THE CONSUMER AND COVID-19

Part 1 (of 3): Life at work

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Changes in the way we work, eat and play

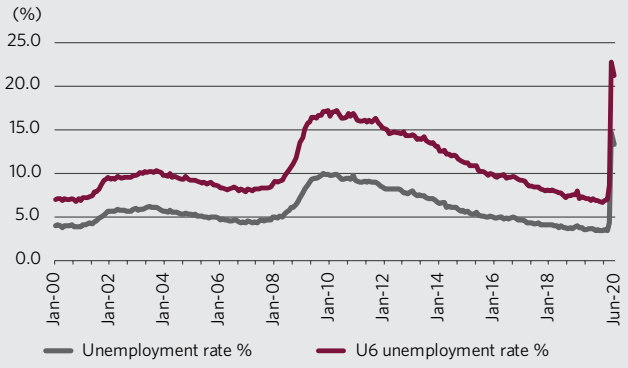
The Great Recession of 2008-09 was so unusual because it emerged very quickly and did a lot of rapid-fire damage. At that time, market watchers believed that the next downturn (whenever it appeared) would be more 'garden variety' and slower to unfold. But the crystal ball broke when COVID-19 arrived in the first quarter of 2020. Instead of a garden-variety recession, we saw a quick and unprecedented disruption to the global economy and our social fabric.

On the positive side, governments, institutions and certain astute corporations responded with policy action, stimulus and forbearance. Technology and e-commerce adoption accelerated to levels that weren't anticipated for another 3-5 years. For the North American consumer, some changes may be temporary, but other impacts and behaviours will likely endure beyond this crisis. First, let's consider the impact on work and working life.

Keeping that paycheck coming

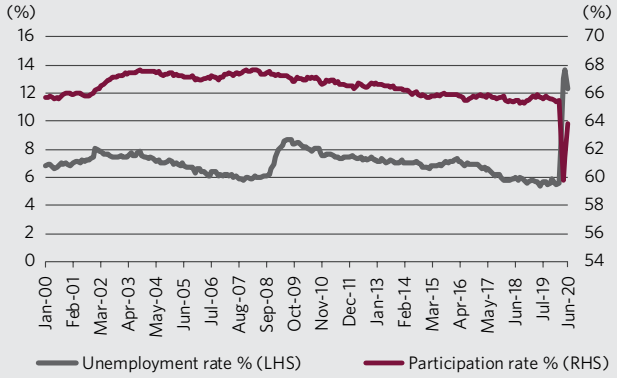
Unemployment has spiked and remains high, as government-mandated lockdowns and individual voluntary precautions to slow the virus disrupt many business sectors. The hardest-hit businesses include travel and leisure, health and recreational services, discretionary retail and restaurants. The ranks of the unemployed have risen to astronomical levels. In Canada, the number rose to 2.6m in May 2020 from 1.1m in February. Similarly, in the U.S. the number rose to 21.0m in May 2020 from 5.8m in February.

U.S. unemployment



Source: US Bureau of Labour Statistics

Canada unemployment



Source: Statistics Canada

In addition to small business loans, government fiscal stimulus also specifically focused on offsetting payroll expenses for businesses that can maintain employment through the crisis. The U.S. $2T CARES Act featured approximately US$300 billion of payments to individuals. In Canada, stimulus totalling $107 billion was unveiled in a series of announcements, with $15 billion earmarked for direct consumer support and $37 billion in direct business support. In addition to these measures, some leading consumer companies—many of which were deemed essential businesses—have shown leadership by increasing wages (typically by $2/hour on average) and augmenting safety protocols for their employees.

Already in June, the employment numbers in the U.S. and Canada are starting to improve. In the U.S., unemployment in June declined from 13.3% to 11.1% (a reduction of 3.2m in the number of people unemployed relative to May). The U-6 unemployment, which is a measure of under-employment, including marginally attached workers, also improved, as it declined from 21.2% to 18.0%. In Canada, the unemployment rate improved from 13.7% to 12.3%, with the number of people unemployed falling by 167,000 relative to May. The participation rate, a measure of the number of people employed or actively seeking employment relative to the total number of people eligible to work, increased to 63.8% in June from 61.4% in May.

Rewarding the heroes

In Canada, grocery retailers are incurring expenses in the range of $80m to $270m per quarter to support temporary 'hero pay' for frontline workers, as well as spending on security, safety, health benefits and e-commerce capacity. In the U.S., Walmart and Kroger incurred US$755m and US$700m in higher associate pay, respectively. Amazon disclosed[1] US$800m in higher wages for employees. Other examples include Home Depot (US$850m in additional pay and benefits) and Lowe's (US$340m). While additional costs for safety and protective equipment are likely to persist, it appears that the higher hourly compensation given to frontline workers will revert to prior levels more quickly. For example, in Canada, all three major Canadian grocery retailers announced the end of their 'hero pay' programs as of June 13, 2020. Dollarama has also instituted higher frontline worker pay, but this may be ending in July.

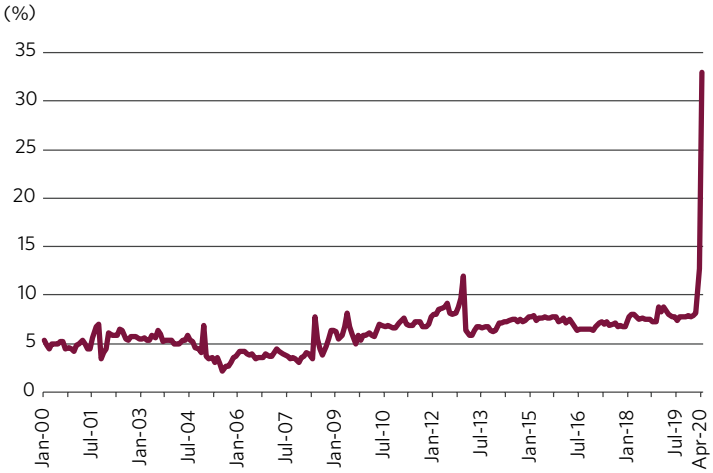
Even some companies that were very negatively impacted financially, such as Canada Goose and Starbucks, took the opportunity to demonstrate their cultural values. Starbucks introduced catastrophe pay through May 3, as well as a $3/hour wage increase for those that were able to work. Canada Goose's CEO took a salary cut and directed the funds toward the establishment of a fund to help employees, some of whom weren't eligible for employment insurance. Ultimately, we think that certain companies demonstrated good corporate citizenship in the midst of the crisis and that there is strong potential that such behaviour will be remembered and rewarded by consumers in the future.

Save more now, spend more later?

The other element of working as it relates to the pandemic was work from home. Our view is that this was largely a middle to upper income dynamic and, unfortunately, low income workers were least able to participate. With more fortunate households continuing to earn their usual income while incurring much lower expenses (e.g. transportation, services, leisure, etc.), one consequence was that the U.S. savings rate increased dramatically. In dollar terms, the seasonally adjusted annual

savings increased to US$6.1T in April 2020 from about US$1.3-1.4T pre-crisis.

U.S. personal savings rate
% of personal disposable income



Source: Federal Reserve Bank of St. Louis

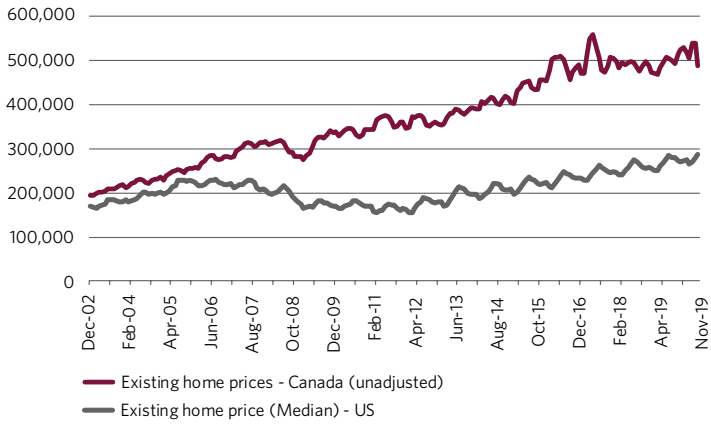
Will higher savings translate into pent-up demand and future spending? U.S. researchers[2] have provided some clues. Consumers with the highest savings rate pre-pandemic spent only 23% of the stimulus payment, on average, in the two weeks following receipt. Consumers with low inclination (pre-pandemic) to save, spent 68% of the stimulus payment in the two weeks following receipt. Among the factors that didn't appear to have a strong influence and explanatory power on the inclination to consume were age, location and pre-pandemic spending levels.

While the amount of future consumption remains uncertain, it's important to recognize that consumers who are saving the most are also less likely to spend relative to the lower income group.

Working from home and what that implies

Another important aspect of working from home is the home itself. Given the unique circumstances created by the COVID-19 pandemic, home ownership (particularly single family dwellings) could become more appealing. It enables social distancing and minimizes the risk of contracting the virus from the shared spaces in multi-family dwellings such as elevators, parking lots, swimming pools, etc. To the extent that the pandemic results in permanent changes in the future frequency of working from home, we could argue that purchasing a home further from the city core is more likely, since there would be less need to commute. However, it might be premature to make this prediction.

Existing home sales - average price



Source: Canadian Real Estate Association, National Association of Realtors

Resale home values have held up, but for how long?

In Canada, home values appreciated strongly prior to the pandemic. While average debt-to-income for consumers has risen versus historical norms when interest rates were higher, debt-to-assets (with the asset being the value of the home) has held constant. The CMHC[3] recently revealed that it expects home prices in Canada to possibly decline between 9-18% (by as much as 25% in oil-producing regions), before starting to recover by mid-2021. Given the accommodative stance taken by banks and other lending institutions in Canada (e.g. forbearance measures such as mortgage deferrals), it may be difficult to gauge the true pressures on home ownership until the late fall of 2020. This timeframe could be pushed even further into the future if there are additional rounds of government stimulus.

The combination of high unemployment (if it persists) and the potential for falling home prices will likely be headwinds to consumer confidence and spending in the near term. But certain elements are also lining up in favour of home ownership:

- the increased appeal of home ownership from a social distancing standpoint
- the increased possibility of living in a reasonably priced area when the need to be near a central office space is removed or diminished
- the ability to finance at historically low interest rates

Overall, the early impacts of the pandemic on working life and the necessary adjustments have come hard and fast. In our view, the extent to which more permanent changes result from this crisis hinges greatly on its duration, as well as on the next steps from governments and institutions to bridge the gap in unemployment.

Working life is an important aspect of how COVID-19 has impacted the consumer, but there are other facets to consider. In our next installment, we'll delve into "**Eat**"; specifically, how consumer patterns around food purchasing and consumption have changed during the pandemic.

[1] May 13th online blog entry

[2] "Heterogeneity in the Marginal Propensity to Consume: Evidence from Covid-19" Karger and Rajan, Federal Reserve Bank of Chicago

[3] Canada Mortgage and Housing Corporation

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