Visa Business and Economic Insights

Global Economic Insights

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In This Issue

2020 holiday sales start strong globally

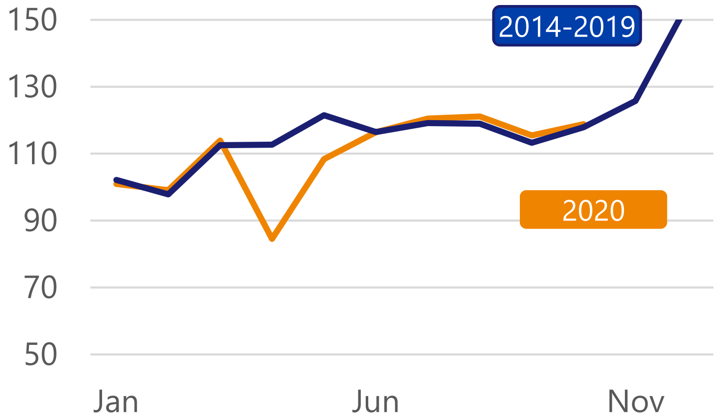
November and December are the two most important shopping months of the year for over 120 countries[1] and half of the world's population. One-fifth of all retail sales (less autos, gas and restaurants[2]) occur during these months. Given the pandemic-related losses earlier in 2020, both small and large businesses face greater financial pressure for a strong ending to the year.

For businesses within the more economically developed and mature economies, holiday sales are likely to meet if not surpass last year's levels. Three factors are cause for the optimistic view: a shift in consumers' spending mix in favor of retail sales, a bounce-back in spending in previously closed sectors, and the move (for many) to working from home.

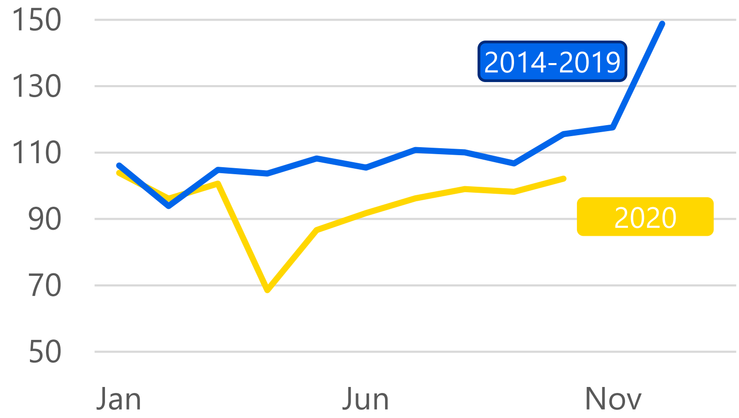
Retail sales are back on track for some countries

As the holidays approach, retail sales growth globally has taken on a K-shape, with more developed, advanced economies[3] recovering faster as their offline spending approximates their typical seasonal trend. Retail sales in emerging markets, in contrast, remain depressed. In some cases, sales are actually losing strength. The recent divergence between the two groups of countries comes after a fairly synchronous downturn. Retail sales over the first nine months of 2020 fell 5 percent compared to the same period in the previous year in each group of countries.

Advanced economies have largely closed the gap in offline retail sales (Jan-Feb = 100, 2015 $US)



Offline retail sales continue to lag in emerging markets (Jan-Feb = 100, 2015 $US)



Sources: Visa Business and Economic Insights, VisaNet, IMF/Haver Analytics

Retail sales are back on track for some countries (cont.)

Why have advanced economies recovered faster? Four factors contributed. First, governments in advanced economies had much greater capacity to provide income support to their households and businesses, collectively adding deficit spending equal to 7 percent of total output, which is twice as much in relative terms compared to emerging markets. Second, emerging economies are more dependent on cross-border trade and commodity prices, both of which declined sharply, and therefore had a disproportionately more negative impact on household incomes. Advanced economies were better able to preserve their small businesses. As of October, only two out of every three small and medium-sized businesses in emerging markets had card activity. In comparison, three out of every four small businesses were active during the same month in advanced economies. Lastly, the first wave of the pandemic lingered longer, with more devastating impact on emerging markets, especially in Latin America, than it did elsewhere in the world.

Beyond these macro-issues, the way in which consumers have adjusted to the challenges faced by the pandemic also provides a boost to holiday sales this season in advanced economies. Taking a closer look at two of the world's largest advanced economy markets—the United States and the European Economic Area (EEA)[4]—reveals that **consumers adapted in three distinct ways that could explain why holiday sales may be stronger than general economic conditions suggest.**

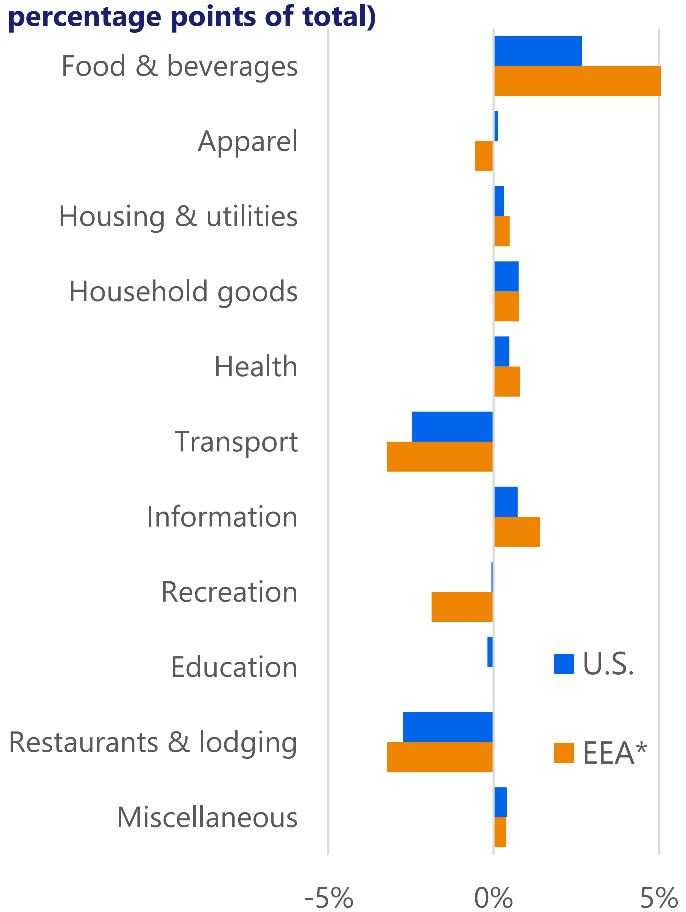
Adaptation #1: Spending shifts from closed to open sectors

Health restrictions and social distancing have disproportionately impacted restaurants and hotels throughout much of this year. In April, only 20 percent of restaurants and hotels in the EEA, and 56 percent in the U.S., remained open. Today, more restaurants and hotels are open, but activity in the sector remains subdued relative to food retailing. As a result, consumer spending on eating out is now increasingly spent on food at home.

In both the EEA and U.S., the share of consumer spending on restaurants and lodging is down 3 percentage points, while grocery spending is up 5 percentage points in the EEA and 3 percentage points in the U.S. To accurately capture these shifts in spending, this analysis relies on price and exchange rate-adjusted comparisons across countries and categories.

For the purposes of tracking holiday spending, these shifts matter because restaurant spending is not counted towards holiday sales, whereas food purchased at stores is. So, while the current wave of infections is leading to greater restrictions on restaurants and suppressed restaurant spending, it also reinforces a stronger holiday sales reading due to the grocery component. Moreover, in the U.S., higher than average inflation in food prices should also help to boost holiday sales on a nominal basis. Supply chain disruptions, inclement weather last year, and strong consumer demand have caused households to spend more on groceries than before.

Shift in the mix of consumer spending in constant dollars and prices (Jan-Sep 2020 vs. Jan-Sep 2019, percentage points of total)



Sources: VisaNet, Eurostat/Haver Analytics, IMF/Haver.
*European Economic Area (EEA)

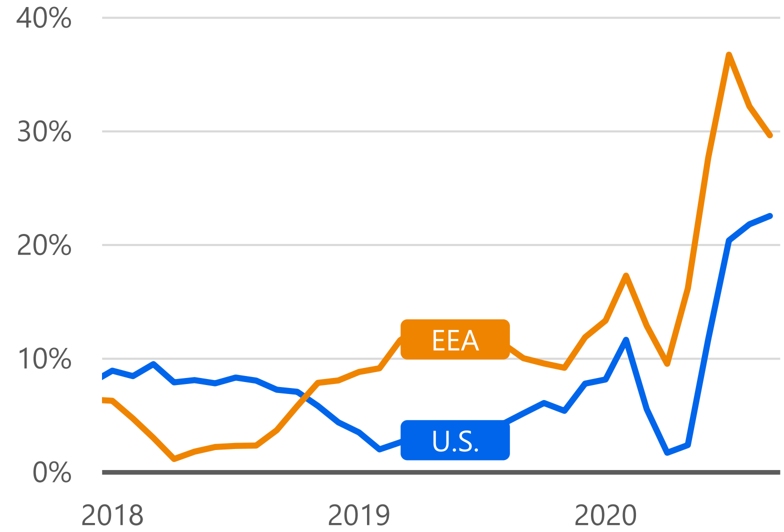
Adaptation #2: Working from home creates new demand

Since telework has become the new normal, consumers have scrambled to make their living spaces more comfortable for spending more time at home. In the European Union, only 15 percent of workers had ever worked from home prior to the pandemic; now it's close to 40 percent.[5] A similar shift has occurred in the U.S.

While the trend appears to have peaked in the EEA and plateaued in the U.S., growth in spending on housing, utilities and household goods remains elevated relative to pre-pandemic levels.

In both markets, consumers are now allocating an additional percentage point of their total spending to purchasing goods and services for their homes. While this increased level of spending most likely will continue through the rest of the year, over the medium-term it remains to be seen whether households will continue to spend as much at home once offices re-open and travel and tourism resumes.

Consumer spending on housing, utilities and household goods (2015$, constant prices, YoY change, 3 month moving average)



Sources: VisaNet, Eurostat/Haver Analytics, IMF/Haver Analytics

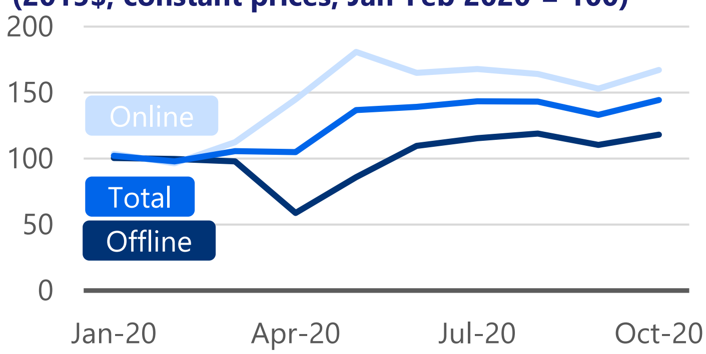
Adaptation #3: Spending bounces back when lockdowns are lifted

Spending in some categories tends to bounce back once the danger passes. During the pandemic, clothing and footwear purchases that were deferred during the peak of the lockdowns came back once shops re-opened. While both the EEA and U.S. were hit at the same time, of note is how they have diverged during and after the peak.

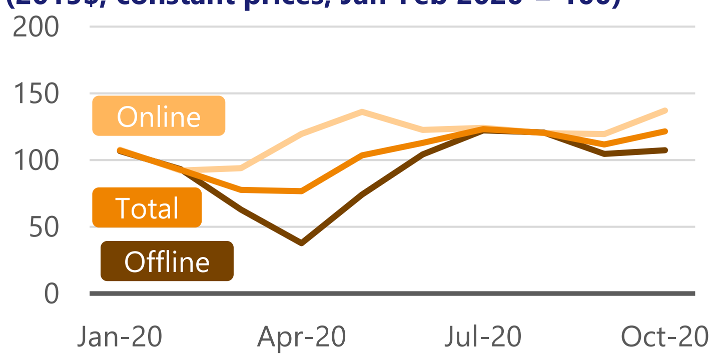
EEA consumers' greater reliance on in-store clothes shopping—accounting for 69 percent of all pre-pandemic apparel sales—likely drove the EEA's sharper fall during peak lockdowns. In the U.S.— where only 59 percent of apparel sales were in-store, consumers were more accustomed to online shopping, and retailers had established online sales channels—the pandemic-induced dip was shallower.

Since the lockdowns were lifted, in-store clothing purchases in the EEA and U.S. have fallen to 57 percent and 47 percent of all sales, respectively. In the EEA, at least 13 percent of online sales is done through e-commerce marketplaces and platforms, versus 30 percent in the U.S. These trends indicate that more consumers in both markets are now shopping online than before.

U.S. consumer spending on clothing and footwear (2015$, constant prices, Jan-Feb 2020 = 100)



EEA consumer spending on clothing and footwear (2015$, constant prices, Jan-Feb 2020 = 100)



Sources: VisaNet, Eurostat/Haver Analytics, IMF/Haver Analytics

VISA

Momentum should carry retail sales through the holidays

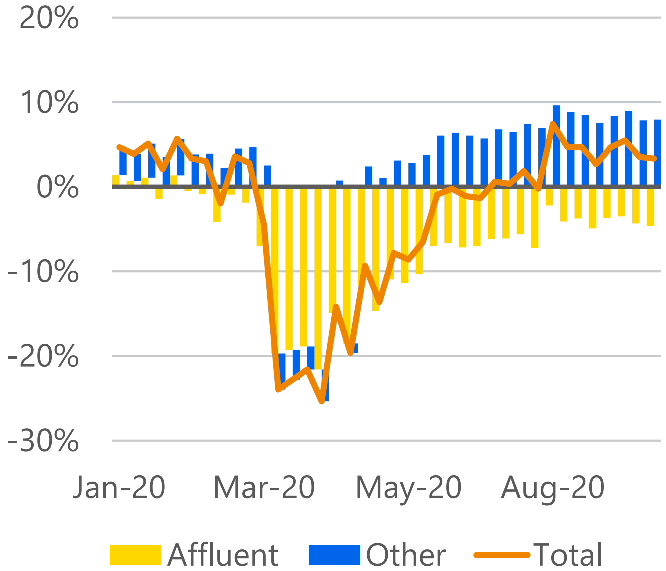
The shifts in spending and consumer savings resulting from the lockdowns should help to support spending through the holiday season. However, spending trends into mid-2021 are less certain. Growth and spending could slip backwards due to the coronavirus resurgence and expiring fiscal support to households and businesses.

The evolution of spending in emerging markets provides a cautionary example of how fragile spending gains can be.

Additionally, when we decompose the trends in growth, what stands out is how much current spending growth relies on households of more limited means. Since the pandemic started, spending by the affluent has remained depressed.

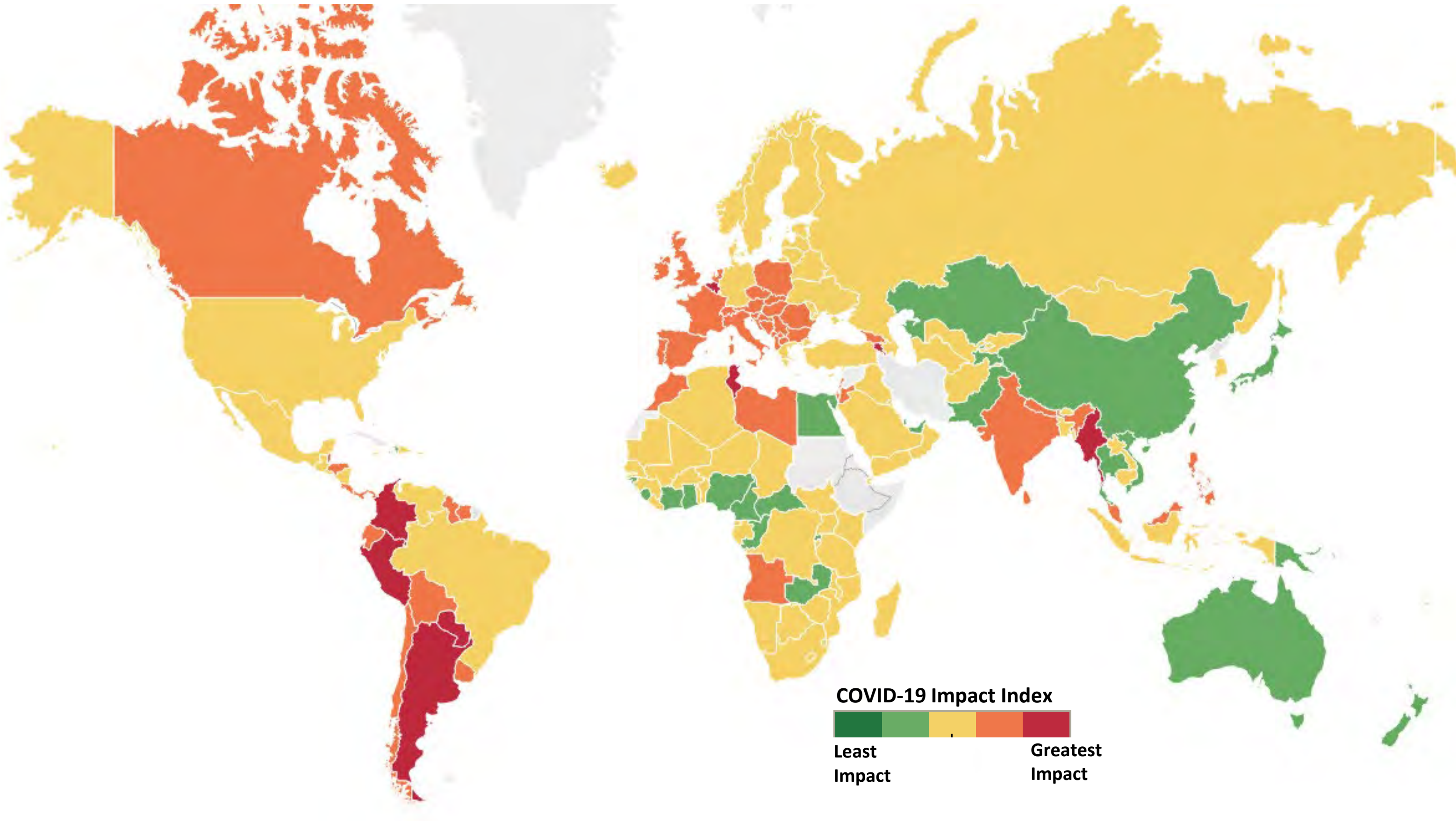
Until that changes, consumer spending will depend on a more narrow set of households and could be more prone to setbacks.

Less affluent households[6] globally lead the recovery in spending, while affluent households lag (YoY percent change, constant 2015$ payment volumes)



Sources: VisaNet, Eurostat/Haver Analytics, IMF/Haver Analytics

Economic impact of COVID-19 (by country as of 30 October)



- The recent wave of COVID-19 has constrained the global economic recovery. In October, the virus had the greatest impact on economic conditions in Europe and Latin America.
- The number of confirmed cases has reached 58 million globally, with 37 million recoveries and 1.3 million deaths as of 22 November 2020.
- In response to the rapid spread of the disease, European countries have re-imposed national lockdowns. Renewed surges have also emerged in the United States, Canada, Russia and India.
- Within Europe, spending on discretionary items and on travel has retreated the most over the last two months in response to the rising pandemic risk levels in the region.

The **Visa COVID-19 Economic Impact Index** tracks how the pandemic has affected economic activity across the globe through 12 key indicators: COVID-19 confirmed cases, COVID-19 death rates, airline transactions, cross-border lodging transactions, discretionary spend, discretionary transactions, restaurant spend, restaurant transactions, Google COVID-19 community mobility, consumer confidence, Purchasing Managers' Index (PMI) and leading economic indicators.

Asia Pacific

Weiwen Ng

- **Asia hails the world's largest trade agreement with the Regional Comprehensive Economic Partnership** (RCEP) that was signed on 15 November by 15 Asian nations. This major multilateral trade deal accounts for nearly a third of the world's population and GDP, and comprises USD12.4 trillion in trade. The goal is to increase rules-based economic interaction among the members. The Peterson Institute for International Economics estimates that the RCEP will add USD186bn to the global economy by 2030.
- **The Singapore-Hong Kong travel bubble marks a key milestone towards reviving cross-border travel in a coordinated and safe manner**, potentially serving as a model for the rest of the world. Based on the new guidelines, passengers would be required to undergo a COVID-19 test and test negative less than 72 hours prior to departure. All forms of air travel between the two Asian business hubs were initially set to resume on 22 November, but the start date was postponed for two weeks after a rise in new daily cases in Hong Kong.
- **Consumption continues to drive recovery in China and Japan.** In China, retail sales excluding auto sales rose 3.6 percent YoY in October, improving from 2.4 percent in September. In Japan, private consumption, which makes up more than half of the economy, rebounded 4.7 percent in the third quarter relative to the preceding quarter.

CEMEA

Mohamed Bardastani

- **Regional PMIs of the three largest MENA economies diverge in October.** Economic and business conditions continued to improve in Saudi Arabia and Egypt in October. Saudi and Egypt managed to bring their first wave of infections under control. On the other hand, economic recovery in the UAE stalled in October, with the PMI falling below the neutral 50 point separating growth from contraction and a strong second wave.
- **Russia's strong second wave weighs on the economy**. New daily cases continued to soar in Russia as the ICU beds occupancy approached 90 percent by the end of October. In response, the government has re-introduced social distancing measures. Russia's composite PMI fell to 47.1, down from 53.7 in September, proving once again that economic recovery will largely depend on epidemiological developments.
- **Lifting of restrictions in South Africa facilitates economic recovery.** The South African economy returned to growth in October on a MoM basis, marking the first monthly expansion in 18 months. The phased lifting of one of the strictest lockdown policies worldwide has supported the overall pace of recovery, as business conditions improved and infection rates stabilized over the past few weeks. However, for the year overall, a deep economic recession is still expected, contracting by 8.9 percent according to some estimates.

Europe

Adolfo Laurenti

- **A rapid increase in the number of COVID cases forced several countries to re-introduce restrictions** to movement and social life. Nation-wide lockdowns are now in place in the U.K., France, Spain and Greece; partial lockdowns are in effect in Germany and Ireland, while Italy adopted a regional three-tier framework. Several countries are enforcing night-time curfews.
- **Economic conditions deteriorate.** PMI surveys for the services industry point to contractions in Germany, France, and Italy. Manufacturing is holding up better, partly due to the resilience of exports.
- **GDP data for the 3rd quarter were generally positive, but they also underscore a very large gap** from pre-pandemic levels. Aggregate Eurozone domestic income remains more than 4 percent below its 2019 year-end level.
- **Brexit negotiations are entering an accelerated stage as the 31 December deadline,** marking the end of the transition period, looms. So far, progress has been reported in drafting a deal, but some contentious issues (such as fisheries, "level playing field" rules, and enforcement arrangements) are yet to be solved.

United States

Jeffrey Roach

- **Nominal personal spending rose 1.4 percent in September while personal income rose 0.9 percent in the same period.** The saving rate fell for the fifth consecutive month to 14.3 percent but remained elevated as social distancing measures constrained consumer spending, particularly on services. Decelerating wage and salary growth is consistent with slowing momentum in the labor market. September wage and salaries grew 0.8 percent, the weakest since April.
- **The ISM Report on Business indicated that both the services and manufacturing sectors grew in October**. Manufacturers' new orders component rallied to levels last seen in 2004. Manufacturers plan to increase output as retailers and wholesalers rebuild inventories. Overall, manufacturing and services activity expanded in October and is a positive indicator that the economic recovery continued into Q4.
- **Consumer Confidence in October slipped to 100.9 from 101.3 last month.** Future buying plans turned downward for most items except homes. Fewer respondents plan to buy cars or major appliances such as refrigerators, washing machines or TVs in the next six months. New England, Middle Atlantic and Pacific regions are still underperforming the rest of the nation.
- **The pace of hiring moderated for the fourth straight month in October, with 638,000 jobs added,** down from the 672,000 jobs added in September. As of October, there were 10 million fewer jobs relative to the pre-recession level of employment in February. As the pandemic continues, more of the layoffs will be permanent, prolonging the labor market recovery.

Canada

Mariamawit Tadesse

- **Canadian regions have once again imposed restrictions** to indoor dining, recreational activities and large gatherings as COVID-19 cases surge.
- **Bank of Canada maintains the overnight interest rate at 0.25 percent** until the 2 percent inflation target is reached, which the bank expects to occur after 2023. The Bank of Canada and OSFI are launching a pilot project that incorporates climate-change scenarios to comprehend the risk to the financial system as it moves to a low-carbon economy.
- **Canadian small business revenues dropped 40 percent YoY in August.** The pandemic has accelerated the digital transformation of small businesses. Among online small businesses, 47 percent started selling online just this year and 34 percent did so after March**.**

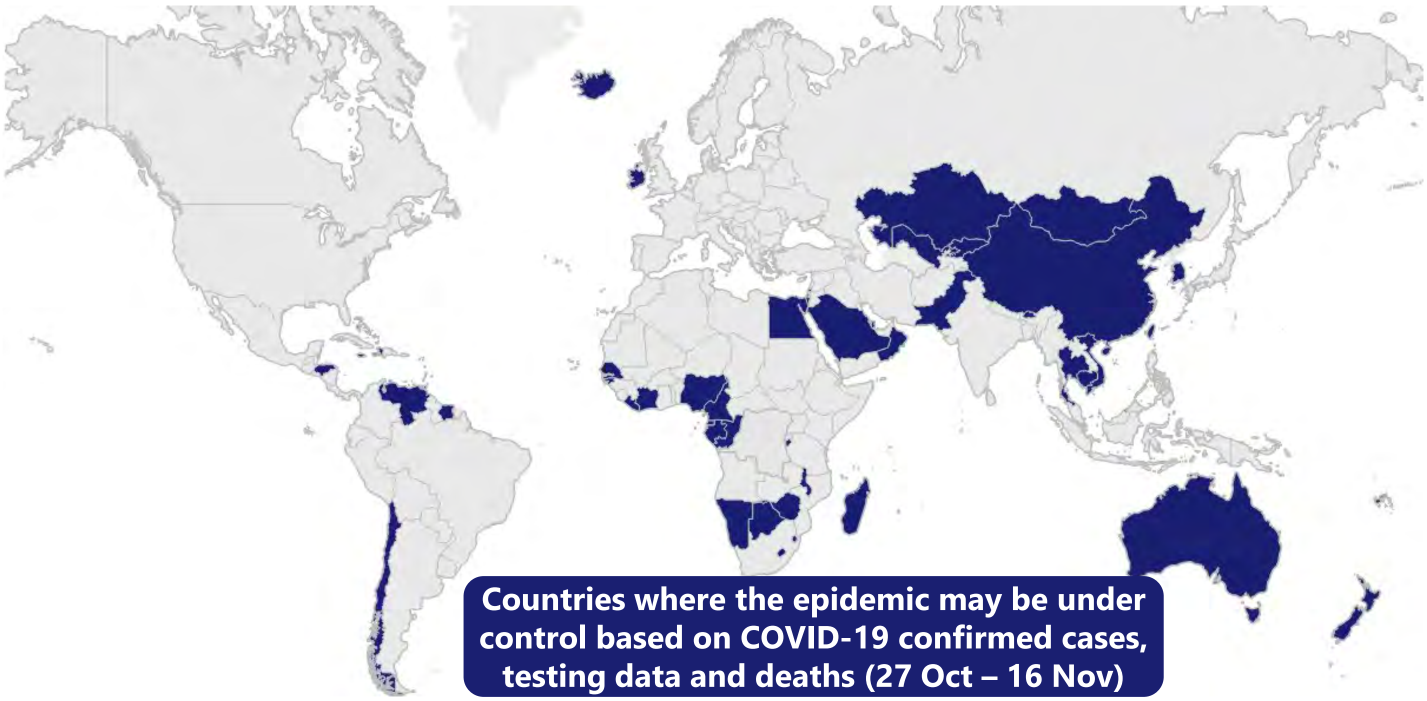
Latin America & Caribbean

Mariamawit Tadesse

- **Peru has named its third president in a week,** and its fifth in five years. The political instability has pushed the Peruvian Sol 0.7 percent to a record low of 3.67 per dollar, and could have implications for the recovery. The central bank said the economy prior to these changes was recovering faster than expected based on the significant improvement in the production of electricity and cement, both of which are leading indicators of economic activity.
- **Preliminary data show Mexico's economy rebounded 12 percent in Q3 (quarter-over-quarter, seasonally adjusted annualized rate) from -17.1 percent in Q2** due to reopenings and strong U.S. demand for Mexican exports. Mexico's central bank kept its benchmark interest rate unchanged at 4.25 percent despite inflation in October rising to 4.1 percent, which was 10 basis point above the upper end of its inflation target range.
- **Latin America and the Caribbean economies have 45 percent of jobs in contact-intensive sectors** such as restaurants, retail stores or public transportation, compared to 30 percent for emerging markets, according to the IMF. Only one in five jobs qualify as teleworkable. The combination of contact-intensive jobs and few teleworkable jobs has contributed to the economic contraction.

Global cross-border travel and COVID-19 trends (27 Oct – 16 Nov)

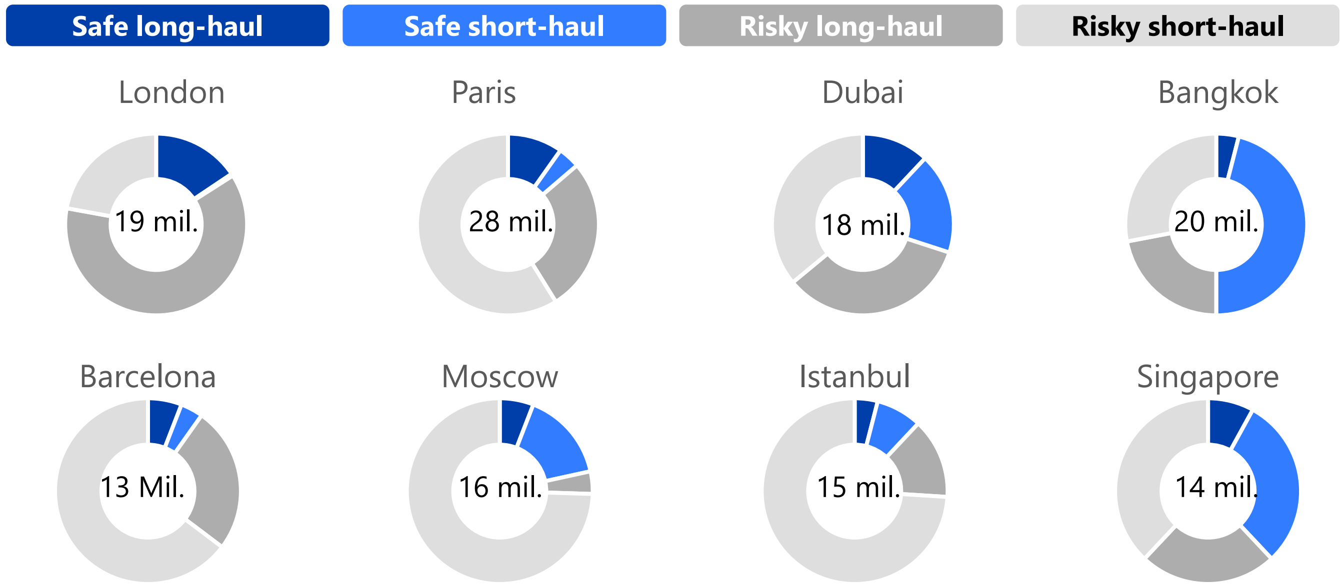
- Since our last insight, the number of safe countries declined from 68 to 64 as COVID-19 cases and hospitalizations continued to surge.



Source: Johns Hopkins University/Haver Analytics, ourworldindata.org/coronavirus-testing;

Key travel destinations (2019-2020 winter arrivals, by degree of virus control in origin countries)

- In previous months, Europe's Schengen Area (consisting of 26 European countries) had contributed to the slow rebound in international travel. Since August, however, travel within Europe has dwindled due to the second wave of the coronavirus. France has become the first European country to surpass 2 million cases.
- The recent surge in COVID-19 is impacting the winter holiday travel season. Numerous countries have re-implemented lockdowns and travel restrictions.
- Bangkok and Singapore continue to fare better compared to the other big cities.

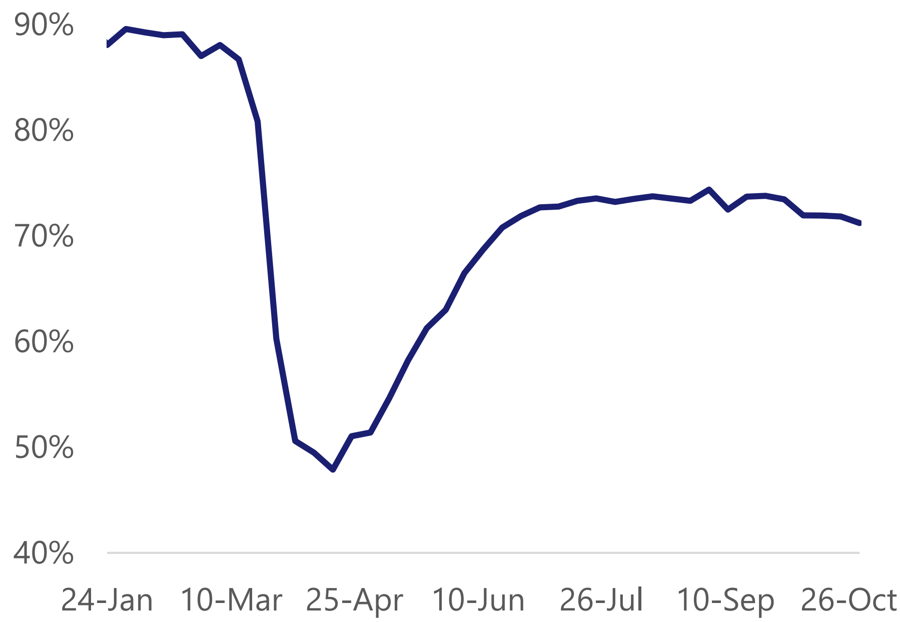


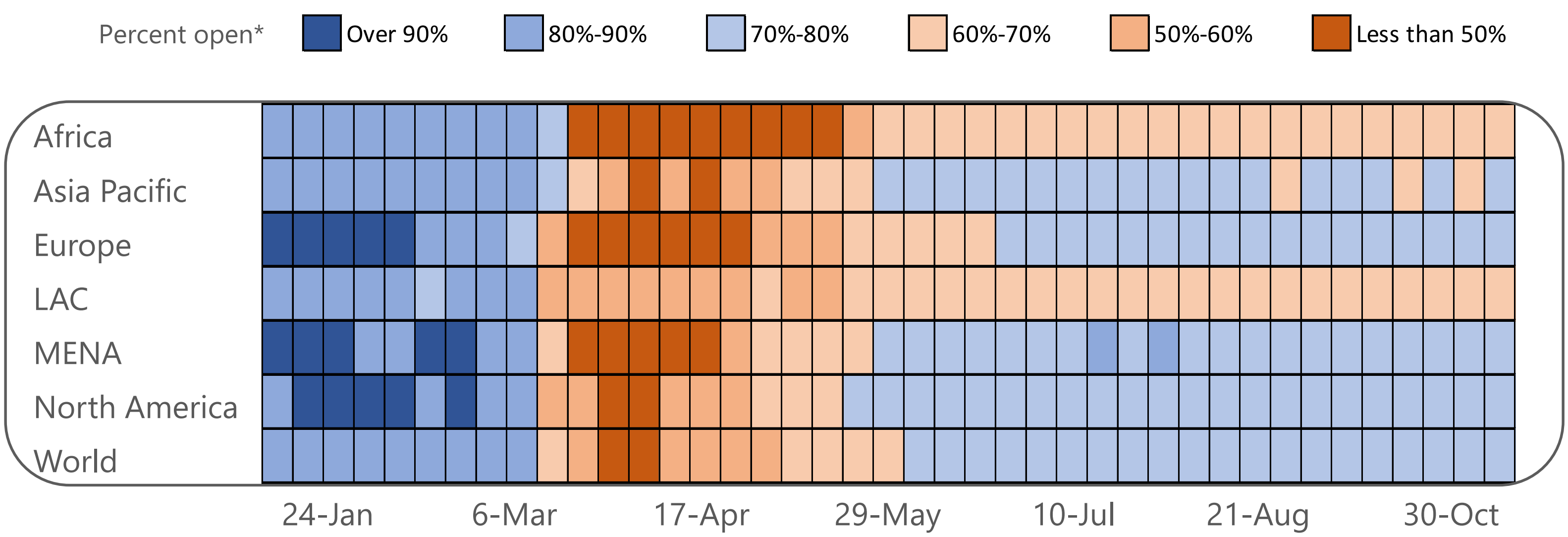
Sources: Visa Business and Economic Insights, Visa International Travel (VISIT) database.

Small and medium-sized businesses show greater resilience to a global surge in cases

- Most small and medium-sized businesses (SME) that survived the first wave remained open in October despite a resurgence in COVID cases
- Businesses and customers are adapting better to the pandemic, and fewer SMEs are likely to close in the second wave. However, when closures do occur this time, they will most likely be permanent.
- Regionally, small businesses in Europe have been most resilient to the pandemic to date. However, Europe also led other regions in new SME closures in October, just as it was heading into the holiday sales season
- The share of SMEs that remained open in October was lowest in travel and entertainment categories and highest among merchants that cater to work and consumption at home

Small and medium-sized businesses that remain open (Percent of total active in 2019)





Sources: Visa Business and Economic Insights, VisaNet. *Merchant closures and reopenings are estimated based on activity at point-of-sale terminals in 2019. Merchants are classified as small and medium if their total domestic purchase volume in 2019 was not in the top quartile of all merchants within the same industry and city.

Notes

[1] Countries were classified as being more dependent on sales in the last two months of the year, if over the last five years, the average card spending in retail categories in November and December was greater than any other month during the rest of the year, and spending spiked by at least 25 percent relative to the other months.

[2] Restaurants include all food service providers such as sit-down restaurants, quick-service restaurants and caterers.

[3] Classification of countries by development level follows the system used by the International Monetary Fund. Advanced economies include: Australia, Austria, Belgium, Canada, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hong Kong SAR, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Macao SAR, Malta, Netherlands, New Zealand, Norway, Portugal, Puerto Rico, San Marino, Singapore, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Taiwan Province of China, United Kingdom, and United States. Given data limitations, the analysis excludes China.

[4] European Economic Area includes Austria, Belgium, Croatia, Czech Republic, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Iceland, Liechtenstein, and Norway.

[5] European Commission, "Telework in the EU before and after the COVID-19: where we were, where we head to," Science for Policy Briefs, "https://ec.europa.eu/jrc/sites/jrcsh/files/jrc120945_policy_brief_-_covid_and_telework_final.pdf

[6] Affluence levels are imputed per country based on spending amounts per Visa-branded credential in 2019

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