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PRESS RELEASE

Has the global retail sector returned to normal?

Paris, September 28, 2021 – **The retail sector's activity has been affected by the COVID crisis through social distancing measures and closure of stores. However, the effect of the pandemic on the sector greatly varies across countries and segments. While some countries did experience lower retail sales in 2020, the effect was null in others and even positive in Northern European countries. The impacts are also different according to the segments, clothing stores being the most affected.**
Overall, COVID 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 full recovery of the retail sector in 2021.

« *Although the retail sector was impacted by the COVID-19 crisis (store closing, rise of online shopping…), it would have been in a good position for a quick and full recovery without the disruptions on the transport sector and higher commodity prices. Higher rates & commodity prices and longer delivery times are pushing prices up all along the supply chain and causing shortages, that are a real threat to the sector and may delay its full recovery* », comments **Erwan Madelénat, economist at Coface.**

Various effects depending on the country and the segment

While many countries experienced a decrease in their retail sales during the 1st lockdown of 2020, the situation of the sales for 2020 as a whole is more contrasted. Coface noticed three key points:

- **COVID-19 did have a negative impact in some countries, but it is usually weaker than expected.** Most countries experienced a drop in their retail sales in Q2 2020, but they 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 seems 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 with more people going out the country than entering it. However, last year due to travelling constraints, these countries had more consumers than usual.

The situation also appears heterogeneous depending on markets segments, with **textile and apparel retailers being amongst the most severely affected** by the pandemic**.** Apparel stores were considered as non-essential and were thus often closed during lockdowns. As people were forced to stay at home, there were fewer incentives to buy clothes: sales in clothing stores therefore decreased by 24% in EU-27 and by 29% in the U.S. last year. However, these sales are expected to improve as soon as the situation eases. The effect on clothing retailers is also directly linked to companies' policies on remote working: if remote working remains important after the pandemic, the sales 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.), due to food stockpiling in early 2020 and to

the closure of restaurants. This increase is unlikely to remain once the situation has eased and restaurants reopen.
Although usually more resilient to economic crises than other markets, the pandemic created **a serious challenge for global luxury, notably due to the closure of stores and travel restrictions**. In 2018, Chinese consumers accounted for 46% of global luxury purchases, about ¾ of which were made outside China. 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. The rebound is already experienced by companies such as LVMH, Kering and Hermès (whose revenues fell by 27%, 30% and 25%, respectively in H1 2020), with increased revenues in H1 2021 compared to H1 2019. 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 brands.

A limited impact on the long-term rise of e-commerce

Due to social distancing measures, consumers have increased their online purchases: while the higher use of e-commerce at the expense of brick and mortar stores is not new, **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, 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.

However, one has to be aware that **the share of e-commerce in the retail sector had been increasing for years**. **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.**
For instance, 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 and +2.7 pp after +1.3 pp in the U.S.
Therefore, online sales accelerated in 2020, but part of this acceleration was due to the first lockdown, 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 pandemic led to an acceleration, **the effect on the share of e-commerce will probably be limited in the long-term.**

Inflation, freight disruptions: uncertainties remain for the retail sector

The increase in freight rates is expected to pressure consumer prices, as producers and retailers are passing part of the cost increase on their prices. The retail sector could thus be impacted by **transport disruptions and higher commodity prices**, however, the effect may not be homogenous. 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 after 85.5 in June, and where inflation increased by 5.4% YoY in June 2021, the highest since 2008.

Find the full study here.

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