Consumer spending falls at record pace as COVID-19 outbreak hits the economy

Headline Findings:

**Household spending** falls at quickest rate since series began in July 2006 (-12.1% on the year)

**eCommerce** and **Face-to-Face** both see marked drops in expenditure (-13.3% and -11.3% respectively)

**Food & Drink** bucks overall trend and sees surge in spend during March amid stockpiling (+20.5%)

Visa’s UK Consumer Spending Index, compiled by IHS Markit, signalled a renewed and sharp decline in household spending during March, as emergency public health measures put in place to stop the spread of COVID-19 led to company closures and travel restrictions. Expenditure fell by -12.1% compared to a year ago, which marked the fastest reduction on record. This followed the first increase in expenditure for 17 months in February (+0.6%).

On the monthly measure, spending fell -12.7%, while on a quarterly basis it was down by -4.4%. These were also the steepest falls seen in the history of the index.

The sharp decline in total spend was driven by record drops in expenditure across both Face-to-Face (-11.3% on the year) and eCommerce (-13.3%) categories.

(Continues overleaf)

Adolfo Laurenti, European Principal Economist, Visa, commented:

“Visa’s UK Consumer Spending Index showed a sharp drop in March as concerns about the covid-19 pandemic mounted and consumers hunkered down. The unprecedented fall in consumer spending comes as no surprise given the ongoing lockdown measures in place in the UK.

“Social distancing is taking a toll on many business that rely on discretionary spending. Amongst the specific sectors that we track, Hotels, Restaurants & Bars was worst hit, declining by nearly a third year-on-year as businesses have been instructed to close. The sector which bucked the trend was Food & Beverages, which reflects a shift toward greater consumption at home.”

Annabel Fiddes, Economics Associate Director at IHS Markit, said:

“The impact of the emergency public health measures to stop the spread of COVID-19 on household spending was laid bare by the latest Visa CSI data, with March seeing the sharpest drop in expenditure since the series began in mid-2006.

“While household stockpiling drove the best performance of Food & Drink categories on record, all other areas suffered severe drops in spend at the end of the first quarter. Hotels, Restaurants & Bars and Transport & Communication were among the worst hit, as company closures and travel restrictions led to a marked decline in footfall and demand. As there is still much uncertainty as to how and when these restrictive measures will be lifted, it’s likely that spending and economic performance will be weak as we enter the second quarter. Furthermore, IHS Markit forecast that real UK GDP will contract by -4.3% in 2020.”
Visa’s UK Consumer Spending Index

(Continued from page 1)

Of the eight broad spending categories monitored by the index, only Food & Drink recorded higher spend in March. Notably, expenditure in this category increased at the sharpest pace since sector data became available in June 2009, surging by +20.5% compared to a year ago.

Elsewhere, spending fell substantially as health measures led to widespread closures of non-essential consumer-facing businesses. Hotels, Restaurants & Bars (-32.4%), Clothing & Footwear (-30.6%) and Transport & Communication (-27.6%) saw the fastest rates of decline, with all three seeing by far the steepest reductions on record.

eCommerce and Face-to-Face Spend

March data signalled the quickest reductions in expenditure across both eCommerce and Face-to-Face channels since these series first became available in June 2009.

After rising for the first time since September 2018 in February (+1.4% on the year), Face-to-Face spending fell markedly in March (-11.3%).

Likewise, after a solid increase in February (+4.4%), eCommerce expenditure declined sharply into contraction territory at the end of the first quarter (-13.3%).

Spending by Sector

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

Public health measures to contain the spread of COVID-19 led to travel restrictions and all but essential shops closing in March, and contributed to marked drops in spend across all bar one of the eight monitored expenditure categories.

The most severe reduction in spend was seen across Hotels, Restaurants & Bars. This was closely followed by Clothing & Footwear, Transport & Communication, Health & Education and Recreation & Culture. In all five cases, the rates of contraction were the sharpest since the series began in mid-2009 by a large margin. Softer, but still substantial, falls in expenditure were also recorded for Household Goods and Misc. Goods & Services.

Food & Drink meanwhile bucked the overall trend and registered the steepest increase in spend on record, driven by stockpiling efforts across many households.

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>Jan’20</th>
<th>Feb’20</th>
<th>Mar’20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food, Beverages &amp; Tobacco</td>
<td>-3.0%</td>
<td>+3.8%</td>
<td>+20.5%</td>
</tr>
<tr>
<td>Clothing &amp; Footwear</td>
<td>-5.3%</td>
<td>-1.0%</td>
<td>-30.6%</td>
</tr>
<tr>
<td>Household Goods</td>
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<td>-0.1%</td>
<td>-9.3%</td>
</tr>
<tr>
<td>Health &amp; Education</td>
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<td>-20.6%</td>
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<td>Transport &amp; Communication</td>
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<td>-27.6%</td>
</tr>
<tr>
<td>Recreation &amp; Culture</td>
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<td>+2.9%</td>
<td>-16.8%</td>
</tr>
<tr>
<td>Hotels, Restaurants &amp; Bars</td>
<td>+4.4%</td>
<td>+5.8%</td>
<td>-32.4%</td>
</tr>
<tr>
<td>Misc. Goods &amp; Services</td>
<td>-3.4%</td>
<td>+2.9%</td>
<td>-11.8%</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 have 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.

However, the sudden and widespread impact of the COVID-19 pandemic led to a marked deterioration in economic conditions during March. Notably, the latest IHS Markit/CIPS UK PMI data pointed to the sharpest contraction of business activity since the series began in 1996, as company closures and travel restrictions had a substantial impact on both businesses and consumers.

The emergency measures in place to slow the spread of the virus are therefore expected to weigh heavily on economic performance for the first quarter as a whole. However, as these health measures currently have no set end date, they will likely continue to have a substantial impact on household spending and the economy as we move into the second quarter.

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:

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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