COVID-19 lockdown leads to unprecedented drop in consumer spending in April

Headline Findings:

- **Household expenditure** declines at sharpest pace in the series history (-28.8% on the year)
- **Face-to-Face** sees record fall in spend (-45.0%), while eCommerce is down only slightly (-2.4%)
- **Food & Drink** is only sector to register growth in spend, and sees best performance on record (+29.2%)

Visa’s UK Consumer Spending Index, compiled by IHS Markit, pointed to a sharp and accelerated fall in consumer spending during April, as strict measures to stem the spread of the coronavirus disease 2019 (COVID-19) pandemic led to a lockdown and brought large swathes of the economy to a standstill. Overall, expenditure declined -28.8% year-on-year, following a -12.1% reduction in March, to signal by far the steepest rate of contraction since the series began in July 2006.

Unprecedented falls in consumer spending were also seen on a monthly basis (-19.1%) and on the three-month-on-three-month measure (-13.3%).

The decline was predominantly driven by lower expenditure via Face-to-Face channels, which fell at a record pace (-45.0% on the year). Meanwhile, the drop in eCommerce spend was only mild (-2.4%).

(Continues overleaf)
Visa’s UK Consumer Spending Index

(Continued from page 1)

The only sector to record higher expenditure in April was Food & Drink. Furthermore, the rate of expansion was the quickest on record (+29.2% year-on-year).

Meanwhile, emergency public health measures, including the closure of non-essential shops and strict social distancing measures, led to record falls in spending across the seven remaining monitored categories. The sharpest declines were seen across the Hotels, Restaurants & Bars (-79.7%) and Transport & Communication (-68.3%) sectors.

eCommerce and Face-to-Face Spend

Expenditure via Face-to-Face channels fell at an unprecedented rate in April (-45.0% year-on-year), as measures to contain the spread of COVID-19 limited travel, interaction with others and led to widespread company closures. This exceeded the previous record in March (-11.3%) by a wide margin.

Spending through eCommerce channels fared far better as many consumers switched their spending to online, and declined by just -2.4% on the year in April. This was a notable improvement from the -13.2% record fall seen at the end of the first quarter.

Spending by Sector

Visa’s UK Consumer Spending Index monitors eight broad sectors. Summary data for annual growth rates in February, March and April, which are not adjusted for seasonality and trading days, are provided in the table opposite.

Strict measures to stem the spread of COVID-19, which included limited travel and the closure of all but essential shops, underpinned marked falls in all categories of spend except Food & Drink in April. Moreover, Food & Drink retailers saw the quickest rise in spend since the series began in June 2009.

In contrast, all other seven monitored categories recorded the sharpest reductions on record. Hotels, Restaurants & Bars registered the steepest overall decline, followed by Transport & Communication. The softest, but still substantial, drops in spend were seen in Misc. Goods & Services (which includes hairdressers and jewellers) and Recreation & Culture categories.

UK CSI: eCommerce vs Face-to-Face*

Annual % Change

*Data not adjusted for seasonality and trading days

Annual Growth Rates By Sector

Data not adjusted for seasonality and trading days

<table>
<thead>
<tr>
<th>Broad Sector</th>
<th>Feb’20</th>
<th>Mar’20</th>
<th>Apr’20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food, Beverages &amp; Tobacco</td>
<td>+3.8%</td>
<td>+20.5%</td>
<td>+29.2%</td>
</tr>
<tr>
<td>Clothing &amp; Footwear</td>
<td>-1.0%</td>
<td>-30.2%</td>
<td>-40.6%</td>
</tr>
<tr>
<td>Household Goods</td>
<td>-0.1%</td>
<td>-9.1%</td>
<td>-24.6%</td>
</tr>
<tr>
<td>Health &amp; Education</td>
<td>+3.6%</td>
<td>-20.6%</td>
<td>-57.0%</td>
</tr>
<tr>
<td>Transport &amp; Communication</td>
<td>+1.0%</td>
<td>-27.4%</td>
<td>-68.3%</td>
</tr>
<tr>
<td>Recreation &amp; Culture</td>
<td>+2.9%</td>
<td>-16.8%</td>
<td>-21.3%</td>
</tr>
<tr>
<td>Hotels, Restaurants &amp; Bars</td>
<td>+5.8%</td>
<td>-32.3%</td>
<td>-79.7%</td>
</tr>
<tr>
<td>Misc. Goods &amp; Services</td>
<td>+2.9%</td>
<td>-11.8%</td>
<td>-21.1%</td>
</tr>
</tbody>
</table>
Official Data Comparisons

Annual percentage changes in Visa’s UK Consumer Spending Index have a good relationship with a number of official data series, such as Gross Domestic Product (GDP) from the Office for National Statistics (ONS).

Over the course of 2019, Visa’s UK Consumer Spending Index (CSI) data successfully pointed to softer economic growth and expenditure trends.

The latest official data published by the Office for National Statistics (ONS) pointed to a marginal expansion of GDP in the three months to February (+0.1%), after the economy stagnated in the three months to January.

The outbreak of the COVID-19 pandemic led to a sharp deterioration in conditions during March and April, however, as strict measures to halt the spread of the virus led to widespread company closures and households were put on lockdown. Furthermore, the IHS Markit/CIPS PMI data for April showed that business activity, new work and employment all contracted at the steepest rates on record, surpassing those seen even during the global financial crisis. Consequently, upcoming releases of official data are expected to show a marked contraction of economic activity.

As the emergency public health measures are set to be eased slowly, it is likely that consumer spending will remain under pressure through Q2 as social distancing rules and other measures will continue to impact business operations and household movement.

Visa’s UK Consumer Spending Index uses card transaction data to provide a robust indicator of total consumer expenditure across all payment methods and is used by a range of stakeholders to gain insights into consumer spending, including HM Treasury. It is based on spending on all Visa debit, credit and prepaid cards which are used to make an average of over 2.3 billion transactions every quarter and account for £1 in £3 of all UK spending. Working with IHS Markit, these card spending data figures are adjusted for a variety of factors such as card issuance, changing consumer preferences to pay by card rather than cash and inflation. These adjustments mean that these data are distinct from Visa’s business performance and the Index reflects overall consumer spending, not just that on cards.

Further information:

Ian Burge, Visa
Tel: +44 (0) 203 144 2196
Email: burgei@visa.com

Sources for Charts: Visa, ONS, European Commission
NSA: Non-Seasonally Adjusted, SA: Seasonally Adjusted
Utilising Visa’s unique position at the heart of the payments ecosystem – with £1 in every £3 spent in the UK on a Visa card – Visa’s UK Consumer Spending Index is designed to provide a monthly assessment of underlying consumer spend patterns in the UK economy. The Index is based on data for all Visa debit, credit and prepaid cards held by UK cardholders, with a number of adjustments made to ensure an accurate indication of consumer spending trends is provided.

First, the data are cleaned to remove any spending on items that are not ordinarily classified as consumer expenditure (such as spending on savings products or taxes). Moreover, refunds and cashback are also accounted for at this stage. Second, the data are deflated by changes in the number of active Visa cards in order to account for the expansion of Visa’s card operations, particularly on the debit side. Thirdly, an adjustment is made to offset changing consumer preferences for card usage. This is based on data on payments at terminals and cash withdrawals sourced from a report published by the ECB. Fourthly, to account for inflation, the data are deflated by changes in the consumer price index to provide an indicator of real changes in household spending. Finally, the headline data are seasonally and trading day adjusted.

From September 2015, in addition to spending at domestic-based merchants in the UK, we also include spending at selected online companies operating outside of the UK that sell items such as clothing, holidays, books, etc. The addition is designed to ensure that we successfully capture changing trends in spending and confidence amongst UK consumers – primary aims of our research.

‘Visa’s UK Consumer Spending Index’ spending by product categories consist of the following standard Classification of Individual Consumption According to Purpose (COICOP) groups:

- Food, Beverages & Tobacco Group 1,2
- Clothing & Footwear Group 3
- Housing & Household Goods Group 4,5
- Health & Education Group 6,10
- Communication & Transport Group 7,8
- Recreation & Culture Group 9
- Hotels & Restaurants Group 11
- Miscellaneous Goods & Services Group 12

Visa Inc. (NYSE: V) is the world’s leader in digital payments. Our mission is to connect the world through the most innovative, reliable and secure payment network – enabling individuals, businesses and economies to thrive.

Our advanced global processing network, VisaNet, provides secure and reliable payments around the world, and is capable of handling more than 65,000 transaction messages a second.

The company’s relentless focus on innovation is a catalyst for the rapid growth of connected commerce on any device.

As the world moves from analogue to digital, Visa is applying our brand, products, people, network and scale to reshape the future of commerce.

For more information, visit (www.visaeurope.com), the Visa Vision blog (vision.visaeurope.com), and @VisaInEurope

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