingrained behaviours from lockdown such as buying predominately online (either delivery to door or click and collect) will return in force as the winter weather worsens and Christmas spending starts.

The effect of lockdown on consumer behaviour

"Remember, it takes at least 2
months to form a new habit"

European Journal of Social Psychology by Phillippa Lally and colleagues from University College London.

PLANNING SCENARIOS FOR 2021



A gradual economic recovery hinges on a viable resolution to COVID-19. In the short term, there are three additional factors that could affect planning over the next six months:

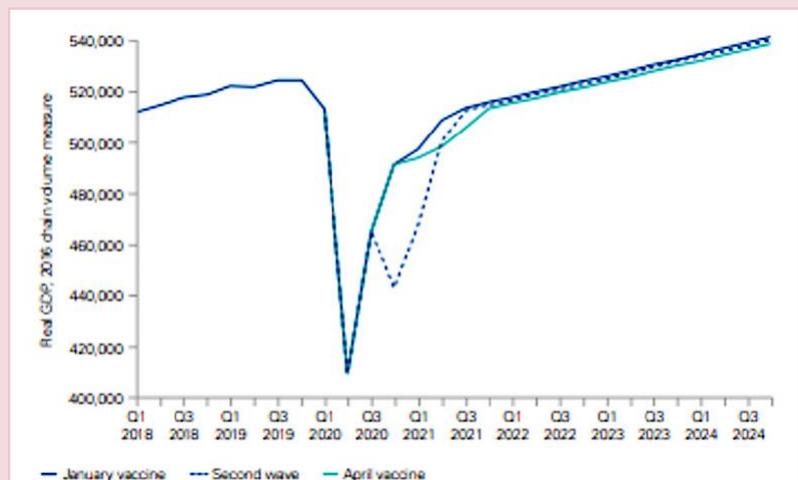
- The impact of the government's new Job Support Scheme is as yet unknown. However, with the assumption that it will fend off the worst of any surge in unemployment, we can plan around consumer spend continuing to grow with cautious confidence.
- Current policy decision-making is indicating that a full national lockdown is unlikely, with a worst-case two week circuit break lockdown suggested to curb the spread of the virus.
- A no deal Brexit could bring disruption to supply chains and the financial markets, with a knock-on effect on consumer confidence too.

Overall GDP could fall by 10.3% in 2020, leaving the economy about 6.4% smaller by the end of this year than before the pandemic struck.

Approval of a vaccine in January 2021 could lift a large part of the uncertainty that is holding back growth. Once a vaccine has been rolled out, the government will be able to remove social distancing restrictions completely.

Growth is expected to pick up to 8.4% next year if a vaccine is approved in January, with the economy reaching pre-COVID levels by the start of 2023.

GDP Growth in two vaccine scenarios



THE IMPACT ON CONSUMER BEHAVIOUR



LOCKDOWN AND SUMMER RECOVERY

1-2 WEEKS

COVID-19 Status

Continued lockdown with more clarity emerging around the government's exit strategy.

Customer behaviour

- Increasing confidence to make private journeys for exercise.
- Cancellation and refund of holidays/booked travel a concern.
- Increased community journeys as non-essential shops open.
- Those furloughed and redundant manage finances tightly and see pressure on household budgets.

SECOND WAVE

September 2020 - March 2021

1-2 QUARTERS

COVID-19 Status

Virus spreading through the winter with local lockdowns prohibiting household mixing, shut down of some leisure businesses, and night time curfews.

Customer behaviour

- Quarantine state of mind will continue.
- Nervousness in social environments.
- City centres deserted due to work from home directive.
- Retail and service providers instil stricter safety protocols to maintain distance.
- Caution in the use of public transport continues.
- Cautious approach to spending, with large purchases put on hold.
- Continued high levels of in-home consumption - entertainment, food and drink, especially approaching the Christmas period.
- Further disruption in schooling means shared parenting responsibilities.

EARLY VACCINATION

April - December 2021

1-2 YEARS

COVID-19 Status

A self-sustaining recession as economies manage the recession and increase debt. Potential vaccine production increase for mass use.

Customer behaviour

- Confidence grows as public information campaigns broaden awareness and acceptance of a viable vaccine.
- Rapid testing becomes commonplace at major international airports and quarantine restrictions are lifted, leading to a resurgence in the airline and tourism industry.
- Housing market is buoyed by movement towards working from home.
- Surge in unemployment will impact on housing market and consumer spending.
- Start to become more confident in social situations in pubs and restaurants, as social distancing is relaxed completely.
- Increasing numbers of 'return to home' singles and couples, due to unemployment and financial difficulties.

MASS TESTING + VACCINATION

Summer 2021 + beyond

NEW NORMAL

COVID-19 Status

Vaccines, mass testing and Covid passports enable complete relaxation of social distancing and usual travel resumes.

Customer behaviour

- Our digital life will be accelerated - from voting to online product ordering.
- Slow recovery of housing market following a surge in unemployment.
- Increasing costs of international flights due to medium term drop in supply.
- Growth in domestic holidays and demand for holiday lets and camping alternatives.
- Less travel into city centres, as working from home practices are embedded within SMEs and some corporates in many sectors.
- More flexible roles for parents as childcare is increasingly split.

SAM ROWLANDS STRATEGY DIRECTOR



About

Sam is Delineo's Board and Strategy Director with experience working across a multitude of sectors from financial services, utilities, and retail to FMCG and travel. He's a business, brand and campaign strategist with a passion for creating brands that live and serve their customers in the digital space.

Expertise

- Business and brand strategy
- Customer demand generation
- Research and insight

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