



INTRODUCTION TO THIS DOCUMENT

**Fitch Solutions look at consumer behaviour under lockdown,
with a detailed analysis of the experiences in China**

OUR TAKE-AWAYS:

This is what we learned from this document:

- **Data from China's January – February 2020 retail sales reveals steep year-on-year declines across all major consumer segments with the exception of food and drink which recorded approximately 10 per cent growth.**
- **As expected, hospitality recorded the highest decline.**
- **This information on the spending behaviour of consumers during lockdown offers insight into how consumers globally entering or already in lockdown may react and change their purchasing habits during a lockdown period.**

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How Will Covid-19 Affect The Consumer Sector Of Countries Under Lockdown? Insights From China

12-15 minutes

Key View:

- China's retail sales data for January-February 2020 offer further insight into the spending behavior of consumers in lockdown and so we have the opportunity to re-visit our China consumer spending Covid-19 revisions, as well as gaining insight into how other consumers globally (who are currently in lockdown or might enter a lockdown) will shift their purchasing patterns.
- Below, we provide analysis into the consumer-facing segments of food, non-alcoholic drinks, alcoholic drinks, clothing and footwear, furnishings and home, health as well as restaurants and hotels.

The Future Of Consumer Sectors Across The Globe May Look Like China's In Jan-Feb 2020

Much of Europe, the US and Asia is now being affected by the Covid-19 outbreak, and with shutdowns and lockdowns now place in Italy, UK, France, Spain, Malaysia, India and some cities in the US, there is an urgent need to quantify the impact of these social distancing measures on the consumer sector. China has released its retail sales breakdown data for January and February 2020, the period when Wuhan and Hubei province were in lockdown and the rest of the country faced some level of shutdown and social distancing policies. This data release, which we analyse below, offers us the opportunity to not only sense check our [Covid-19 China revisions](#), but also offer some insight into how other consumers globally are likely to react and shift their purchasing habits during a shutdown/ lockdown period.

CHINA'S COVID-19 LOCKDOWNS: CONSUMER SEGMENT OVERVIEW (JAN-FE)

Overall Retail	Food And Drinks	Clothing and footwear	Alcohol and tobacco	Household appliances	Furnishin
-20.5% contraction y-o-y (USD170bn decline)	9.7% growth y-o-y	-30.9% contraction y-o-y for offline purchases -18.1% contraction y-o-y for online purchases	-15.7% contract y-o-y	-30.0% contraction y-o-y	-33.5% co y-o-y

Source: National Bureau of Statistics (China), Fitch Solutions.

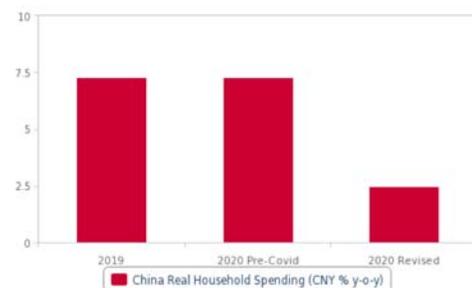
Overall Retail Sales Down, In Line With Our Covid-19 Consumer Spending Revisions

Our Covid-19 revisions for our 2020 forecast are being borne out, with overall retail sales down -20.5% y-o-y, from CNY6.6trn (USD930bn) in January and February 2019 (China reports its January and February figures together), to CNY5.2trn (USD730bn) in 2020. During our Covid-19 2020 forecast revision in early February we highlighted that high infection rates in China would negatively impact consumer behavior, as consumers chose to self-isolate across the country and therefore decrease their risk of infection. We also noted that government intervention in the form of

lockdowns and shutdowns would place further pressure from a supply side, with consumers unable to leave their homes to go shopping and retail precincts and malls shuttered. During our February revision of our 2020 forecasts we input a Covid-19 formula to better capture these demand and supply side pressures on consumer spending for China. For 2020 we forecast total household spending will expand by 2.5%, down from our pre-Covid-19 projection of 7.3% and our 2019 y-o-y growth reading of 7.3%.

China Consumer Spending Revisions Playing Out

China Real Total Household Spending (% change y-o-y)



Source: National Bureau of Statistics, Fitch Solutions forecasts.

Food and non-alcoholic drink sales increase. Food and non-alcoholic drinks sales recorded an increase of 9.7% y-o-y from CNY245.9 (USD34.7bn) in January and February 2019, to CNY259.1bn (USD36.5bn) in 2020. In our Covid-19 data revision we projected an uptick in consumer spending in this segment of 12.4% for the whole of 2020, up on our pre-Covid-19 forecast for the year of 11.4% and a growth on the 4.8% recorded for 2019. The rationale behind our revision was the belief that consumers would have a preference for cooking at home and so there was going to be a greater spend on food and drinks purchases, with consumers avoiding restaurants for fear of increasing their chances of infection, as well as panic buying and stockpiling (a behavioral consequence of consumers seeking to self-isolate or going into lockdown).

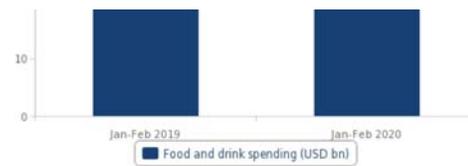
More specifically, we highlighted growth in food delivery, a segment we have [consistently emphasised](#) will be an outperformer in this outbreak [right from the beginning of the outbreak on 30 January 2020](#). Initial data indicates that contactless delivery orders (where there is no physical interaction between the courier and the customer) accounted for over 80% of total orders during January and February 2020 in China, with 66% of all consumers selecting that as their sole delivery method during this period.

We also projected strong demand for mass grocery retail in China, as consumers purchasing patterns shifted from essential spending, into an even narrower category of spending, priority purchasing (food and health product purchasing). According to China's January and February data release hypermarkets, supermarkets and members-only warehouse stores recorded y-o-y growth in sales of 1.9%, 1.6%, and 9.2% respectively (no absolute figures available).

Food And Drinks Spending Increased As A Result Of Covid-19

Food And Non-Alcoholic Drinks Retail Sales, USDbn





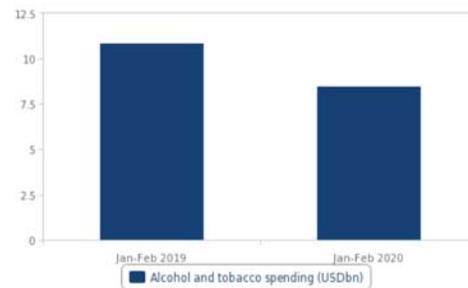
Source: National Bureau of Statistics, Fitch Solutions.

Sharp drop in alcoholic drinks and tobacco sales. We asserted that the more subdued spending outlook in China, as a result of all the lockdowns and social distancing measures, would lead to consumers decreasing their spend levels in non-essential categories, such as alcohol and tobacco. In our February 13th Covid-19 data revision for China, where we revised 2020 full year growth down to 7.9% from 11.7% pre-Covid-19, but still slightly higher than the 4.8% in 2019.

January and February 2020 sales data for alcohol and tobacco recorded a 15.7% decline y-o-y from 2019, with sales dropping from CNY77.0bn (USD10.9bn) to CNY60.0bn (USD8.5bn). Within the alcohol segment the closure of venues, specifically karaoke bar has precipitated this decline and has led alcoholic drinks producers, such as Carlsberg to revise down their growth projections and China sales outlooks.

Alcohol And Tobacco Sales Drop Sharply During Covid-19

Alcohol And Tobacco Sales, USDbn



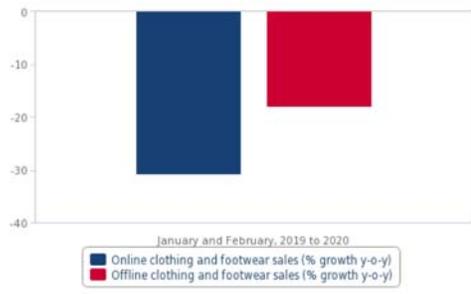
Source: National Bureau of Statistics, Fitch Solutions.

Clothing and footwear sales decline. Clothing and footwear sales figures have declined y-o-y in China in January and February 2020 and this in line with our consumer spending revision, where we highlighted that while this segment is an essential spend for consumers, it is not a priority purchase. We revised down our consumer spending forecasts for China for clothing and footwear for 2020 to 6.7% y-o-y from a pre-Covid-19 projection for 2020 of 9.7% y-o-y.

A projection that we made at the time of our [update](#), on 30 January 2020, was that consumer purchasing was likely to shift online, as consumers seek to decrease their infection risk and levels of shutdown and lockdown were implemented, with malls and retail precincts shuttering. This projection is being borne out in this initial data release, as although clothing and footwear as a whole is down y-o-y for January and February 2020, the decline recorded for in-store (bricks and mortar) purchases, a contraction of 30.9% (CNY233.2bn in January – February 2019 (USD32.9bn) to CNY153.4bn (USD21.6bn) for the same months in 2020), is deeper than the contraction of 18.1% y-o-y recorded for clothing and footwear purchases online (note: absolute values not published).

Fashion Purchases Down, But Instore Posts Deeper Contraction

Clothing And Footwear Sales (Online vs Offline), % change y-o-y



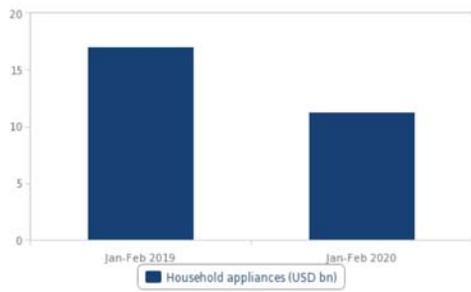
Source: National Bureau of Statistics, Fitch Solutions.

Furnishing and home spending damaged by Covid-19. As a non-essential spending segment we believed that consumer spending within the furnishing and home sector would be negatively impacted by Covid-19, and so in our 2020 forecast revision we revised down the growth for the full year for this segment to 4.7%, from a pre-Covid-19 projection of 9.7% and down on our 2019 reading of 5.2%.

Our downward revision is playing out with the data release for the first two months in 2020 recording retail sales within the household appliances segment, as having declined by -30.0% y-o-y in January and February 2020, from CNY121.1bn (USD17.1bn) to CNY80.5bn (USD11.3bn) in 2020. Within this segment we are starting to get data through on consumer electronics, with our ICT team noting that [mobile phone shipments in China declined by -56.7% y-o-y](#), from more than 15mn in February 2019 to slightly over 5mn in February 2020.

Household Appliances Sales Dip By 30% y-o-y

Household Appliances Sales, USDbn



Source: National Bureau of Statistics, Fitch Solutions.

Furnishing retail sales in China declined by -33.5% y-o-y in January and February 2020, from CNY25.2bn (USD3.6bn) to CNY14.2bn (USD2.0bn) in 2020. This segment was exposed not only to shifting demand, but also a decrease in supply channels as malls, where most furnishing stores are located, were shuttered. For example, home furnishing major **IKEA** closed all 30 of its stores in China from February to early March 2020.

Demand Drop And Mall Shuttering Damages Furnishing Sales

Furnishing Sales, USDbn





Source: National Bureau of Statistics, Fitch Solutions.

Still seeking clarity on medicine retail sales. We project that with Covid-19 being a health crisis, consumer spending on products associated with health will increase across the whole of 2020. In February 2020, we revised up our 2020 projections from a pre-Covid-19 growth level of 7.2% to 13.7% y-o-y, an expansion on the 13.4% increase recorded for 2019.

We are still currently seeking clarity on the Chinese retail sales data for medicine, which has so far been released for January and February 2020. Sales levels for those two months have been recorded at CNY78.1bn (USD11.1), this is not only down -16.7% y-o-y (for January-February 2019), but also marks a 86.8% decline on December 2019 sale level. It is unusual for two month of data, to fall lower than that of one month and so we are investigating the impact of Covid-19 on the spending within this segment further.

Restaurants and hotels suffer, as lockdowns prevent travel.

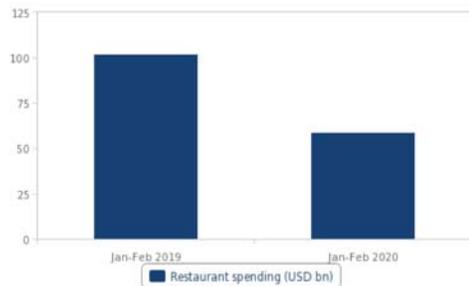
Lockdowns and travel restrictions during Golden Week will have damaged consumer spending within this segment and we revised down our 2020 forecast to 5.5% from a pre-Covid growth outlook of 9.7%, and from 9.0% in 2019.

Revenue data announced for January and February 2020 backs up the direction of our 2020 full year forecasts, as our spending data takes into account Chinese consumer spending, both internally and externally (Chinese consumer spending in China and when they travel abroad) for the hospitality segment, while restaurant and hotel revenues will also include international travelers with China (with the tourism and business travel sectors negatively impacted as travelers avoided the country during the outbreak). Demand and supply factors have played a role, with consumers avoiding crowded areas and so restaurants, preferring instead food delivery or consumers facing lockdown conditions. On the supply side many restaurant chains (McDonald’s, Yum China, Starbucks) were shuttered in Wuhan or Hubei province specifically, but shuttering of food services units happened all over China.

Revenue from meals (restaurant sector) has declined by 43.1% y-o-y, from CNY725.1bn (USD102.2bn) to CNY419.4bn (USD59.1bn) in January and February 2020. China’s National Bureau of Statistics has also announced that hotel revenues declined by 50.5% (absolute value not announced).

Hospitality Records One Of The Greatest Declines

Restaurant sales, USDbn



Source: National Bureau of Statistics, Fitch Solutions.

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