

How to Recover consumer spending in a challenging economy

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In the span of a few months, what started as a global health crisis also turned into an economic crisis. It has been more than a century since those two forces have been so intertwined by the world. As economies around the world try to rebound, businesses have a strong interest in the interplay between personal safety and economic activity. When are customers going to feel healthy enough to go back to work, shops, theatres, restaurants and travel? Will they return or will new people be born to old behaviours? When will those dual crises be weathered by customers in various countries?

We are all living through an anxious moment. We have varying levels of concern for our personal safety and our financial health. Collectively, Indians and Japanese show the greatest rise in anxiety, possibly due to the extension of stay-at-home orders that impact employment prospects. They are followed by the United Kingdom, Spain, and Italy. In contrast, South Koreans, the Netherlands, and Germany, on average, are growing less anxious as the weeks go by, possibly as a result of adjusting to the new normal and/or announcements of plans to reopen their economies.

The ordinary activities of going to the supermarket or taking a flight have become more worrying in a matter of weeks. For many consumption-driven economies, it's probably not until the public feels secure that customers can return to habits that we've just recently taken for granted, and economies are back to power. These attitudes will be interesting to watch as economies try to reopen.

Concern for one's physical well-being and that of family and others appears to be fairly strong across the countries we studied. Health concerns were the highest in the world's two most populous countries, China and India while in the Netherlands and South Korea they were the lowest. South Korea has been positive in improving its economy and keeping it free.

Due of COVID-19, many economies around the world have come to a near-complete standstill. The knock-on effect has increased unemployment across the globe. In the United States, hit hard by the COVID-19 outbreak, in the four weeks leading up to April 17, 2020, 22 million people applied for unemployment benefits – wiping out a decade of job gains.

According to Deloitte, on average, across all the countries they surveyed, 42 per cent of respondents who still had a job were concerned about losing their jobs, led by respondents in Spain (62 per cent), India (54 per cent), and South Korea (51 per cent). Representatives in Spain and India were also the most worried about making future payments. The most likely to postpone major transactions were respondents in India (66 per cent) and China (59 per cent). Meanwhile, respondents in France and the Netherlands felt their employment status was the most secure and respondents in the Netherlands and Japan were the least worried about making future payments.

However, health concerns tend to predominate over financial concerns, particularly among the countries

most affected by COVID-19 (Figure 3). Health and financial issues in India are at present more or less on a par with each other. Western Europe, North America and Australia seem to have common concerns. Spain is a little higher and the Netherlands a little lower in concern along both dimensions than the other countries in this group.

Worldwide, we observe that the concern about one's personal health typically informs the feeling of safety in doing what has been the ordinary activities of life until very recently. Only 35 per cent of respondents across the countries we surveyed said they felt safe to go to the store, 25 per cent said they felt safe to stay in a hotel and only 22 per cent said they felt safe to take a flight.

The worries of customers regarding their well-being have obvious implications for supermarkets, restaurants, hoteliers, airlines and a host of other consumer-oriented businesses. Before economies can reopen and society can return to any level of normalcy, people should feel safe. Unlike their relatively high level of health and financial concern, a relatively high proportion of Indian respondents said they would feel comfortable to stay in a hotel or take a flight. As India has fortunately not seen significant COVID-19-related implications, health and finance issues are still likely to be translated into everyday safety attitudes.

Faced with a great deal of economic uncertainty, many consumers tend to curtail their more discretionary spending, and will ultimately search for ways to cut even their less discretionary spending to reach ends. Looking at net spending intent — that is, the percentage of respondents saying they are going to spend more minus the percentage of those who claim they are going to spend less — not unexpectedly, we see a rise in net spending in less discretionary categories, led by household goods and grocery. The survey also revealed a small rise in the desire to spend on service with many people working from home. With many people working from home, the survey also showed a slight rise in the intent to spend on utilities, internet, and mobile communications.

With stay-at-home orders still in place for many, it is easy to exclude more discretionary categories such as travel and car fuel from the existing consumer budget. However, if economic pressures tend to drag on, customers will possibly also start to change their less discretionary spending.

If we take a more macro view of net spending intention, some countries like India, China and Germany show more net intention to spend on both more discretionary and less discretionary items such as books, cable television and entertainment. This may reflect their confidence in the public health campaigns, economies, and/or networks of public safety in their countries — or it may reflect the strategy of consumers to distract from an uncertain future. Consumers in India may currently look for less discretionary items to be stockpiled. News stories suggest that many are upgrading internet plans as work shifts to home, purchasing medicine for months, and spending on health care.

However, the consumers particularly in Canada and Italy, report that they intend to lower their average discretionary spend over the following weeks. As isolation measures start to relax, the extent to which purchase intent fluctuates for more discretionary items may be a good indicator of pent-up demand in each market going forward. Either way, it will likely be useful to watch as confidence returns over the coming weeks.

No one wishes to see a COVID-19 resurgence later this year. If the disease reappears, it will be telling to see how countries take the opportunity to protect their citizens and their economies.

References

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