

Consumption in the Time of COVID-19 and Beyond

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Today's Presenters



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Critical topics we will discuss during today's program

- Consumption trends **during COVID-19**
 - ✓ Consumption categories that have been negatively impacted, and those that have benefited
 - ✓ Deep dive into regional trends and trends of older households
 - ✓ Impact of remote work on consumption in city centers
- Consumption and consumer behavior trends **post-COVID-19**
 - ✓ Underlying factors that will shape US consumption by 2025
 - ✓ Long-term changes in consumer preferences and behaviors due to the pandemic
 - ✓ Most disrupted consumption categories by 2025
 - ✓ Long-term implications of business geography on consumer spending



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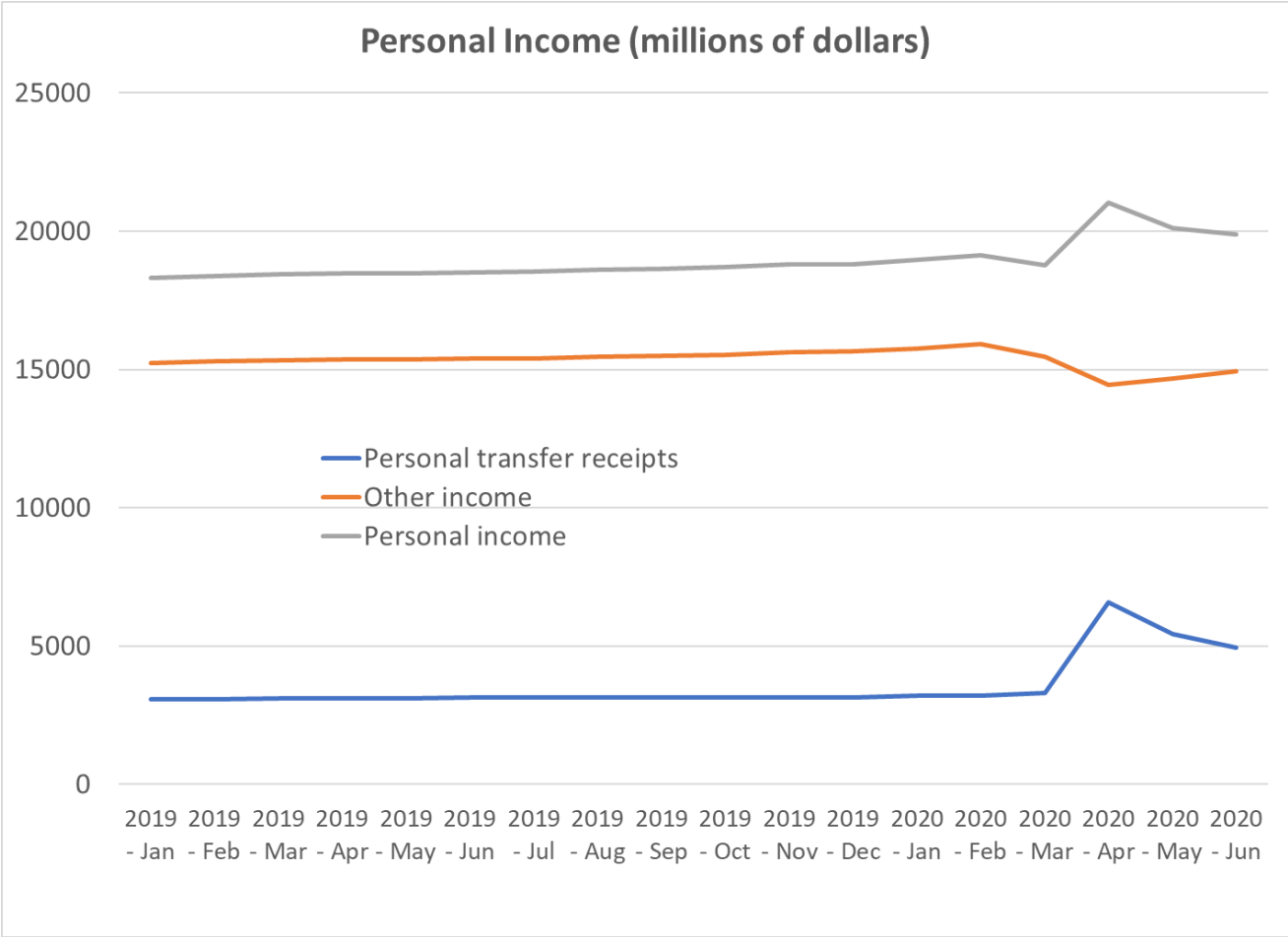


Economic Outlook

- Deepest recession, 6-9 percent drop by December, since the Great Depression
- The core of the outlook is the impact on consumption categories affected by social distancing – bad news since re-openings
- 11-15 percent unemployment rate for the next year, but that overstates the current slack in the labor market, for now
- Uncertainty about future government stimulus
- The magnitude of the crisis will vary across industries and locations – vacation destinations hardest hit, as well as demographic groups



Government stimulus more than offset the drop in labor income, but for how long?

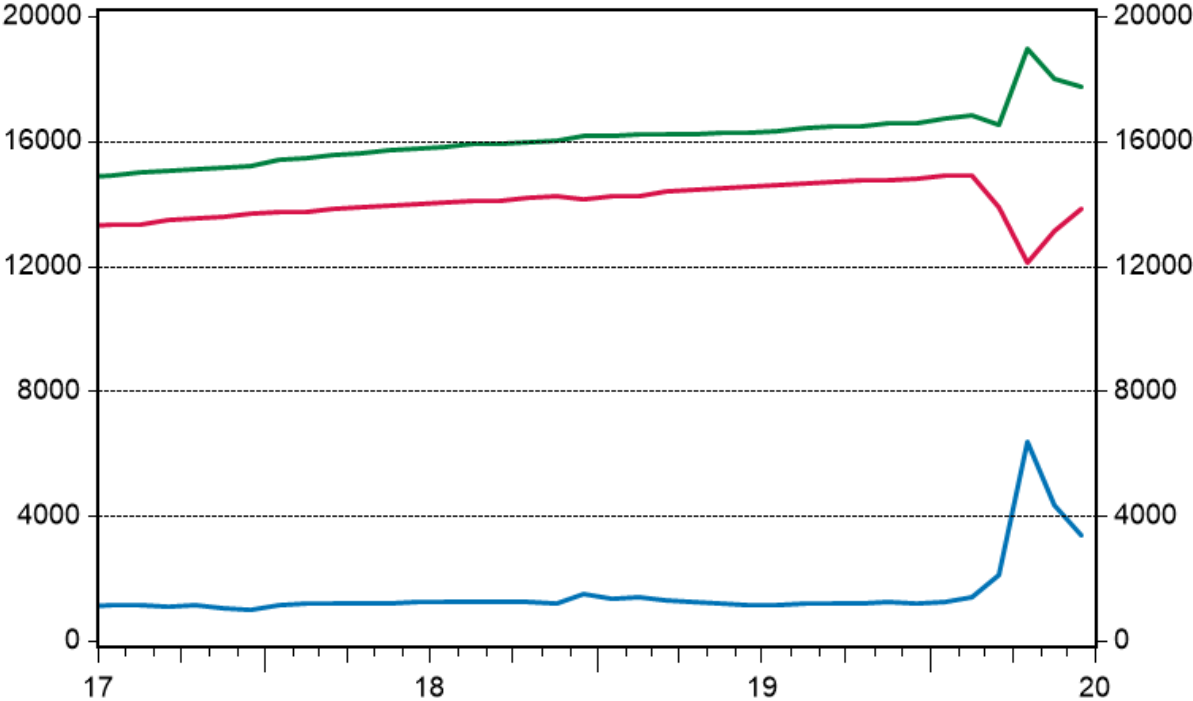


Source: The Conference Board using data from the US Bureau of Economic Analysis



Households have been saving a lot!

Personal Saving (SAAR, Bil.\$)
Personal Consumption Expenditures (SAAR, Bil.\$)
Disposable Personal Income (SAAR, Bil.\$)

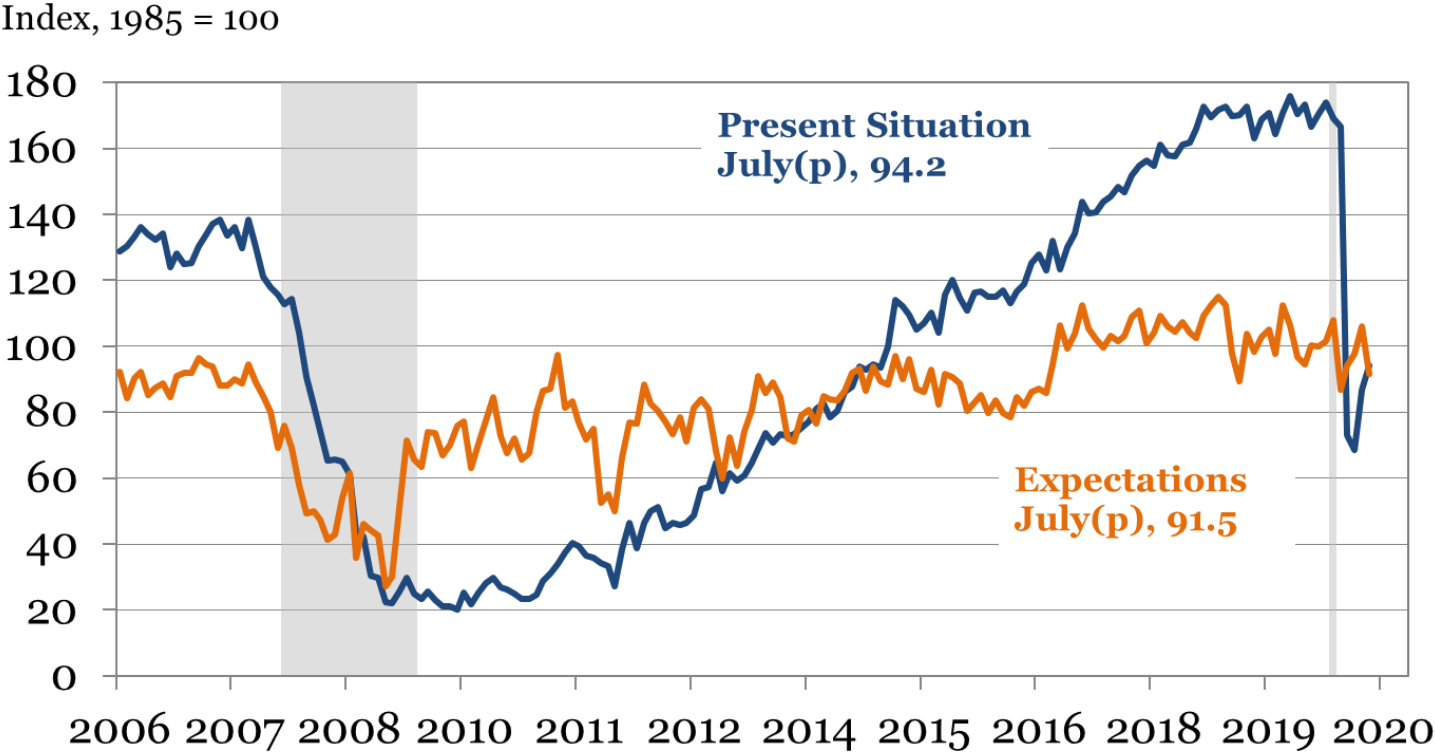


Source: Bureau of Economic Analysis



Consumers' assessment of current conditions is dire, but they are expecting conditions to improve

Present Situation and Expectations Index



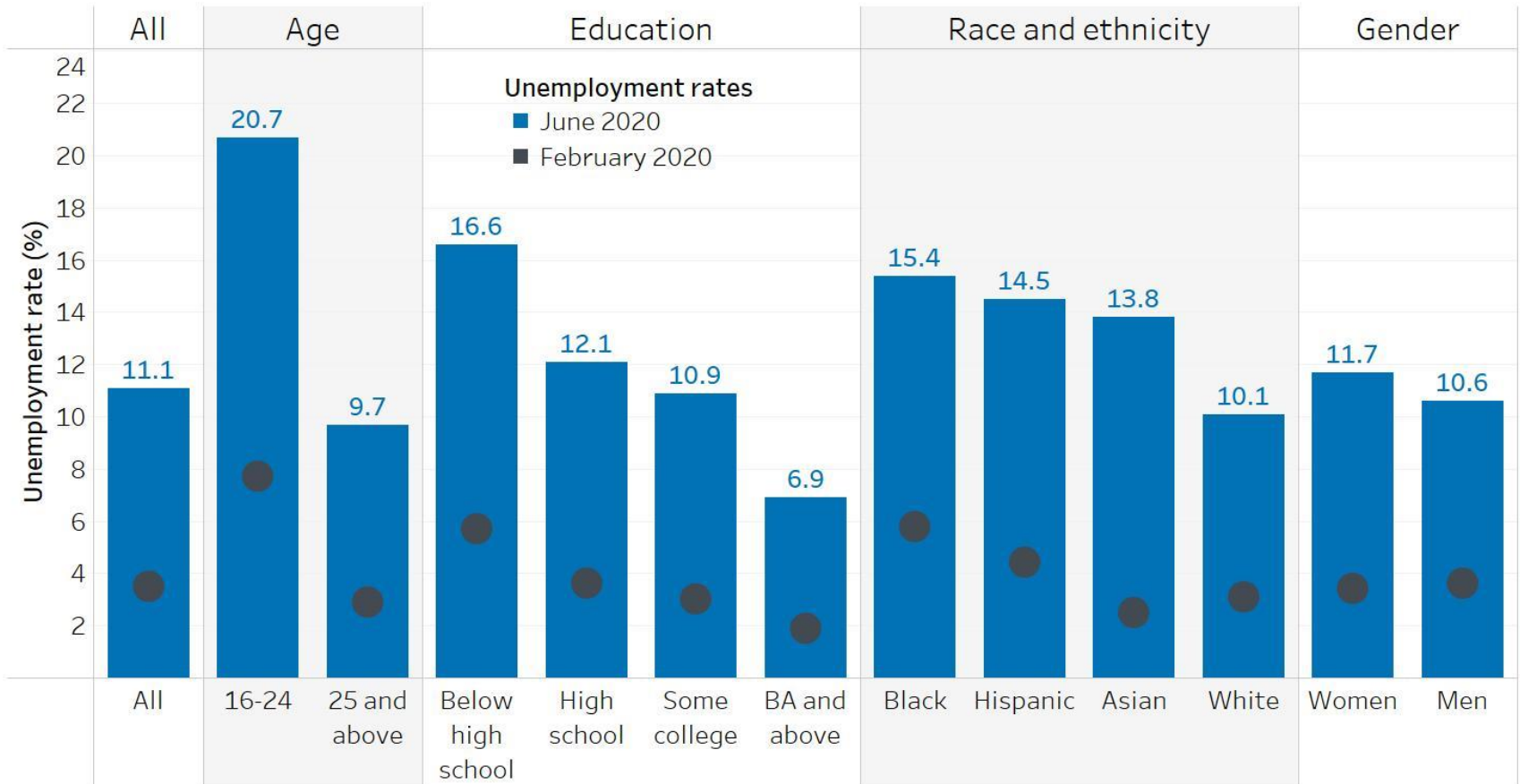
(p) - preliminary
*Shaded areas represent periods of recession.
Sources: The Conference Board; Nielsen; TNS; NBER
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For more information: <http://www.conference-board.org/data/consumerdata.cfm>



Young people, minorities, less educated and women are harder hit by layoffs

Unemployment rates by demographic group



Source: The Conference Board using data from the US Bureau of Labor Statistics





Consumption Trends

Entertainment will suffer most over the next months since it is highly impacted by social distancing

COVID-19's economic impact

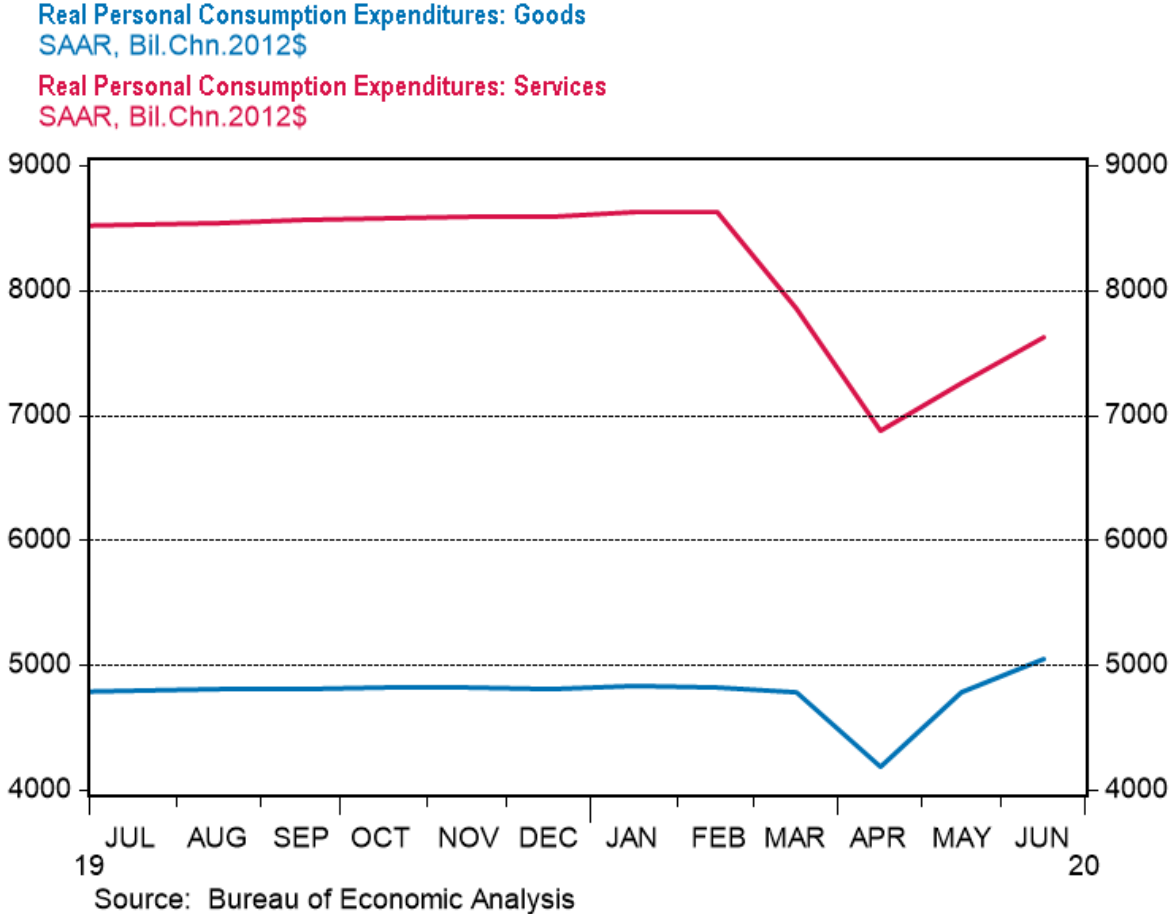
Which goods and services will be hit hardest

		HOW INFECTIOUS			
		Least	Somewhat	Most	
Discretionary, or could be replaced from home	Most	TV shopping	Full service restaurants Remodeling	Concerts Sports events Movie theatres Amusement parks] Entertainment will suffer most
	Somewhat	Clothes shopping Gardening services	Nail salons Fast food restaurants Staying at hotels (ones in driving distance)	Moving to a nursing home Gyms	
	Least	Car repairs Appliance repair	Moving to a new home Physician's services Dental services	Hospital operations Child care	

Source: The Conference Board

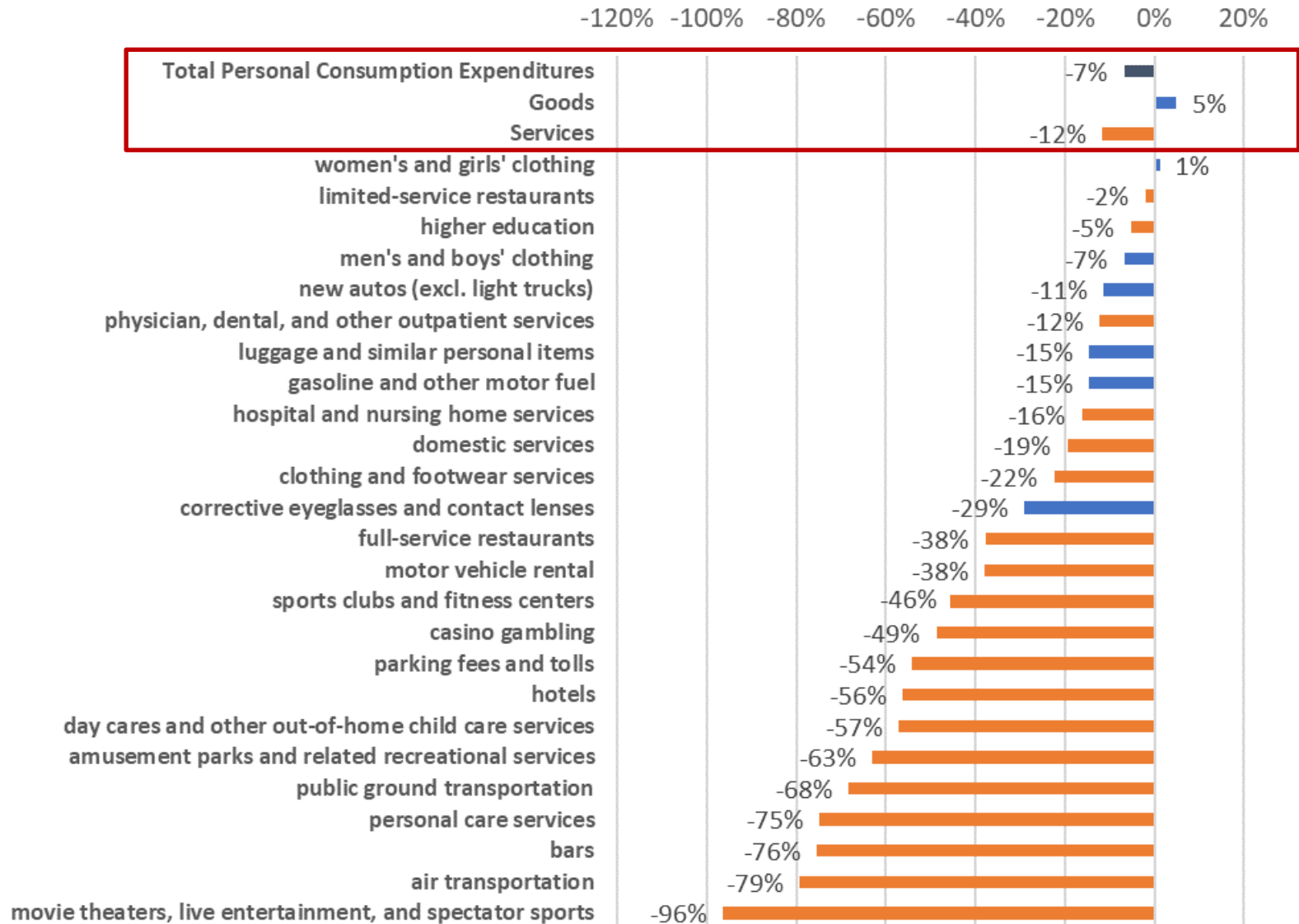


Historically large drop in consumer spending on services. Surprising increase in spending on goods.



Most Impacted Consumption Categories

Percent change in personal consumption expenditures from Feb to Jun 2020

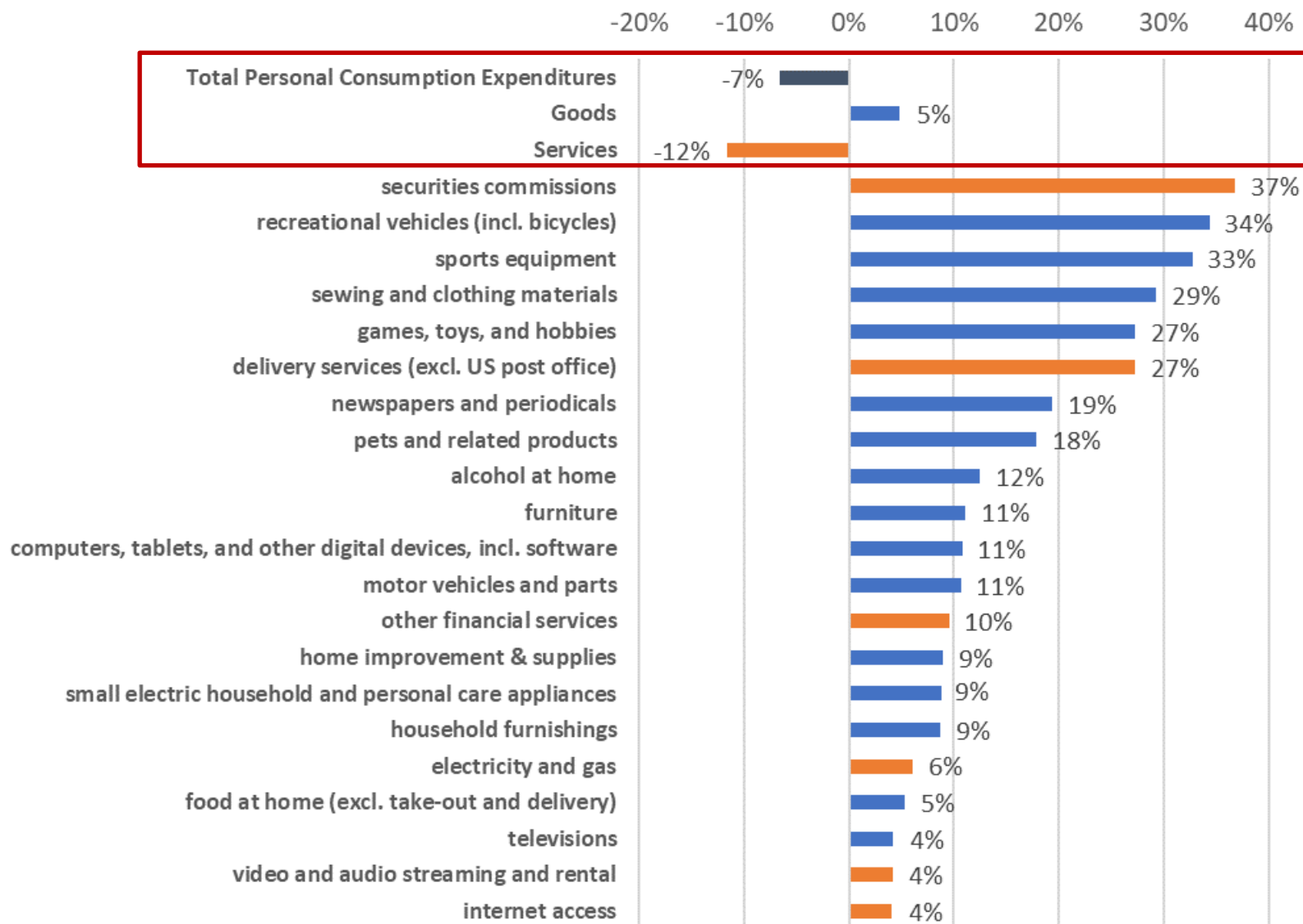


Source: The Conference Board using Real Personal Consumption Expenditures by Type of Product from the US Bureau of Economic Analysis



Benefiting Consumption Categories

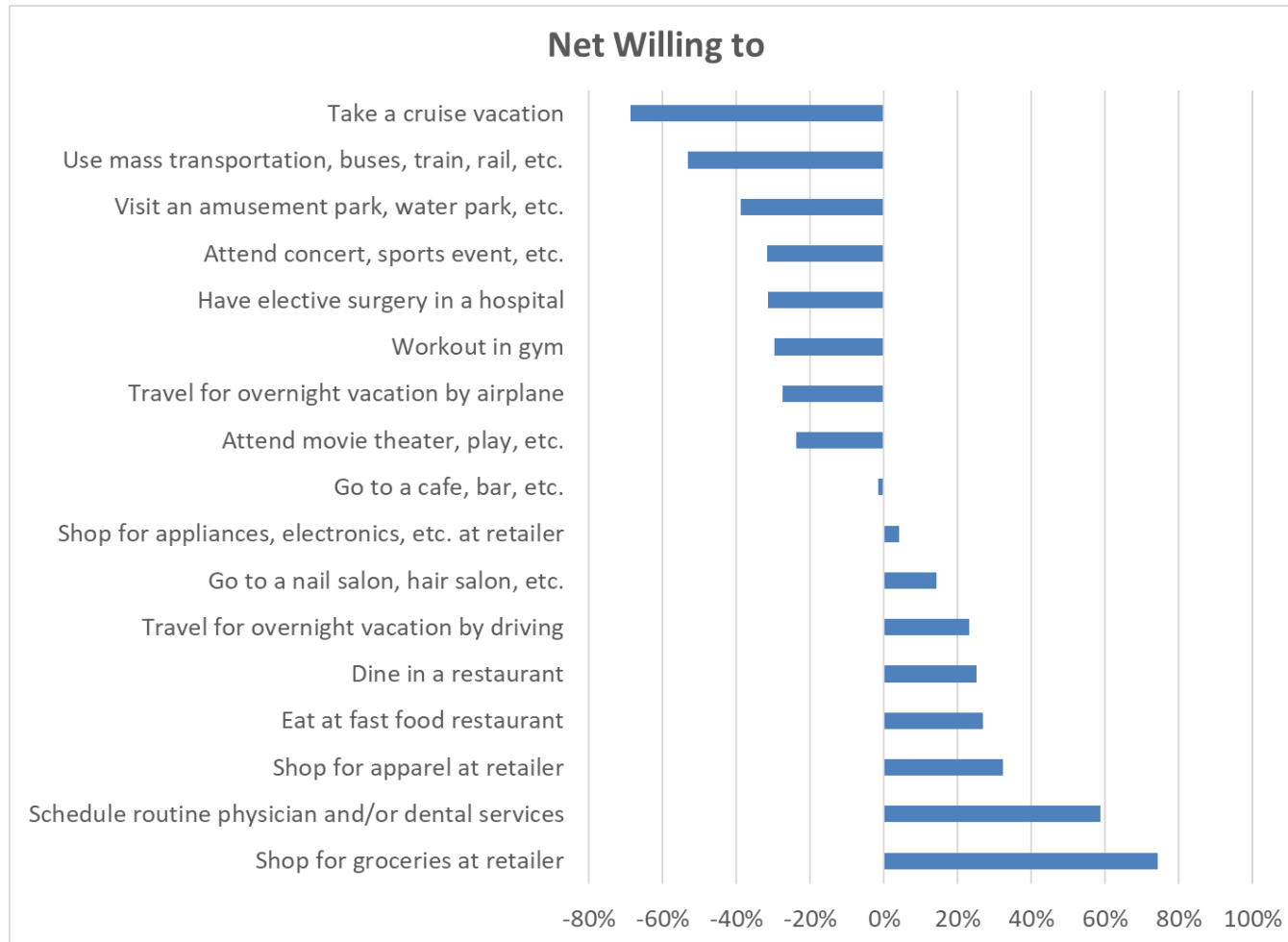
Percent change in personal consumption expenditures from Feb to Jun 2020



Source: The Conference Board using Real Personal Consumption Expenditures by Type of Product from the US Bureau of Economic Analysis



Consumers are likely to remain cautious in the next 6 months in engaging in many consumption activities



Source: The Conference Board



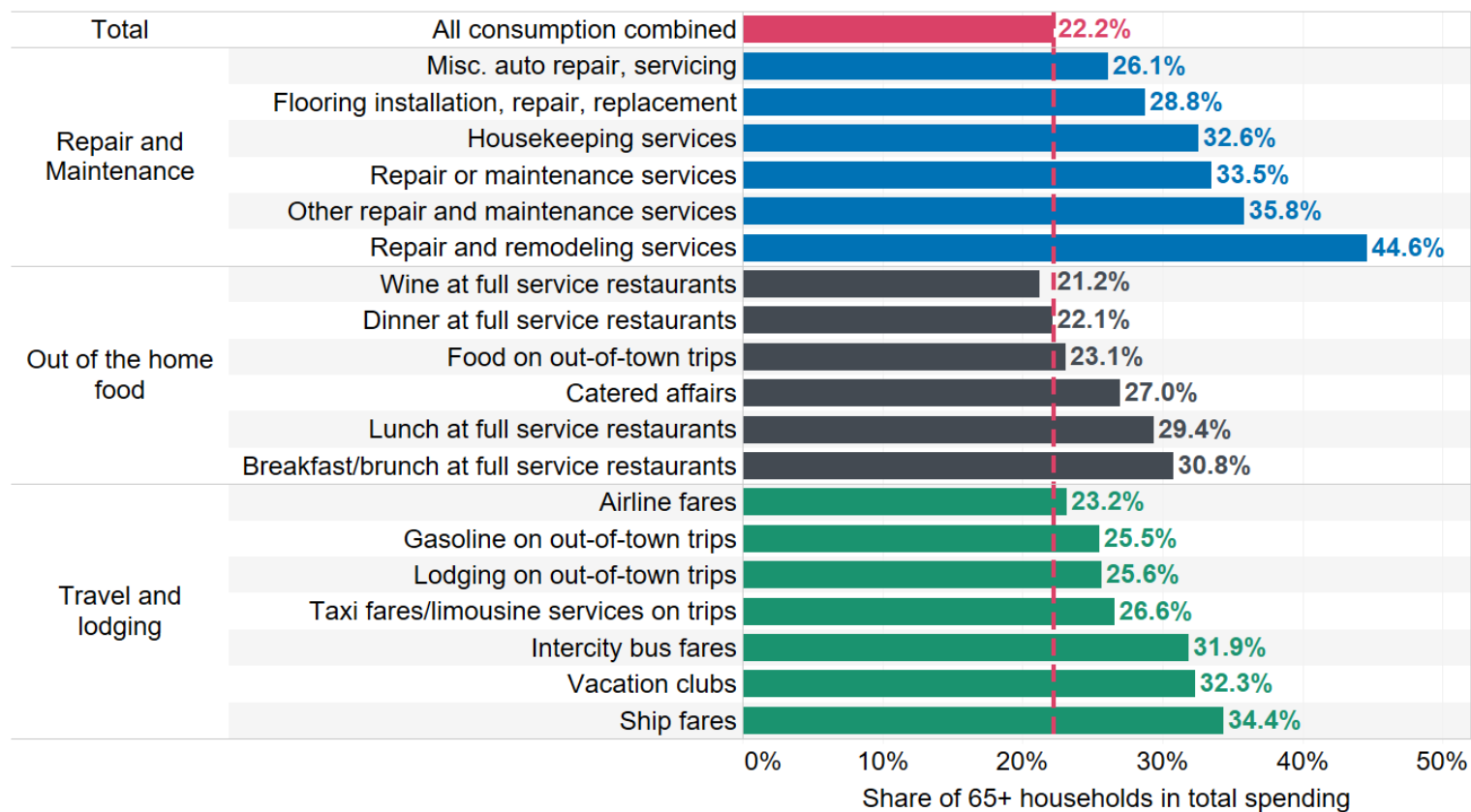
Older people are at more risk and will cut back on spending

- Older people are more at risk and will experience more severe social distancing
- They are likely to cut back on spending
- Older people spend more than young ones on:
 - ✓ Travel and lodging
 - ✓ Full-service restaurants
 - ✓ Repair, remodeling and other activities that will require strangers to enter their homes
- Metro areas with large shares of older people will suffer more



Older households make up a large share of spending in categories sensitive to social distancing

Share of spending coming from households with a household head 65 years or older, 2018



Source: The Conference Board using the Consumer Expenditure Survey from the US Bureau of Labor Statistics



Trends in Consumer Behavior

Changed consumer preferences and behaviors due to pandemic

COVID-19-inspired consumer behavior/preference changes due to...

1. Supply shortages	2. Lockdown experience	3. Health risk	4. Financial crisis
<p>Temporary shock</p>		<p>Longer-lasting reality</p>	
<ul style="list-style-type: none"> - Do-it-yourself - Brand switching - Appreciation for local/domestic sourcing - ... 		<ul style="list-style-type: none"> - Digital everything - Protection from virus - Less in-person interaction - Mobile-based touchless transactions - Transportation: biking, walking, car - Single use plastics - Online shopping - ... - Self-care, wellness, health, and fitness 	
<ul style="list-style-type: none"> - Sustainability: clean air, labor conditions - Less spending, higher savings - More/less time and balance - More focus on home and garden - "Hermit living" - ... 		<ul style="list-style-type: none"> - Frugality, value seeking - Second hand, reuse - Sharing economy - More affordable, less healthy diets? - More cooking, less eating out? - Even less accepting of sustainability price premium - ... 	

Which changed/new behaviors and preferences will stick longer-term?



Four consumer behavior changes with long-term impact

1. More digitalized lifestyles and convenience seeking
2. Greater frugality and value seeking
3. Grown appreciation and interest in sustainability
4. Enhanced focus on self-care



Consumers' new trade-offs of needs



Frugality & value seeking

Convenience

Self-care & wellness

Sustainability

Frugality & value seeking

Convenience

Self-care & wellness

Sustainability



Challenge and opportunity for companies:
how to reconcile/preempt conflicting needs?



Four consumer behavior changes with long-term impact

1. More digitalized lifestyles and convenience seeking

- ✓ Right metrics?
- ✓ Legacy of COVID-19: more digital, optimize omni-channel and integrate, new expectations/standards, mobile/touchless
- ✓ Higher cost of online
- ✓ Importance of offline

2. Greater frugality and value seeking

- ✓ Value seeking vs buying “cheapest” option
- ✓ Discount channels, private label, etc.
- ✓ Promotions

3. Grown appreciation and interest in sustainability

- ✓ Most executives expect a shift in sustainability programs’ focus
- ✓ Social dimensions of sustainability may grow
- ✓ Some evidence of consumers’ increased interest
- ✓ Issue: price premium → innovation

4. Enhanced focus on self-care

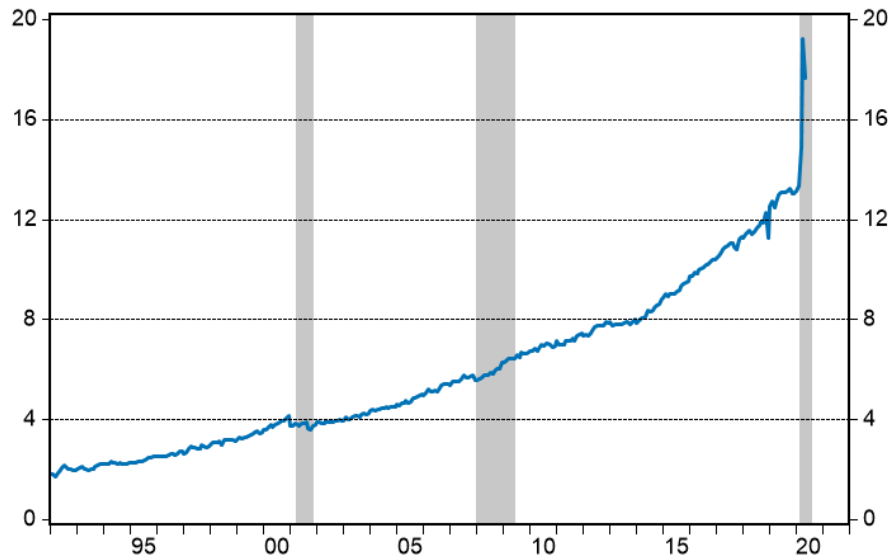
- ✓ Mental health
- ✓ Meat vs vegetarian diets
- ✓ Exercising



1. More digitalized lifestyles and convenience seeking

Share of e-commerce of all retail skyrocketed (U.S.)

(NRSJ41 % NRS)



Source: Haver Analytics

Year

Latest point: May 2020

Amazon's record online retail sales

Amazon Global Online Stores Net Sales



Source: Amazon, 2020

Methodology: These figures are from Amazon's quarterly earnings releases.

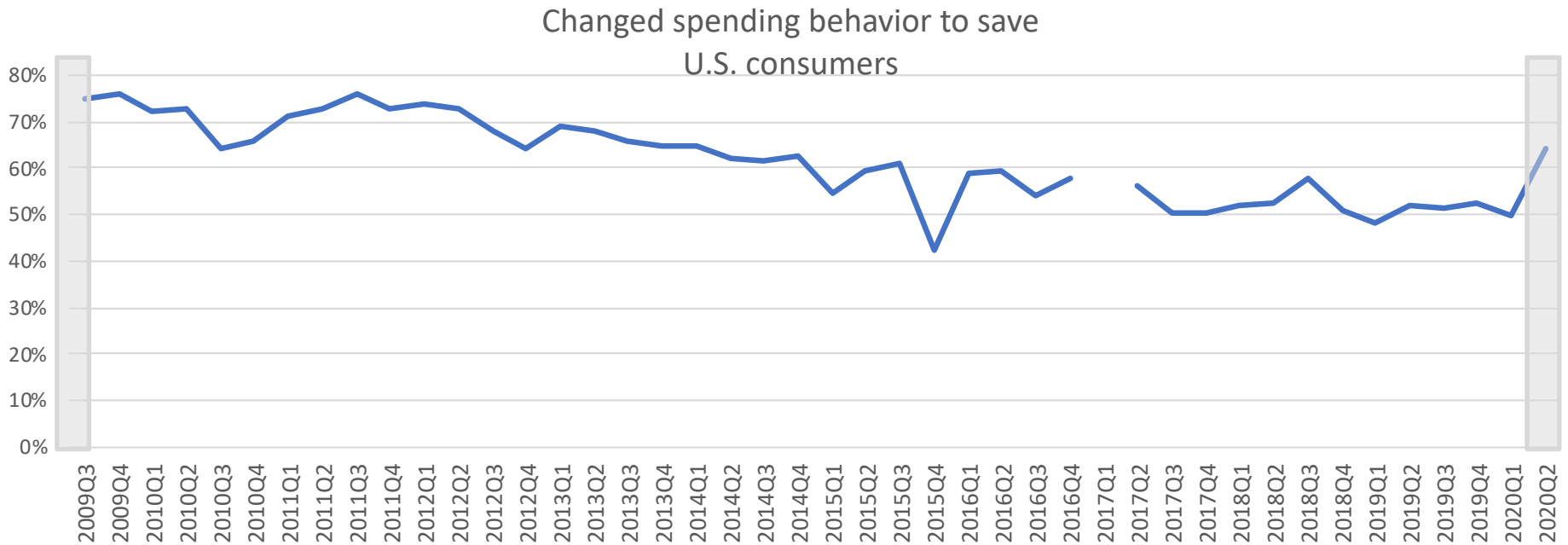
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- E-commerce has skyrocketed since COVID-19 started
- Right metrics?
- Legacy of COVID-19: more digital, omni-channel integration, mobile/touchless



2. Greater frugality and value seeking



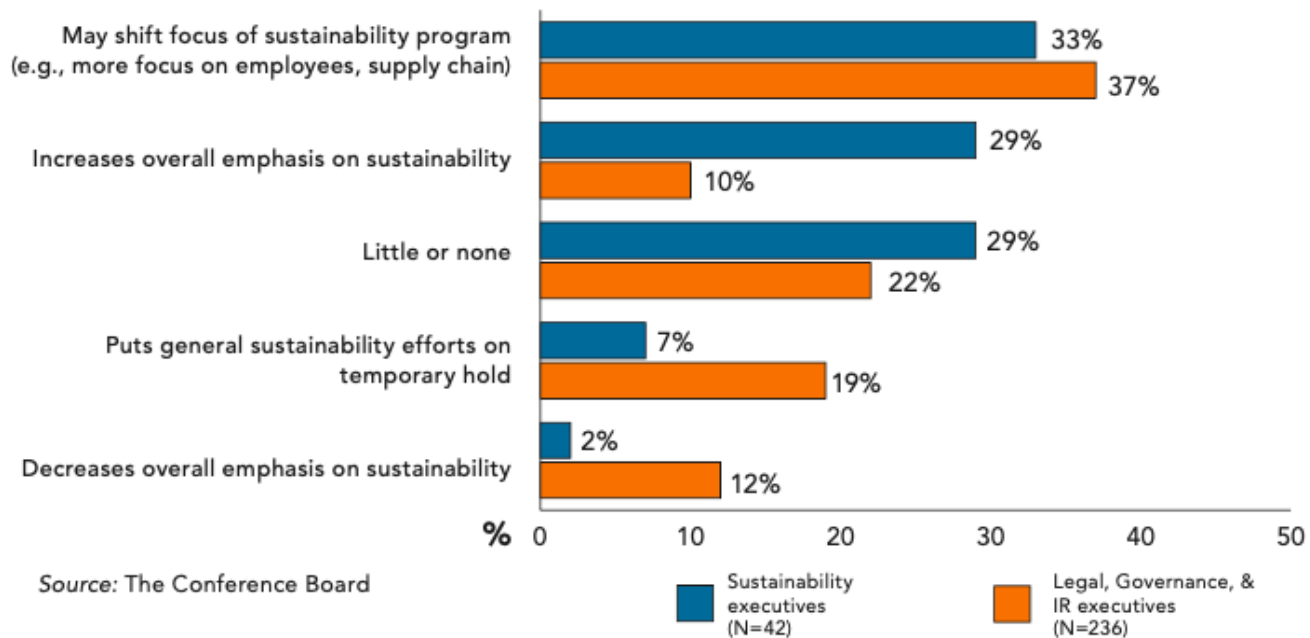
Source: The Conference Board Consumer Confidence Survey, in collaboration with Nielsen

- Value seeking vs buying “cheapest” option
- Discount channels, private label, etc.
- Promotions



3. Grown appreciation and interest in sustainability

What impact, if any, do you expect the COVID-19 crisis to have on your company's overall sustainability program?



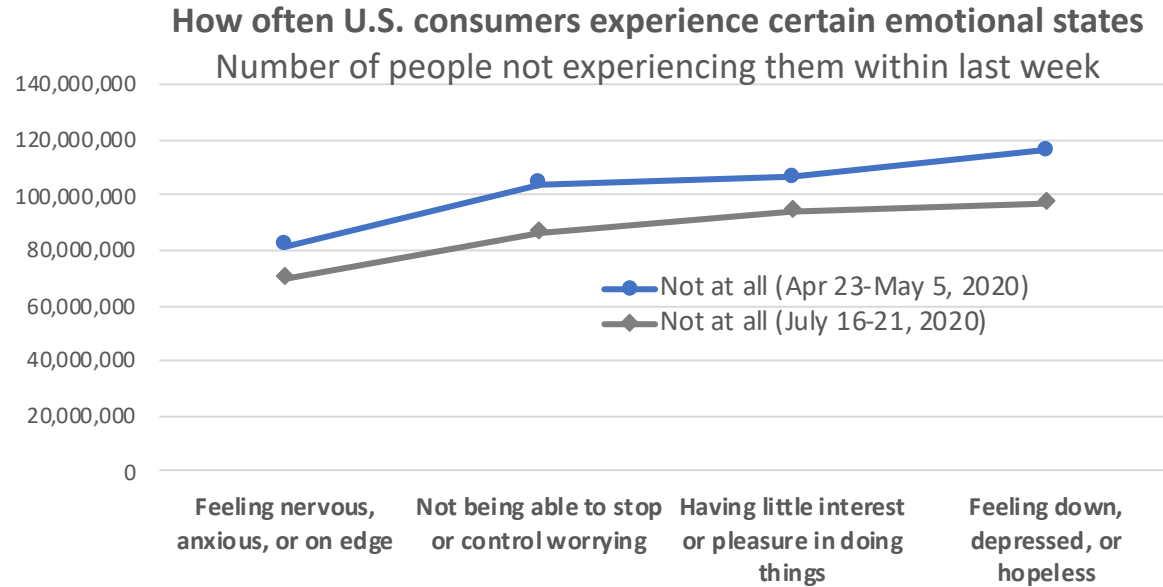
Source: Singer, Thomas (2020), *Refocusing Sustainability During COVID-19: The Importance of Agility and Innovation in Response to the Crisis*, July, The Conference Board

- Most executives expect a shift in sustainability programs' focus
- Social dimensions of sustainability may grow
- Some evidence of consumers' increased interest
- Issue: price premium → innovation



4. Enhanced focus on self-care

- Negative emotional states on the rise since the start of the pandemic
- Meat vs vegetarian foods
- Exercising



Source: The Conference Board using data from the Census Bureau Household Pulse Survey

Changes in number of people experiencing certain emotional states between April 23-May and July 16-21, 2020

	Not at all	Several days	More than half the days	Nearly everyday	Did not report
Feeling nervous, anxious, or on edge	-11,697,869	2,478,076	2,167,040	7,519,084	-466,331
Not being able to stop or control worrying	-17,119,491	3,385,418	3,831,078	10,505,968	-602,973
Having little interest or pleasure in doing things	-12,150,816	1,682,051	2,832,520	8,173,434	-537,188
Feeling down, depressed, or hopeless	-19,157,843	5,396,414	4,943,450	9,243,424	-425,447

Source: The Conference Board using data from the Census Bureau Household Pulse Survey

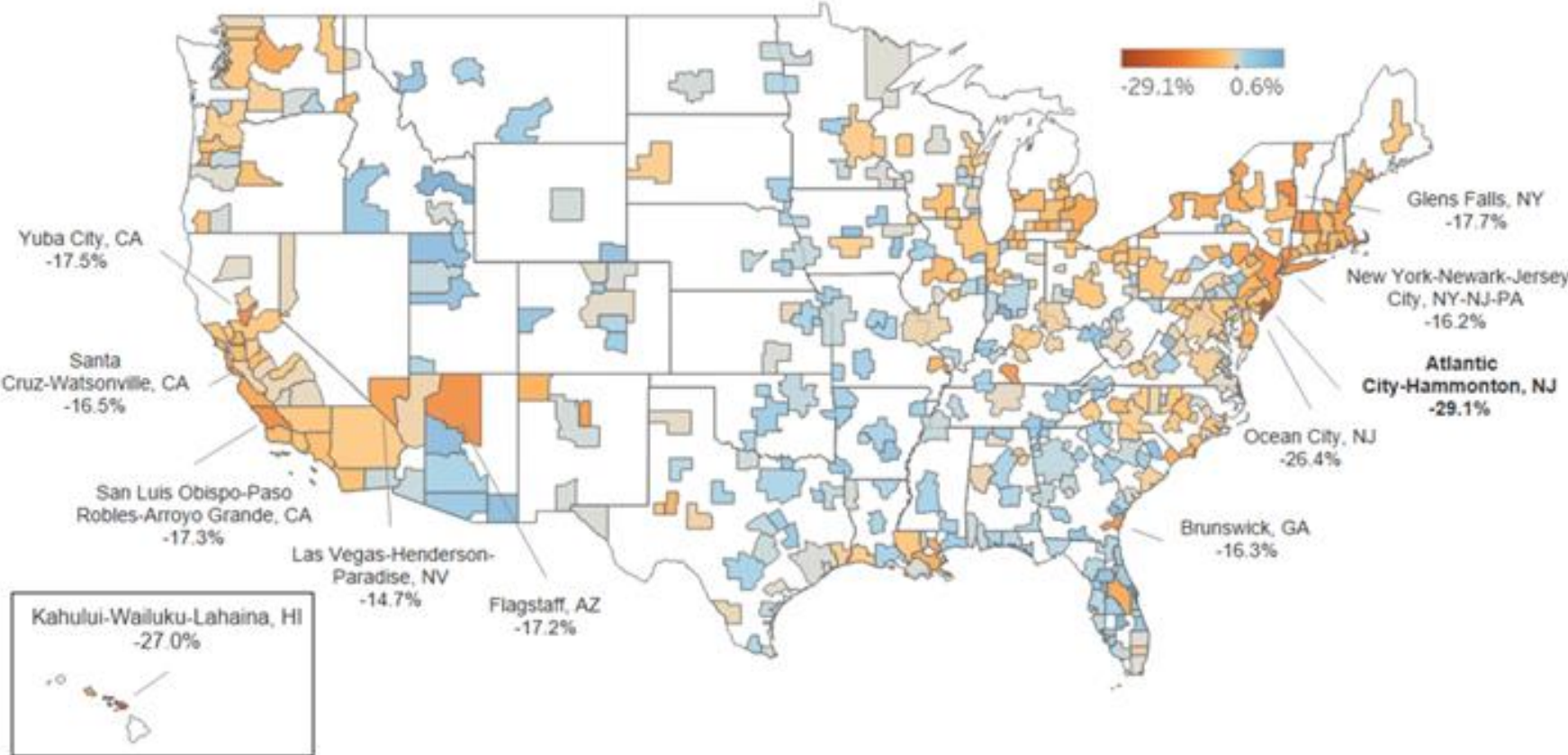




Regional Implications

Fewer jobs reduces incomes and spending

Metro areas experienced large declines in employment Percent change in employment from February to June 2020



Source: Bureau of Labor Statistics, calculations by The Conference Board



The rise of telework and the decline of city centers

- Most office workers are now **teleworking** and this share will remain **very elevated** as long as the contagion risk remains high
- In areas where a large share of workers use **public transportation**, elevated rates of teleworking are likely to remain for longer
- Even after full vaccination teleworking shares are likely to remain well **above pre-COVID-19**, in some types of jobs more than others
- The rise of teleworking will reduce the number of people who spend their weekdays in **city centers**, with major implications
- Who consumes in city centers?
 - ✓ Residents
 - ✓ People **working** in city centers
 - ✓ People who come for **high quality entertainment**
 - ✓ **Tourists**
 - ✓ People who come for **business trips and conferences**
 - ✓ People who come for **retail and other services**



The impact of COVID-19 on spending in city centers

Reason to come to city centers?	During COVID-19	After COVID-19
Work	Large increase in remote working. Fewer come to work in city centers	Share of remote working will remain well above pre-COVID-19 rates
High quality entertainment	Very low demand due to contagion risk	Should go back to normal
Tourism	Huge drop in the number of tourists	Should go back to normal
Business trips and conferences	Huge drop in the number of business trips and conferences	Virtual meetings will permanently replace some business trips and conferences
Retail and other services	Will drop for two reasons: First, fewer will be in city centers due to the reasons above. Second, some will avoid going to city centers because of the need to use public transportation.	Will remain below pre-COVID-19 as working remotely will remain elevated and people will find retail and other options closer to home.



Long-term business geography implications

- Drop in **spending** in city centers and some of it will remain **permanent**
- Drop in demand for **office and commercial real estate** in city centers
- As commuting time is **less important for remote workers** – a shift in the demand for housing to outside city centers
- Downward pressure on **real estate prices** in city centers
- Increase in spending **outside city centers** on retail, restaurants, other services and real estate



The Labor Market After COVID-19: Long-term Impacts

The underlying factors that will shape the US consumption by 2025

- Remote working
 - ✓ Permanent increase
- Growing **online** purchasing and delivery
 - ✓ Retail, restaurants, higher education, health, banking
- Increased **automation**
- Many **industries will contract** and become more concentrated
 - ✓ Rise in bankruptcies, M&A, and private equity
- The decline of **city centers**
- **Permanent changes in spending behavior** in certain consumption categories



Most disrupted consumption categories by 2025

Retail

- Massive shift to online shopping
- Apocalypse in brick and mortar stores (esp. in city centers)
- Some jobs susceptible to automation

Lodging and airlines

- Business travel will not fully recover

Transit and ground transportation

- Public transport will not fully recover
- Heavily impacted by the state and local government budget crisis
- Disruption in shared mobility (ride-sharing vs bike-sharing & e-scooters)



Most disrupted industries by 2025 (continued)

Higher Education

- Massive shift to online learning
- Heavily impacted by the state and local government budget crisis
- Industry will contract
 - ✓ Possible mergers or partnerships between universities, online education companies, and tech providers

Commercial Real Estate/Construction

- Office and retail construction will not fully recover
- Shift from city centers to other areas

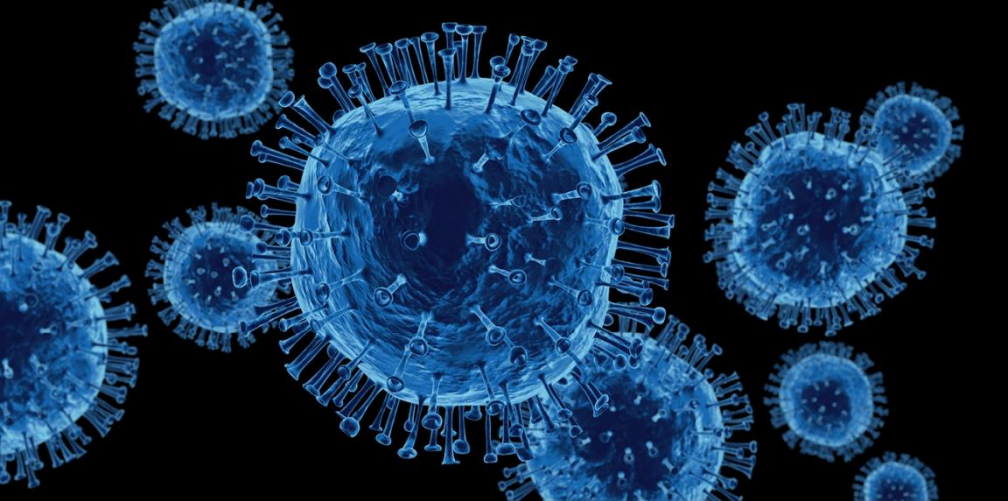
Restaurants

- Shift to deliveries/pickups and shared/ghost kitchens
- Share of full-service restaurants may decline

State and local governments

- Budgets will not fully recover for several years
- Some jobs susceptible to automation





Upcoming Webcasts from The Conference Board

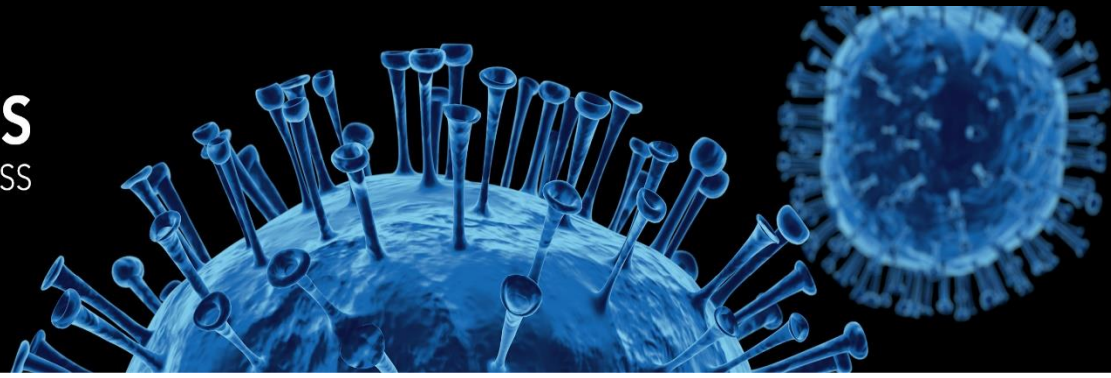
Please review these upcoming webcasts from The Conference Board.

- [Economy Watch: The Impact of COVID-19 on Turkey & South Africa](#) (August 12)
- [Speaking from Experience: Return-to-Work Strategies That Work](#) (August 12)
- [Marketing & Communications Watch: Fake News: Protecting the Truth in the Age of Misinformation](#) (August 20)

[View all upcoming webcasts](#)



COVID-19
CORONAVIRUS
IMPLICATIONS FOR BUSINESS



Want to hear more about this topic and how the spread of COVID-19 will impact business and the global economy?

The Conference Board has gathered insights and learnings from our thought leaders and member network which we hope will be helpful as you formulate, implement and manage your own crisis response.

Explore all of these resources on our website at <https://www.conference-board.org/COVID-19>.





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