



# THE CONSUMER AND COVID-19

## Part 2 (of 3): Changes in how we EAT

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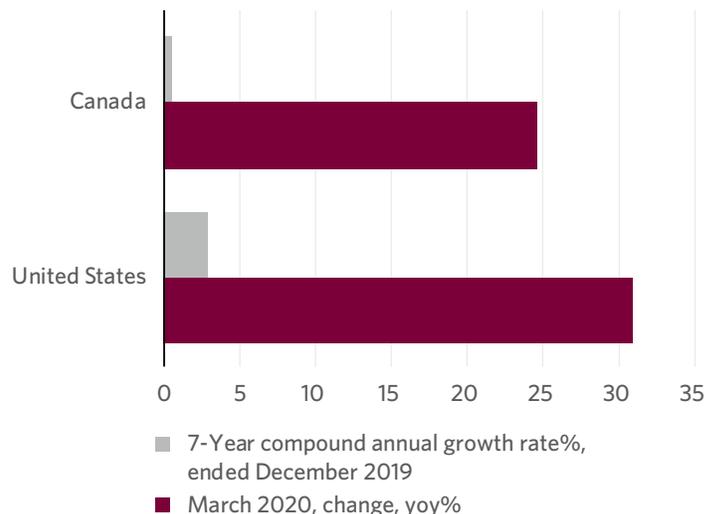
In this second installment of WORK, EAT, PLAY, we explore changes in the consumption of food, beverages and other household items as a result of COVID-19.

When consumers prepared to shelter-in-place last March, the first step for many was a trip to the grocery store to stock up. Some of the most striking early pandemic images were shopping carts filled to the brim and empty store shelves. This wasn't "fake news"—grocery store sales growth was phenomenal during the early lockdown.

### Grocery sales soar

In Canada, sales jumped almost 25% in March 2020 compared to March 2019, while U.S. grocers experienced about a 31% increase from the previous year. Compare that to the last seven years, when Canadian grocery sales typically increased 0.7% (year-over-year) in March, and U.S. sales increased an average of 2.9% (year-over-year).

Grocery industry sales: March 2020 vs. 7-year average



Source: Statistics Canada, US Census Bureau

## What we were buying

### Grocery popularity was spread across categories

With just a few exceptions, consumers shopped the entire grocery store as preparations began. As weeks passed, the history of grocery shopping in 2020 tells some of the unfolding story of the pandemic.

#### March: Early days



#### Germ prevention/Shelter-in-place

- ↑ Hand soap +161%
- ↑ Toilet paper +96%
- ↑ Bleach +110%

#### April/May: Work from home/Staying put



#### Baking craze

- ↑ Baking mixes +74%
- ↑ Dough products +67%

#### Kids at home

- ↑ Frozen potatoes +51%

#### No close contact/ No spring break travel

- ↓ Breath mints -46%
- ↓ Razors -26%
- ↓ Suntan products -48%
- ↓ Cough and cold remedies -29%

#### June/July/August: Small gatherings allowed/Patio parties



#### Getting to socialize again

- ↑ Spirits (alcohol) +40%

Based on Nielsen data<sup>1</sup>, there is a clear evolution in the nature and types of categories that have seen the fastest year-over-year percentage growth since the pandemic began. Early on<sup>2</sup>, consumers focused heavily on germ prevention and shelter-in-place directives. For example, hand soaps saw >160% growth while toilet paper sales approximately doubled.

As consumers continued to isolate<sup>3</sup>, there was a notable increased interest in baking and products needed to feed growing children who were no longer having school lunches.

Meanwhile, products associated with human contact and spring break lagged.

Once shelter-in-place restrictions eased and economies began to reopen in the summer, categories such as spirits showed strong growth. However, throughout almost every phase so far, there's been consistent strong growth in cleaning and hand washing categories.

<sup>1</sup> Nielsen data analyzed based on rolling 4-week cycles, with a focus on the top and bottom categories from a year-over-year % growth perspective. Approximately 90 distinct categories were evaluated in total.

<sup>2</sup> four weeks ending March 21<sup>st</sup>

<sup>3</sup> four weeks ending April 18<sup>th</sup>



Across the grocery industry, two facts stand out.

### Big brands are winning

Big brands are winning over secondary brands, challenger brands and private label. Consumer psychology might provide an explanation—during crises people seem to gravitate to what’s familiar, tried and trusted. The supply chains for larger companies are also able to replenish inventories faster.

Ironically, many brands pulled back on advertising and promotional plans during this crisis period—why try to stimulate more demand when it’s already difficult to keep up with current demand? Many of these companies plan to increase ad spending in the second half of 2020.

### Supply chains are being stretched

Supply chains are being stretched by the dramatic shift to at-home consumption. As just one example, Kimberly Clark (manufacturer of Cottonelle toilet paper brand) noted that its first quarter results showed a 12% sales increase in North America, but retail toilet paper sales rose more than 20% for the same period. Retail inventories have been depleted, and Kimberly Clark and many other brand owners and suppliers are now racing to replenish the inventory positions of their key merchandisers.

## Is this a lasting change?

### Are we just stocking the pantry or is something else going on?

Stockpiling boosted the initial strength for various consumer staples, but can sales growth at food retailers sustain these elevated levels? We see two trends working in its favour.

The pandemic essentially shifted an entire meal occasion, lunch, into the home. In addition, it likely brought new first-time home cooks to the category. Younger generations especially (Millennials and Gen Z) had previously relied more on eating food away from home at restaurants and convenience stores than prior generations.

At the recent Barclays Consumer Staples Conference, the management team at McCormick (a leading maker of spices and seasonings) presented this data from a recent survey of U.S. consumers:

**85%** say the pandemic has changed their food habits

**60%** are cooking from scratch more often

**75%** are enjoying cooking more than pre-COVID 19

**57%** are not comfortable eating indoors at a restaurant

**32%** are uncomfortable eating outdoors at a restaurant any time for the remainder of 2020

### Grocery sales still higher, but moderating as we move into fall

These factors may allow grocery store sales to continue strong, even as initial signs of moderation are already becoming evident. For example, Canada’s largest public grocers provided outlook commentary that generally points to slower (yet still robust) sales growth when compared to the peak of the pandemic’s first wave. In the case of Loblaw, after reporting same-store sales growth of 10% in its food business<sup>4</sup> for the 12 weeks ending June 13, Loblaw management noted that “Food retail sales have continued at elevated levels, but have experienced a modest tapering of growth rates, and drug retail has experienced continued improvement compared to the second quarter same-store sales growth rates.”

For Metro, after reporting comparable sales growth of 15.6% for the 16 week period ending July 4, the company highlighted that sales for the initial four weeks of its current fourth fiscal quarter are up by “about 10%”. Most recently, Empire Company (owner of Sobeys, IGA and Safeway banners) noted that its same-store sales, excluding fuel, averaged 8-10% for the 14 weeks ending September 5.

## How we’re getting our food

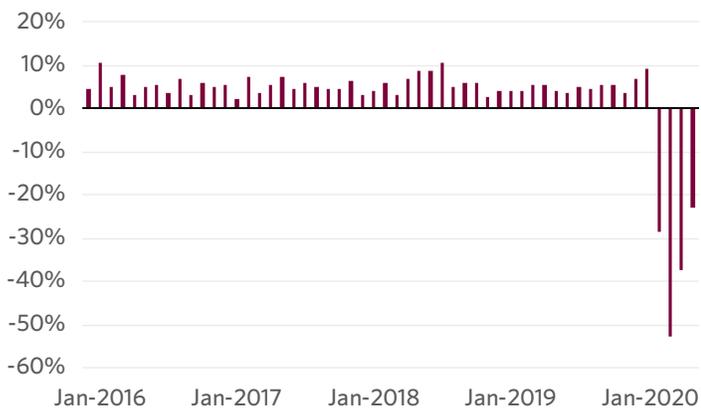
### No more eating out?

One of the most persistent long-term consumer themes has been growth in eating out. This trend was supported by low unemployment and underemployment, and increasing time pressures on North American families. Eating out at breakfast had been growing faster than lunch and dinner.

<sup>4</sup> includes general merchandise

## US Food Services and Drinking Places Sales

% year-over-year growth



Source: US Census Bureau

COVID-19 interrupted this trend, as sales at foodservice and drinking places declined by almost 50% in April before recovering to a decline of approximately 23% in June<sup>5</sup>. In contrast, during the Great Recession (2007-2009), sales declines for the industry were in the low-single digit range. Declines in the restaurant industry this time around have largely been a tale of two different segments.

The economic pain of the pandemic has mostly been felt by full-service and casual dining restaurants, including white tablecloth establishments with sales declines of as much as 60-80% at the peak of the pandemic (though improving since then).

On the other hand, quick service restaurants (e.g. McDonald's, Burger King, Chipotle Mexican Grill, Domino's Pizza) have seen either mid-teens sales declines or even sales growth through the crisis.<sup>6</sup> Pizzerias in particular have seen very strong sales growth, in excess of 15% (e.g. Domino's Pizza and Papa John's). The management team at Domino's Pizza recently noted that growth on weekdays is exceeding growth on weekends and lunch is growing faster than dinner/evening dining.

### Yes, we deliver

Across the industry, two important enablers—drive-thru and delivery—allowed restaurants to combat the negatives or even thrive during the lockdown. Of course, drive-thru is far more common in quick service restaurants than in casual and full-service diners, but delivery has benefited all segments. The growth of delivery services such as Uber Eats, Doordash and Skip The Dishes enabled restaurants to offer delivery without the need to create their own capabilities or achieve a certain level of scale before offering the service.

<sup>5</sup> U.S. Census Bureau data

<sup>6</sup> Industry sales are roughly evenly split between full-service restaurants and quick service restaurants, according to data from Nation's Restaurant News.

<sup>7</sup> A dark store is generally a large warehouse that can either be used to facilitate a "click-and-collect" service, where a customer collects an item they have ordered online, or as an order fulfillment platform for online sales.



The growth of delivery services is just one example of how technology adoption has sped up during this crisis. E-commerce and online grocery shopping have also seen rapid growth. All three Canadian grocers noted strong growth in online sales, with varying approaches to providing capacity for future growth. Loblaw noted about a tripling of e-commerce sales (including grocery and beauty/cosmetics and apparel) during the early pandemic. However, based on currently available technologies, the inconvenient truth is that e-commerce is less profitable for grocers as compared to traditional grocery shopping. This is a result of the extra staff needed to pick and pack the groceries and the additional delivery costs (even when the customer pays a delivery fee).

## What's next in food

Grocery retailers will be challenged to meet customer needs in a way that is least disruptive to their profit margins and bottom line. Over the next 12-24 months, we expect to see announcements of a broader array of strategic approaches to online grocery e-commerce by grocers and their competitors. This would include the launch and/or testing of large footprint customer fulfillment centre (CFC) technologies, micro-fulfillment centre (MFC) technologies, as well as 'dark store'<sup>7</sup> approaches, to name a few.

COVID-19 has undoubtedly changed what and how we consume core staples such as food, beverages and household items. Arguably, it's also changed the way the consumer ranks key aspects of the shopping experience, with safety and convenience becoming more important than pricing/discounts. Only time will tell which of the current changes will be permanent, but the accelerated e-commerce and technology adoption appear here to stay.

## Coming up

Now that we've explored how the pandemic has changed the way consumers Work and Eat, our next installment will consider another aspect of COVID-19—its impact on our discretionary and recreational spending practices in PLAY.

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