# THE RETAIL PAYMENTS REVIEW

A Special Publication by cmspi

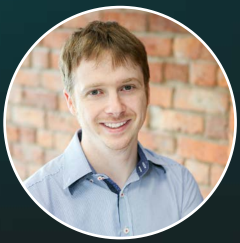
## Week Commencing April 6th, 2020

Welcome to the Retail Payments Review! Not only is the pandemic having a profound effect on our lives, it's hard to escape the commentary on the impact it's having on retail. There are many claims being made about the state of each industry, without having much evidence to back it up. CMSPI's weekly bulletin – informed by our daily data received from all markets globally – will provide you with the most up-to-date market information available, to help retailers understand prevailing trends in order to best respond to the crisis.

This week's edition focuses on the U.S., with a detailed look at the overall retail market as well as competition between individual sectors.

**For any inquiries about our reporting services, or questions about information in our weekly reports, please email one of our Economics & Insights team using the details below.**

## Authors



Callum Godwin
Chief Economist | CMSPI
cgodwin@cmspi.com

Robbie MacDiarmid
Senior Economist | CMSPI
rmacdiarmid@cmspi.com

Mohammed Patel
Economics Analyst | CMSPI
mpatel@cmspi.com

*All graphs are indexed, or contain aggregated trends to hide confidential client information.*

# THE RETAIL PAYMENTS REVIEW

A Special Publication by cmspi

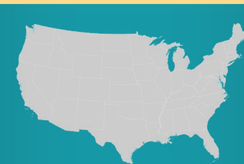

## OVERALL

This week, we're launching our Retail Spending Tracker, which looks at the total impact of COVID-19 on retail spending on a weekly basis. Overall, we estimate U.S. retailers lost around $32,120,928,290.84 in March due to the crisis, with the number only set to grow as we move into April.

We can see that the worst affected sector is restaurants, which accounts for 20% of retail spend and has seen overall spending fall by 58% on average in the week beginning March 23rd (see page 3 for more details). Following the huge increase in mid-March, grocery spending is now 4% below our baseline levels, despite being the best performing sector.

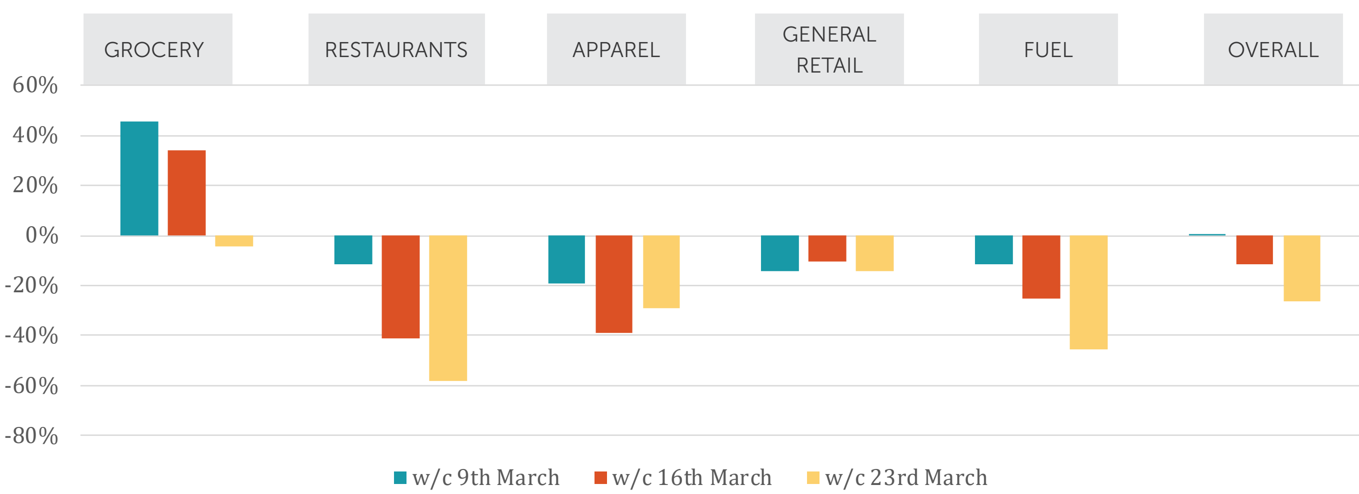
Overall, retail spending has declined by around 26% in the week beginning March 23rd - more than twice the decrease seen the week prior. This was driven predominantly by significant declines in the fuel and restaurant industry. These larger declines are consistent with states enforcing harsher measures to tackle the growing threat of the Coronavirus in the second half of March. We unfortunately expect an even larger decrease in the week ahead as the Coronavirus pandemic continues to cause lockdowns across the globe.

**$32,120,928,290.84**



**Overall, we estimate U.S. retailers lost around $32,120,928,290.84 in March due to the crisis, with the number only set to grow as we move into April.**

### AVERAGE CHANGE IN SPEND PER WEEK




| Industry Splits | Proportion of Retail Spend | Average Change in Spend (w/c 9th March) | Average Change in Spend (w/c 16th March) | Average Change in Spend (w/c 23rd March) |
|---|---|---|---|---|
| Grocery | 24% | 46% | 34% | -4% |
| Restaurants | 20% | -12% | -41% | -58% |
| Apparel | 12% | -19% | -39% | -29% |
| General Retail | 32% | -14% | -11% | -14% |
| Fuel | 12% | -11% | -25% | -45% |
| Average | 100% | 0.45% | -11% | -26% |

*Please note: "General Retail" includes pharmacies, electronics stores, department stores, hardware stores and furniture stores. It does not include airlines, hotels, car rental or travel agents - which are not considered retail and are excluded from this spending tracker.*

# RESTAURANTS

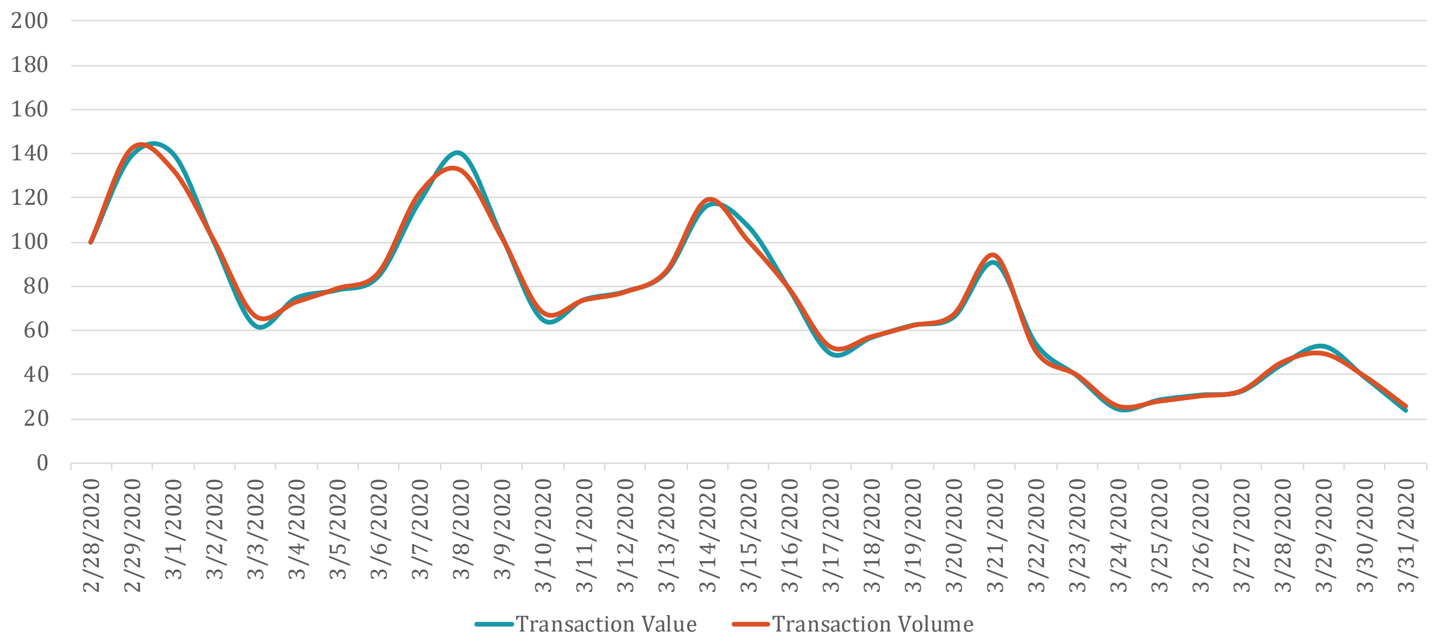
The restaurant sector has been one of the worst affected during the pandemic, alongside the likes of airlines, hotels and travel companies. In these industries we've seen closures, job losses and, in the case of the airline industry, calls for government bailouts. By contrast, the grocery sector has benefitted from its status as a vendor of essential goods, and last week we saw the apparel sector migrate the majority of its business to online.

Decline in the restaurant sector took place steadily throughout March, with transaction volumes and values ending at around 25% of those seen on February 28th. This represents a huge decrease as states across the U.S. start to implement lockdown measures.

It is also interesting to see the peaks occurring over the weekend slowly dampened as March progressed. The transaction value peak of the first two Sundays of the month was 40% higher than the transaction value of the index date, while the last Sunday of the month saw a transaction value which was 53% of the transaction value seen on February 28th. Restaurant sales appear to be losing their weekly cyclicality, suggesting the reduction in sales is attributable to individuals only leaving their homes for essentials regardless of the day.

The Average Transaction Value (ATV) appears to be relatively stable, suggesting no fundamental changes in the composition of orders made at restaurants. This matched with the declines in volumes, and the erosion of weekend peaks is consistent with individuals reducing non-essential consumption.

## DINE-IN RESTAURANTS




# RESTAURANTS (CONTINUED)

We have seen a dichotomy between Quick Service Restaurants (QSRs) and dine-in restaurants. QSRs are naturally more robust because their business models generally have a high percentage of takeaway customers. Given that many cities have banned eating in but are allowing takeaway, dine-in restaurants are far more disrupted.

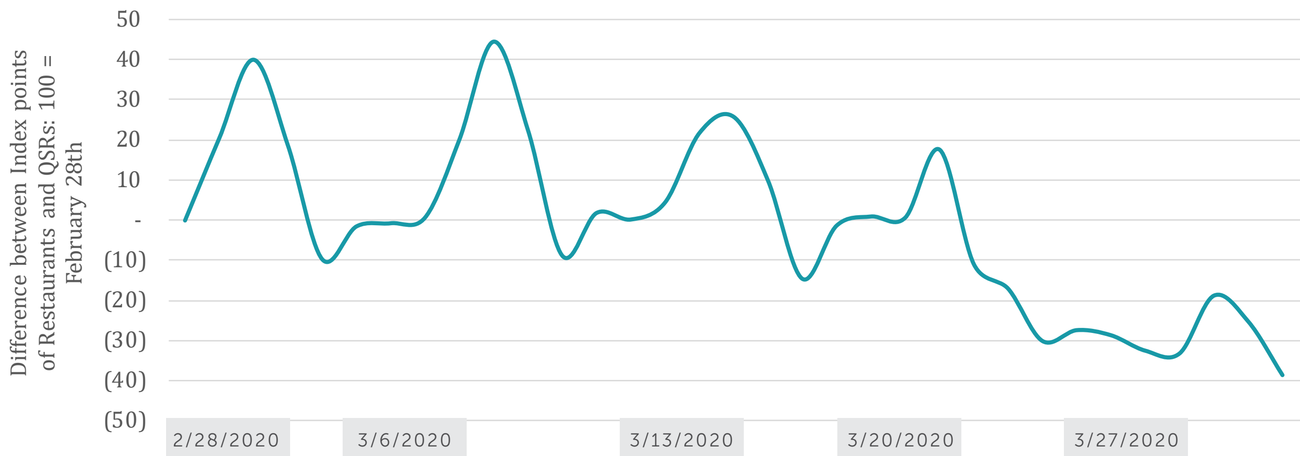
This has been reflected in the sales figures, with QSRs seeing sales fall by around 30-40%; the situation is far more serious for dine-in restaurants where we've seen sales fall by around 80%. This is expected to get worse as lockdowns become more widespread, with Florida only announcing a state-wide lockdown from April 3rd.

Our figure labelled 'Comparing Sectors: Restaurants vs QSRs' highlights how this battle between subsectors has evolved. Taking February 28th as the baseline total transaction value for both sectors separately, we have tracked the difference (restaurants minus QSRs) between the index points for each on a daily basis. For example, February 28th was a Friday and - as previously mentioned - restaurants typically see significant uplift on weekends, while QSRs remain relatively constant throughout the week. Therefore, we see a positive graph value on March 1st of around 40 index points, even though QSR spending remained relatively stable, due to strong performance from restaurants that Sunday.

Moving towards the week commencing March 23rd, we can see that QSRs have consistently outperformed restaurants relative to the baselines – the QSR index score remaining around 39 points higher than restaurant index score on March 31st. According to the National Restaurant Association, 3% of restaurants have closed permanently, with a further 11% anticipated to close in the next 30 days[1]. Furthermore, the National Restaurant Association suggests the restaurant industry has lost more than three million jobs since the March 1st[2]. Given the total unemployment claims for the month of March was around 10.5m[3], this suggests restaurant job losses accounted for around 30% of unemployment claims in March. As the crisis evolves and measures taken by authorities become harsher, the number of job losses is likely to increase further.

## COMPARING SECTORS: RESTAURANTS VS QSR

A higher value indicates that restaurants are performing better - relative to their Feb 28th baselines - than QSRs




1. https://www.marketwatch.com/story/dominos-pizza-papa-johns-to-benefit-from-coronavirus-related-restaurant-closures-analysts-say-2020-04-01
2. https://restaurant.org/Articles/News/Study-details-impact-of-coronavirus-on-restaurants - infographic on this webpage
3. https://www.theguardian.com/business/2020/apr/02/us-unemployment-coronavirus-economy

# THE RETAIL PAYMENTS REVIEW

A Special Publication by cmspi


## GROCERY

In last week's bulletin we showed some of the huge peaks we saw in the grocery industry in mid-March, with volumes 2.2 times higher than usual on Friday March 13th.

**So, what has happened since then?**

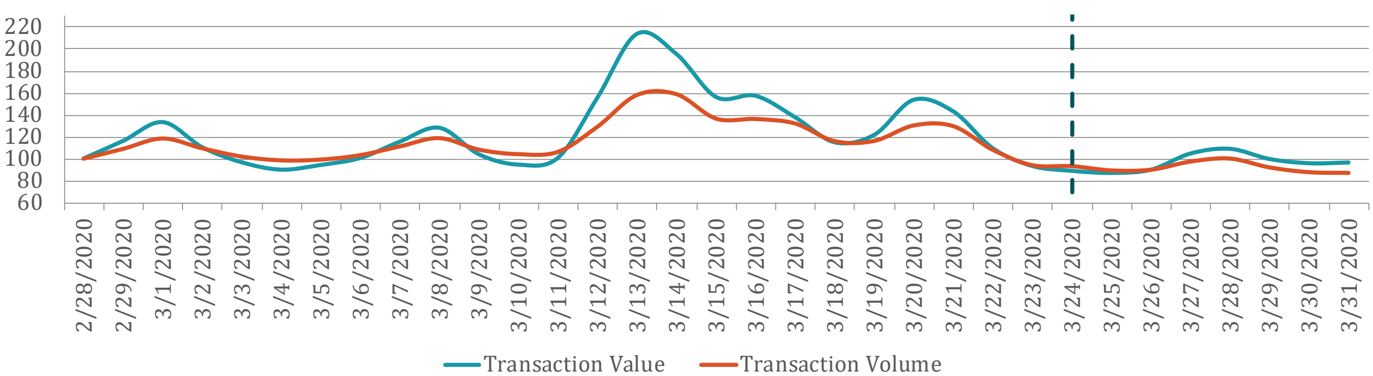
It appears the peak in spending is beginning to level off, with spending levels returning to their expected normal in the week commencing March 23rd. The ATV in the grocery industry has also settled down and is now consistently around 10% higher than our base level on February 28th. A slightly higher ATV is consistent with people minimizing trips to grocery stores.

It's good news grocers have yet to see a decline. However, if the mid-March upticks were completely attributable to panic buying then we may expect grocery spending to fall with individuals running down stock levels. The concern is consumers have been buying items in bulk they typically would not buy on a weekly basis, due to a fear of shortages - in which case we may see a dip in overall grocery spending soon, as consumers are already "stocked up". Whether we see a cyclical pattern of stocking up when new lockdown measures are announced, followed by a subsequent dip in spend, remains to be seen but the data supports this theory so far.

With other industries struggling – such as the restaurant industry covered on pages 2 and 3 – we are really beginning to see signs of an economy in a downward spiral: the winners have stopped winning and the losers are starting to lose big.

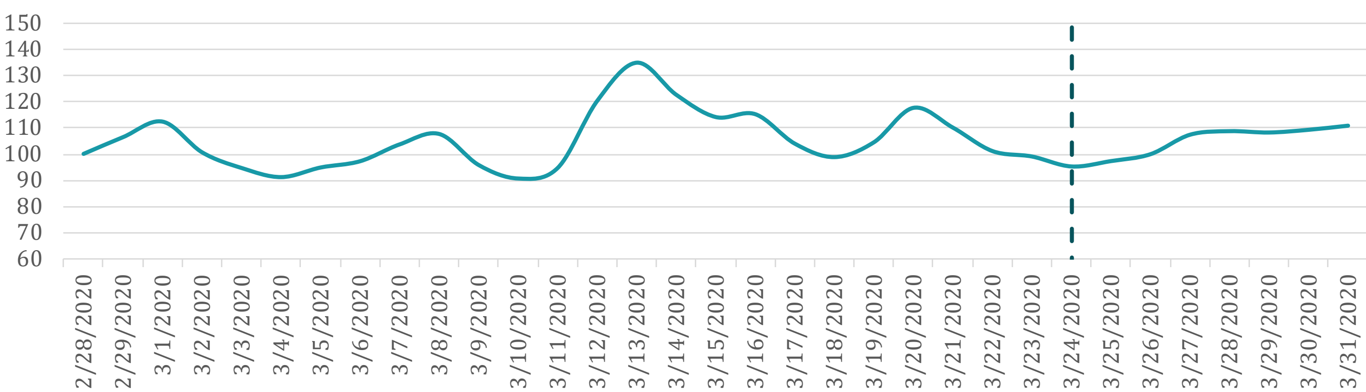
### GROCERY SECTOR

Dashed line represents starting point of this week's updated data




### GROCERY SECTOR ATV

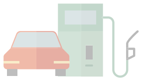
Dashed line represents starting point of this week's updated data



# THE RETAIL PAYMENTS REVIEW

A Special Publication by cmspi


## FUEL



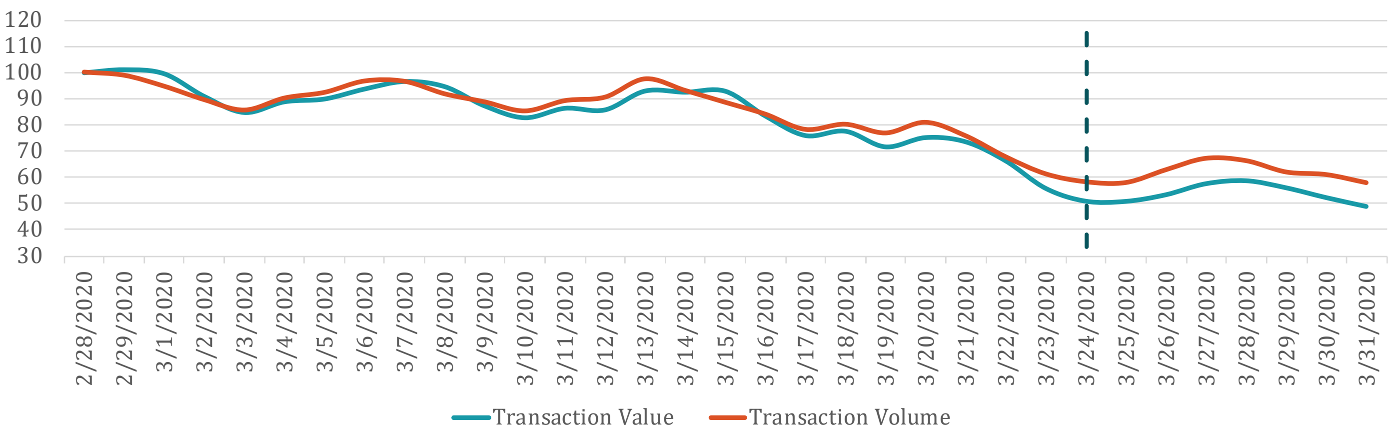
The fuel industry has continued its decline in the past week. In many ways, we were a little surprised to see fuel spending levels so high last week, considering the sharp drop in gas prices and widespread work from home mandates for non-essential workers.

However, as of March 31st we have seen fuel spending drop below 50% of expected levels, and there are signs the drop could continue in future weeks as self-isolation becomes the norm across the developed world.

Between March 23rd and 31st, spending value fell by 13% and the number of transactions dropped by 5[illegible]uring this time period we've seen the industry ATV fall from $20.18 to $18.68 (a 7.4% decrease) and we've now seen a total decrease in ATV of 16% between our base date February 28th and March 31st.

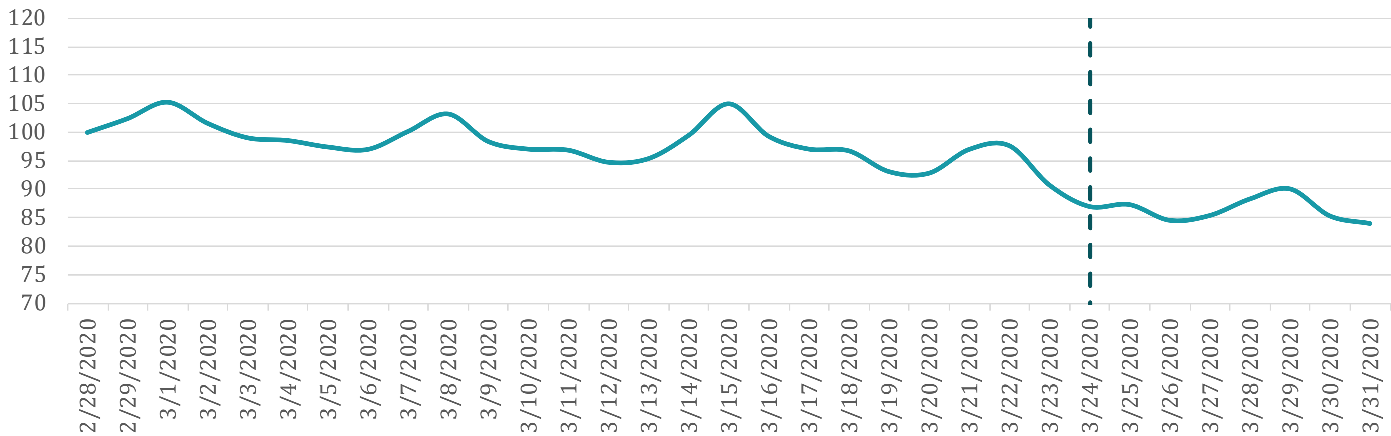
### FUEL SECTOR

Dashed line represents starting point of this week's updated data




### FUEL SECTOR ATV

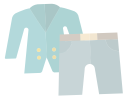
Dashed line represents starting point of this week's updated data



# THE RETAIL PAYMENTS REVIEW

A Special Publication by cmspi


## APPAREL



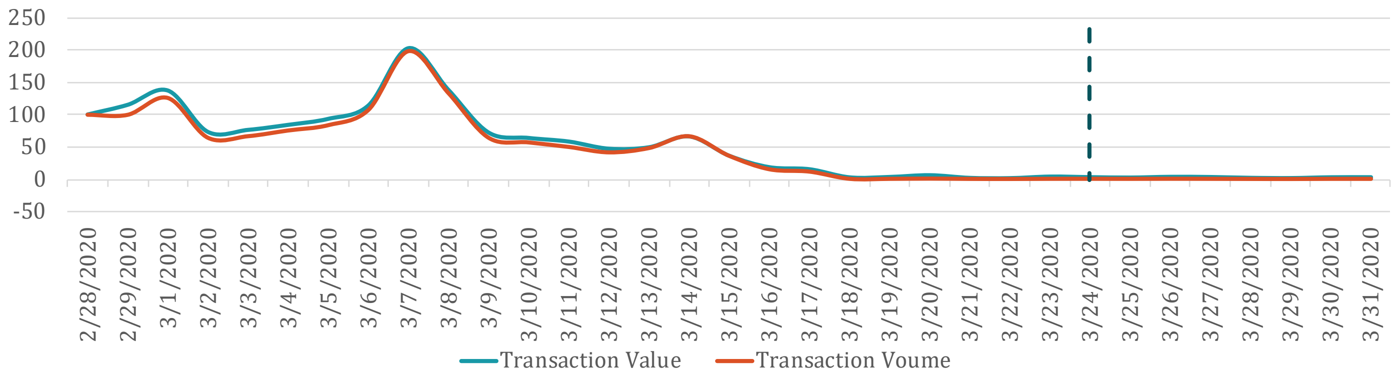
Given the widespread closure of stores announced by major retailers last week, face to face sales in the apparel sector have plummeted. Last week we witnessed the ability of retail to shift from a face to face environment to a Card Not Present (CNP) environment, with the majority of transactions shifting to ecommerce. Card Present (CP) spending in the apparel sector has seen a staggering decline from its peak on the March 7th, at around double the baseline value, to half the baseline value a week later. As more stores announced closures, the values dropped off around the 17th March.

On the other hand, ecommerce volumes for apparel have seen a meteoric rise - reaching almost double the baseline volumes by March 20th. We previously suspected ecommerce volumes for the apparel industry would stabilise at a value higher than the norm, with an increase in the number of people self-isolating and working from home, and this is indeed what we see this week.

Transaction values and volumes between March 23rd and 31st were on average 40% higher than the index date throughout the period. Given people have more spare time to browse online, it appears CNP spending will sit around 50% higher than the baseline value as customers adjust to the new shopping landscape.

### APPAREL SECTOR - CARD PRESENT

Dashed line represents starting point of this week's updated data




### APPAREL SECTOR - CARD NOT PRESENT

Dashed line represents starting point of this week's updated data