

THE RETAIL PAYMENTS REVIEW

A Special Publication by  cmspi

Week Commencing March 30th, 2020

Welcome to the first 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 across all markets globally – will provide you with the most up-to-date market information available, to help retailers understand and respond to prevailing trends in order to best respond to the crisis.

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.

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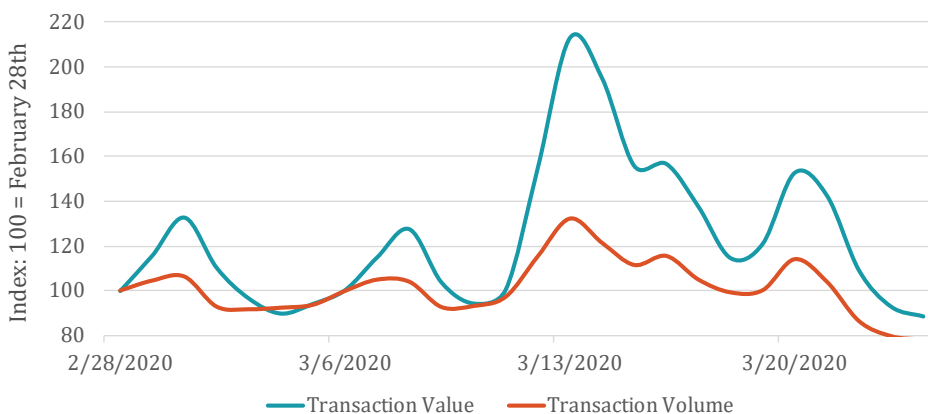
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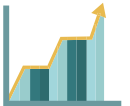
GROCERIES

In the U.S., between March 11th-13th, grocery volumes shot up in contrast to the wider merchant industry, which has seen payment volumes decline by almost 50%. This appears to reflect consumers rushing to acquire necessities in anticipation of a lockdown, with a national emergency declared on Friday March 13th.

GROCERY SECTOR



Spike day:
March 13th



1.3x

- Volumes were 1.3 times higher than the previous two Wednesdays

2.2x

- Values were 2.2 times higher than two weeks prior

\$49

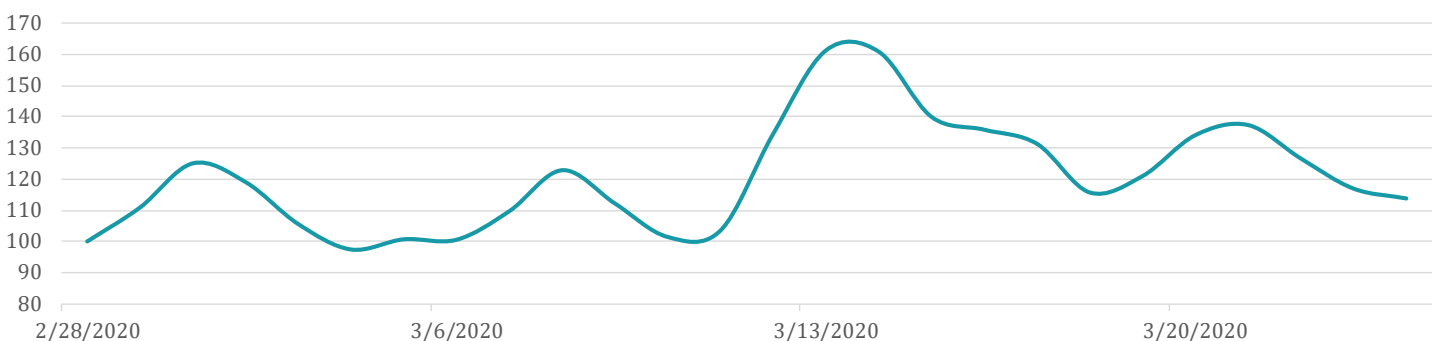
- Average Ticket Value (ATV) soared from \$49 to \$75

After the spike, we saw a steady decline in spending - which has brought grocery spending volumes and values in-line with the benchmark on February 28th. In fact, on March 22nd, we saw grocery volumes fall below the benchmark spending levels for the first time since the peak - which could be caused by consumers depleting stocks in mid-March. Additionally, the Average Transaction Value (ATV) appears to have established at a rate between 15-30% higher than the ATC at the start of the period - which is consistent with customers self-isolating, minimizing their contact with others and therefore purchasing more during any one trip.

It will be interesting to see how much net gain there will be for the grocery industry over a longer period. On one hand, there will be a transfer of spending away from bars and restaurants towards grocery stores - which is likely to last as long as the lockdown. However, many larger restaurant brands are making the most of the surge in online spending - last week the UK branch of Domino's reported the growth of delivery orders have more than offset the effect of store closures.

Additionally, a large portion of the excess spending at grocers we saw in mid-March is likely to be merely forward spending on consumer durables such as soap, hand sanitizer and, of course, toilet paper - for which there may be no long-term benefit. Additionally, over three million Americans being made unemployed last week, grocers may need to look out for a long-term negative impact on spending.*

GROCERY SECTOR ATV



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GAS STATIONS



Spending in the fuel industry has been steadily declining since the end of February. Compared to our Merchant Payments Index, and using February 28th as the baseline, both transaction volume and value have almost halved through the first 3 weeks of March. The bulk of the drop in spending has occurred in the days leading up to March 24th, with volumes remaining relatively constant before then.

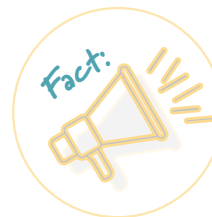
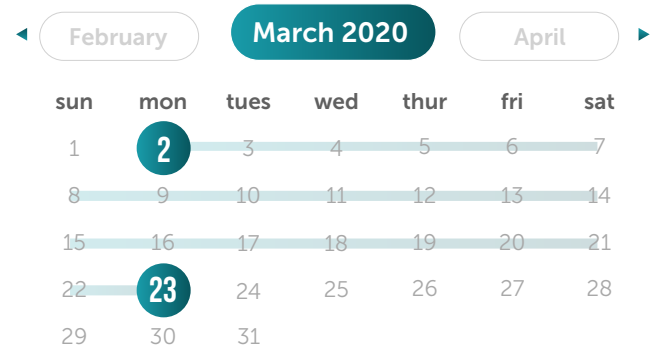
Over the course of March 2020, the industry ATV has steadily declined. For example, on Monday March 2nd the ATV was at \$22.56, whereas on Monday March 24th it was \$19.34 - totaling a decline of 14%.

There are two possible explanations for this. First, consumers are making shorter and fewer journeys as we are seeing more working from home. Second, fuel spending is heavily impacted by gas prices, which are famously volatile. With gas prices in the U.S. declining significantly in recent weeks – average fuel prices are now 16% lower than they were a month ago – this will inevitably have put downwards pressure on fuel spending levels.

With gas prices falling by more than the fuel industry ATV, there is a suggestion the convenience side of the fuel industry may be benefitting from higher sales – just like the grocery industry is – as the rush to obtain essential goods takes hold.

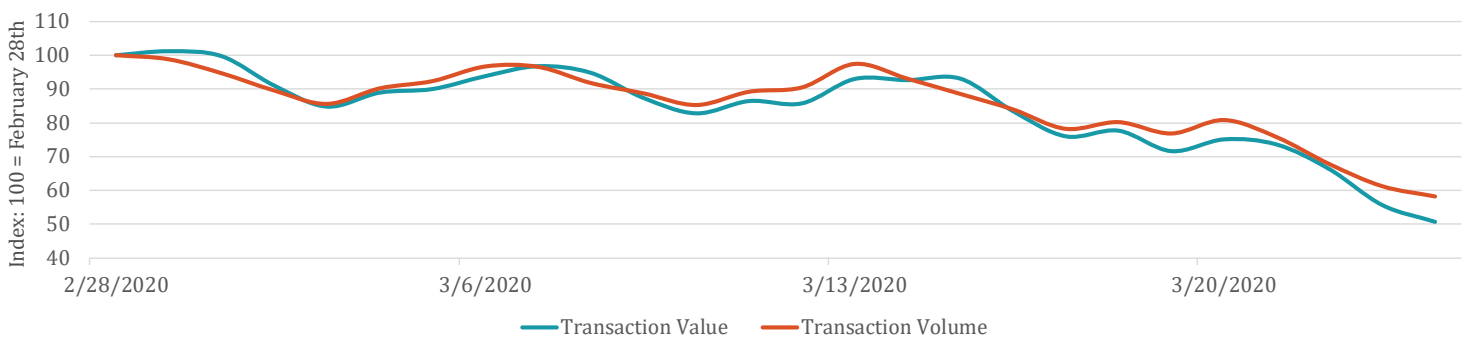
March ATV Decline: 14%

From \$22.56 to \$19.34 (from March 2nd-23rd)

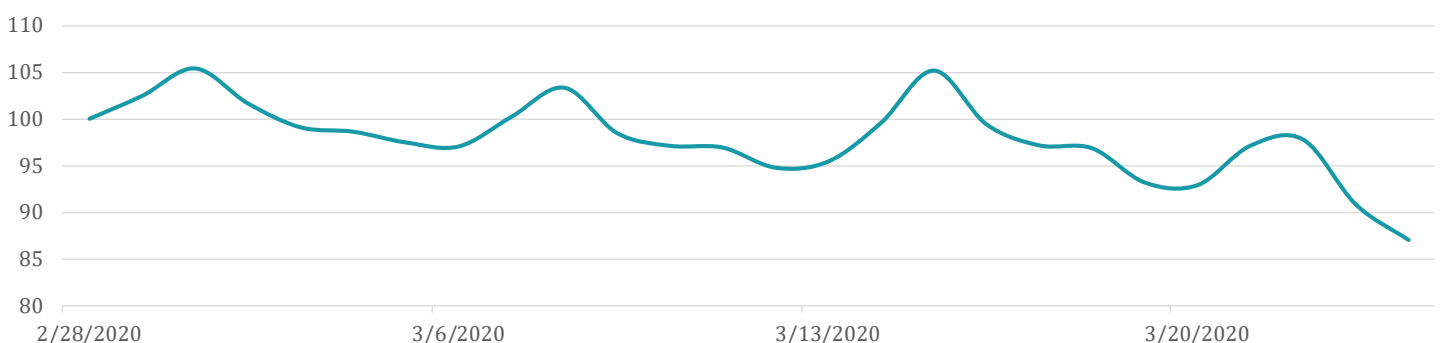


Fuel spending peaks are all on Sundays for ATV (March 1st, March 8th, March 15th and March 22nd), which is typical for the industry.

FUEL SECTOR



FUEL SECTOR ATV



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APPAREL INDUSTRY

We have seen two spending peaks for apparel in the Card Present space – one on Saturday February 29th and one on Saturday March 7th. The trends we see upon until March 11th-12th seem typical of the apparel industry, with a heavy focus on weekend trading.

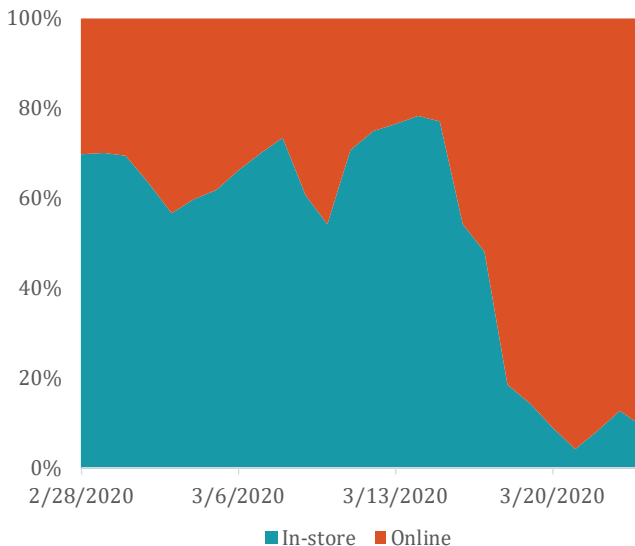
However, we saw a very large decline in in-store apparel spending between Saturday March 7th and Saturday March 14th, with spending declining 45% week-on-week, following the national emergency declaration. This decline has continued in late March, with a 90% fall in volume and 85% decline in value spend between Saturday March 7th and Saturday March 21st, consistent with social distancing measures introduced during that time period.

It is also worth noting some major retailers announced store closures in advance, with most major chains making announcements between March 14th and March 19th⁵. Therefore, it seems likely that many consumers were willing to make larger purchases now, since they don't know how long store closures will last for.

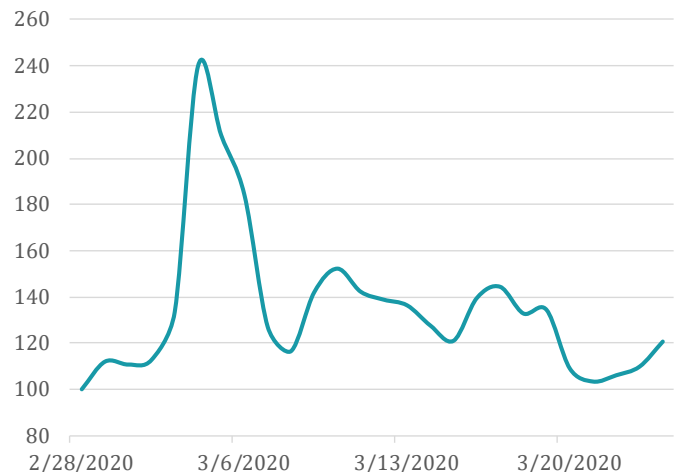
We see two explanations for this. First, there will of course be a degree of migration from in-store to online sales, given the decline in Card Present spending discussed above. Second, it appears consumers self-isolating have more time to spend browsing online, and many consumers may have extra disposable income to spend, considering they may be saving money on other things such as spending on travel, or in bars and restaurants. It will be interesting to see if these trends continue, particularly when the lockdown ends and widespread unemployment potentially takes hold.

FACT | We have seen an increase in purchases of sports equipment - these typically tend to be high value items.

APPAREL: IN-STORE TO ONLINE

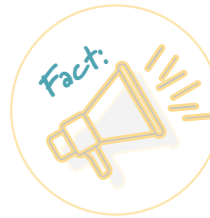
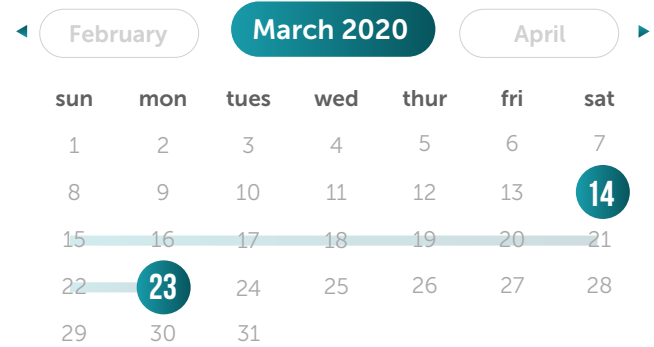


APPAREL SECTOR ATV - CARD NOT PRESENT



ATV Increases In-Store

Since March 14th, we have seen the in-store apparel ATV increase by 2.5x on average, suggesting consumers are only entering stores for significant, large purchases.



CNP apparel spend on March 20th was 3.5x higher than March 13th, exactly a week earlier.

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CORONAVIRUS AND THE DECLINE OF CASH

There has been speculation the Coronavirus pandemic could accelerate the decline of cash - which is already a dwindling and struggling tender type - with concerns bank notes and coins may be seen by consumers as vehicles to transfer viruses (as opposed to cards, which tend to only be touched by one person). Despite the WHO clarifying they did not say cash transmits the virus⁶, and no evidence to support the theory, the stigma remains.

Cash supply chains are vulnerable as it is, with low levels of profitability and negative profit or losses. In response, we've seen consolidation with global leading players Loomis and Brink's at the forefront and heavy marketing of fixed income cash office technology solutions. It is estimated there is a 7% threshold of cash spending below which retailers would no longer wish to accept cash and the supply chain would simply collapse⁷. In the U.S., the use of cash is around 15% of consumer spending, with some developed countries, such as Sweden, even close to this minimum threshold.

In contrast to the prevailing media rhetoric, the response – in the Eurozone at least – to the current crisis implies a rather positive outlook for cash, not a negative one.

ATM withdrawals are the main acquisition method of cash for consumers, so our figures here provide the first insight into the impact the Coronavirus is having on cash expenditure in Europe, the UK and Asia Pacific (APAC).

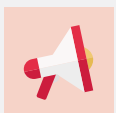


The Demand for Cash During a Crisis

In the week commencing 16th March, demand for cash increased by the most since the 2008-2009 financial crisis, with the value of euros in circulation rising by €18.8bn .



In Germany specifically, cash withdrawals more than doubled according to the Bundesbank. Is this symptomatic of consumers' instinctive reaction to hoard cash in a crisis?

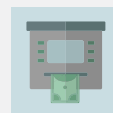


POST MARCH 9TH EPIDEMIC ANNOUNCEMENTS

UK:
Up 80%

EUROPE:
Up 65%

APAC:
Up 75%



POST MARCH 25TH ATM WITHDRAWALS

UK:
Down 40%

EUROPE:
Down 59%

APAC:
Down 55%

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CONTINUED:

CORONAVIRUS AND THE DECLINE OF CASH

In Spain, which is one of the worst hit countries by the Coronavirus, cash is still the dominant payment method. However, ATM withdrawals in Spain have declined heavily in March – by nearly 90%. This appears to have been accelerated by school closures and the nationwide lockdown.

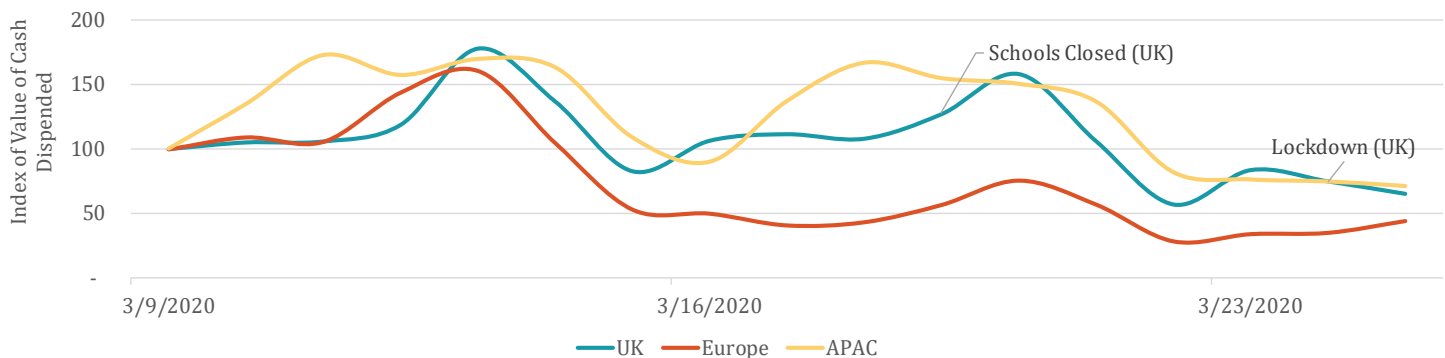
In the UK, cash withdrawal volumes weren't significantly impacted until school closures and the lockdown. For branch cash, demand increased by 75% before the announcements, although it has since fallen – but it is still 30% above where we would expect. Also in the UK, the contactless card transaction limit has been increased from £30 to £45, with the EBA recommending other countries to follow suit, suggesting we may see a movement in consumer spending away from cash – even though withdrawals are up.

What Does this Mean for Merchants?



For merchants, the cannibalization of cash by card payments is suboptimal because the cost of cash is lower than the cost of cards, and the costs of accepting cash are largely fixed. However, many industry commentators believe card payments can offer a superior customer experience through data insights and NFC/contactless payments, which are quicker at the POS.

COVID-19 IMPACT ON ATM CASH WITHDRAWALS



COVID-19 IMPACT ON ATM CASH WITHDRAWALS

