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A year into social distancing: Will SEA see permanent shifts in consumption patterns?

An opinion piece by
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The decreasing relevance of pre-2020 reference points in predicting consumer spending patterns post-recovery

Over the past few months, the promising results of several vaccines and the accelerated approvals and roll-outs given to them have injected some much-needed optimism for the year ahead. Finally, a return to pre-2020 social living appears to be on the horizon.

However, governments are still cautioning that we are sometime away from completely controlling the pandemic – the logistical challenges of vaccine manufacture and delivery to a sizable percentage of the population (and globally) remains to be sorted out. At the same time, for many countries across the world, 2021 is beginning the same way 2020 has started: with a surge of infections and a return to containment measures. The end of the pandemic is in sight, but what is in store is also likely to be a slow and arduous recovery process, with some uncertainties along the way.

Businesses and policymakers will be planning ahead to support and prepare for the eventual return to normalcy, optimistically in the latter half of 2021, but how relevant are pre-pandemic, pre-2020 reference points in envisioning the consumer and economic scenario post-Covid?

At the onset of the pandemic, the crisis was seen as a shock to the economy and consumer spending, but a return to the pre-pandemic equilibrium state was expected. However, after a year of co-existing with Covid-19, there is less merit to expect some form of ‘business-as-usual’ – the crisis has long transcended what could be deemed as a temporary shock, and it is only likely that permanent structural changes will occur, especially in consumer spending where the crisis has had outsized effects on consumption behaviour.

In Europe, a cross-country study sponsored by the European Central Bank[1] provided an indication that demand per capita for certain types of goods and services may struggle to return to pre-pandemic levels. Although lockdowns and restrictions were lifted at the time of the survey, consumers in five major European economies indicated that they are reducing spending on most discretionary categories. When asked what was the reason for doing so, the most common response given was understandably ‘infection risk’, but the second most cited reason was a realization that they were ‘not missing it’.

In other words, during the course of isolating at home, a sizable proportion of consumers have consciously or unconsciously re-evaluated the value of certain goods and services to their lives – going to the hairdresser, eating at restaurants, going to the mall[2] , etc, and have concluded that their level of spending prior to 2020 was inconsistent with their newfound values. This entails that some consumption may never return, with significant consequences on consumer-facing businesses and the overall economic landscape.

During the course of isolating at home, a sizable proportion of consumers have consciously or unconsciously re-evaluated the value of certain goods and services to their lives

Based on findings from an Ipsos consumer survey conducted late last year across the 6 major economies of Indonesia, Philippines, Malaysia, Thailand, Singapore and Viet Nam (referred to as “SEA” from this point). The results obtained were, similar to the ECB study, during a time when lockdowns were lifted and before the second wave of infections in most countries.

The results show the following, which will be elaborated in turn in this column:

1. **For most consumers, discretionary spending will be lower than before in the near term**, despite increases in consumption-related activities within a similar time period (e.g., going to restaurants, visiting a mall, etc.).
2. **Many consumers have drawn on savings during the lockdown, and are putting off big ticket spending** as traditionally conservative SEA households seek to rebuild their household finances.
3. **Despite various challenges, health concerns remain paramount** - the overall consensus is for the government to focus on the health and safety of citizens, before addressing financial and economic issues.

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1. Is COVID-19 a consumption game changer? Evidence from a large-scale multi-country survey, A. Hodbod et al, 19 Nov 2020, available online at https://cepr.org/file/10060/
2. Ibid

SEA household spending will **likely take significantly longer** to return to pre-pandemic spending per capita**.**

The first observation points towards similarities with the European experience, but the second is potentially more concerning – SEA household spending will likely take significantly longer to return to pre-pandemic spending per capita. This is due to SEA governments being more fiscally restricted in providing direct monetary assistance to cushion the impact to incomes, and the tendency of SEA households to prioritize replenishing household savings which have been drawn-down as a result of the crisis. This means a significant number of households in SEA are likely to decrease spending in certain discretionary categories for longer, and the longer they go without spending on those categories, the more likely consumption will be permanently shifted away as the reconsider the value of those goods and services.

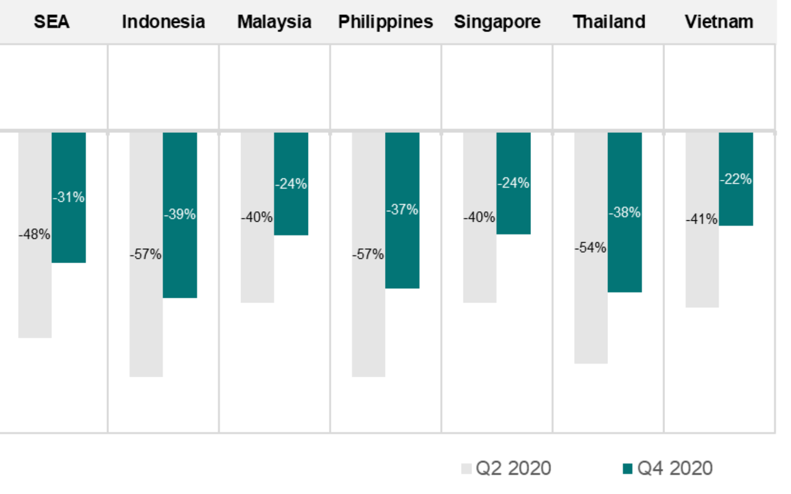
These issues will require consumer-facing businesses to reassess their value propositions to customers, to ensure that their products and services still remain relevant in what could be a period of diminished spending power for a large proportion of SEA consumers, or risk consumption permanently turning away. Similarly, policymakers will need to provide more focus towards addressing changes in consumption patterns, both in terms of supporting consumption, and also in cushioning the impact to affected sectors.

Part 1: The current sentiment from consumers

1. Lower discretionary spending in the near term despite more optimistic economic outlook

The lifting of strict lockdowns imposed earlier in 2020 has had an immediate effect on incomes, as a limited resumption of economic activity has improved household incomes across SEA. In most of the countries surveyed, the proportion of households experience a significant drop in income has decreased by more than 15 percentage points:

Proportion of household experiencing more than 20% decrease in income

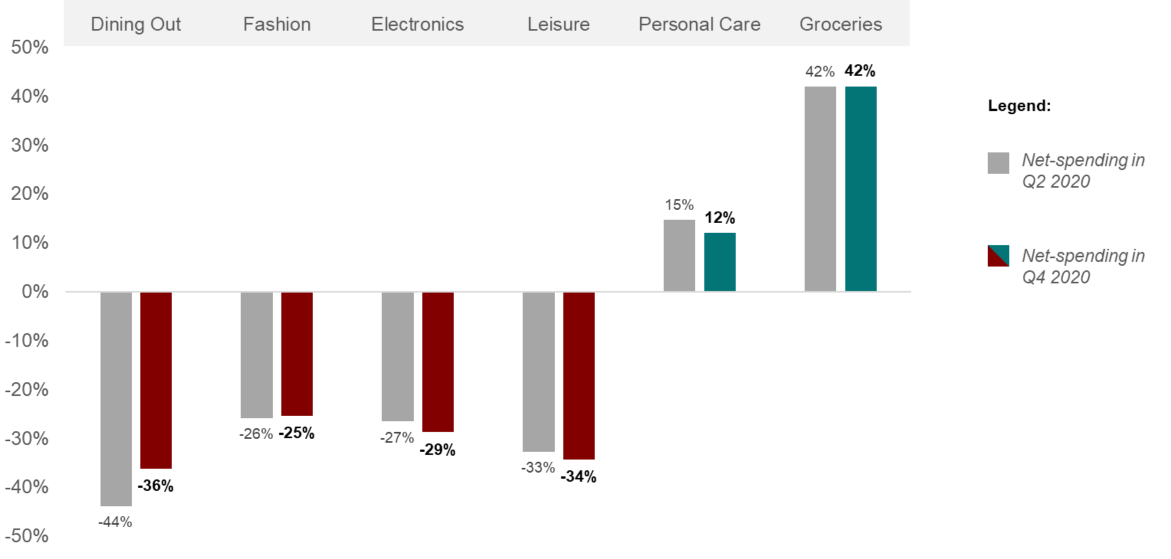


Combined with an easing of lockdowns, consumers have largely been confident in the resumption many activities, with the exception of overseas travel. The average SEA consumer expects to be visiting friends and family, dining in a restaurant and using public transport by now.

Timeline for resumption of activities

However, reported spending in discretionary categories have not shown a commensurable improvement – households have allowed themselves slightly more spending on eating out, but have mostly kept to cooking at home, while other discretionary-spend categories remain depressed.

Expected net spending on consumer categories compared to pre-pandemic

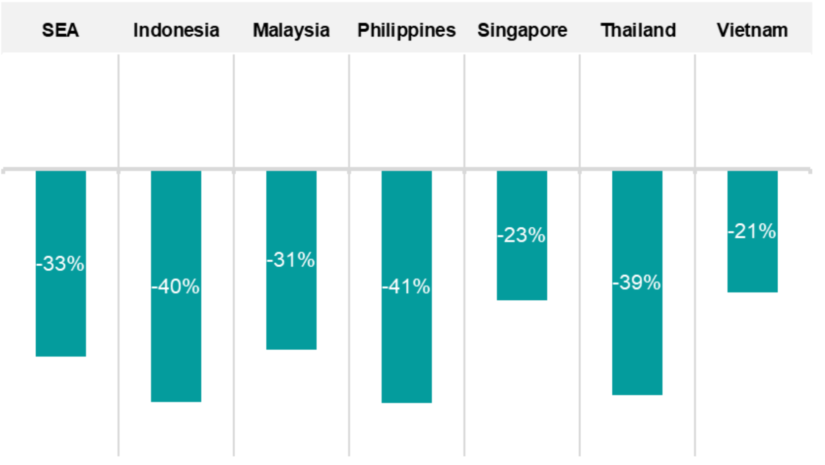


Suppressed consumer spending in discretionary categories, despite the significant improvements in income, acknowledge observations in our earlier paper that consumer spending is not simply a function of incomes: anxiety, whether in the form of infection risk or uncertainty over future lockdowns, continue to play a strong role. These are backed by more observations in the current dataset in section 3.

The selective upticks in electronics and leisure (which includes travel), which are on average bigger-ticket items, provide an indication that there are other factors at play, as elaborated in the next section.

2. Households have drawn on their savings during the lockdowns, and rebuilding these savings is likely to weigh on discretionary spending in the near term.

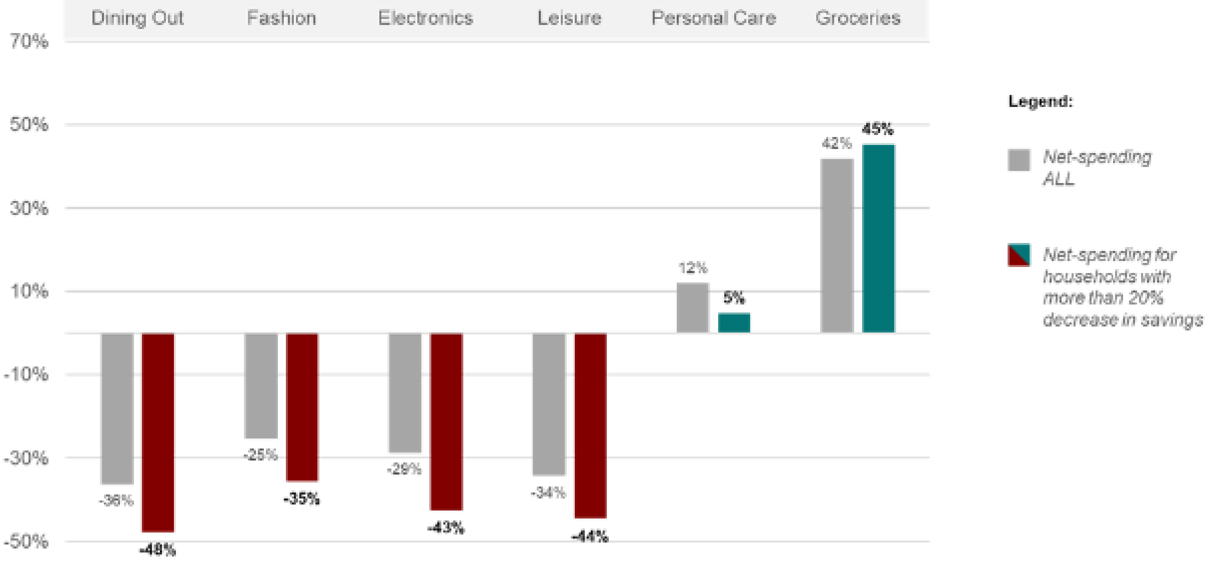
A significant proportion of SEA households have seen their savings decrease during the course of the pandemic. This is more pronounced in Indonesia, Philippines and Thailand, where close to 40% of households indicated that their savings have used up more than 20% of their household savings. In Vietnam where lockdowns were shorter than the rest of Southeast Asia, and in Singapore where government support to households was more generous, the proportion is significantly less.:



Proportion of household experiencing more than 20% decrease in savings

Despite a broad-based recovery in incomes, households which have experienced a large decline in savings are understandably inclined to decrease spending on discretionary spending, but the effect is more pronounced on big-ticket items:

Expected net spending on consumer categories compared to pre-pandemic (average household compared to households with more than 20% decrease in savings)

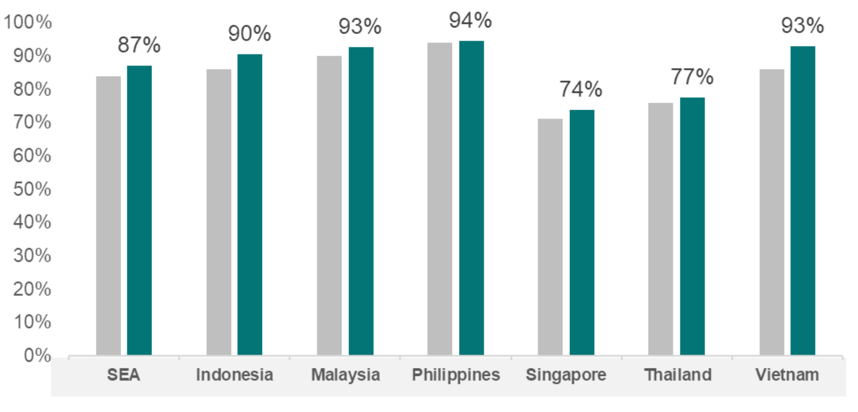


These households, which make up a third of SEA consumers, are likely to put a further drag on overall consumer spending per capita as they look to rebuild their finances, especially on bigger-ticket items.

3. Anxiety over the virus remains high, and SEA households are broadly in agreement that their governments should focus on keeping them safe from Covid

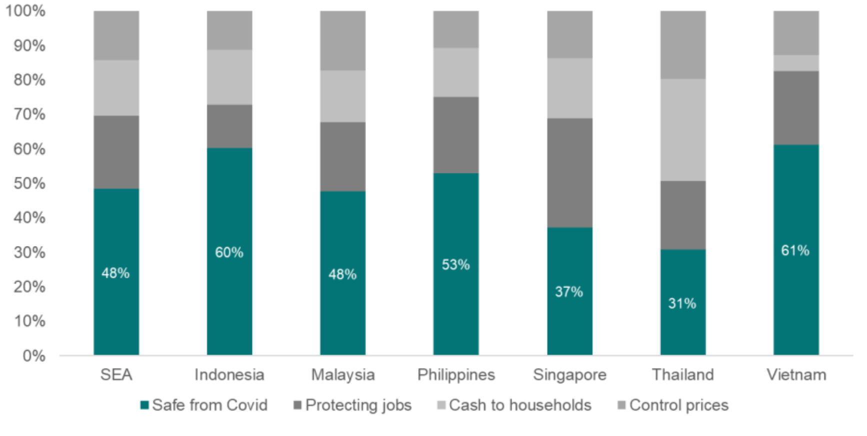
Despite varying degrees of control and success over the virus across SEA, health concerns remained at an elevated level, even for countries with a relatively good record, such as Vietnam.

Anxiety over the virus has increased slightly in SEA since May



This anxiety has translated to a relatively uniform consensus across all 6 countries that the government should focus on controlling the spread of the virus:

SEA households believe that the government should focus on the virus



With the exception of Singapore and Thailand, where a large proportion of households have indicated that the government should also focus on protecting jobs and providing cash assistance respectively, the majority of SEA households believe that controlling the spread of the virus should be the priority, despite the variance in income and savings reduction they have experienced thus far.

Part 2: Implications to businesses and policymakers

Our observations point towards a continued period of lower and more selective spending on discretionary categories.

Even as conditions improve with mass immunizations and a pick-up in economic activity, consumption may take a longer time to return to pre-pandemic levels of spending. This will be especially evident in households whom have drawn-down a significant proportion of their savings, where in the near to medium term, their focus on rebuilding finances will mean that every dollar of additional household income will not generate the same amount of spending in the economy as before the crisis.

This period of diminished consumer spending will likely result in permanent shifts in consumption, as households re-evaluate the value of discretionary goods and services which they have managed to get-by without during the crisis.

As with the European experience, the survey results also hint at shifting consumption patterns as indicated by the mismatch between improvements in household income and a relatively lacklustre recovery in consumer spending in certain discretionary categories.

A longer and more protracted period of diminished consumption, taken together with health and economic-related anxiety, will likely cause more households to re-evaluate the value of goods and services to them, and consequently their level of spending on those categories.

For businesses in consumer-facing, discretionary categories, this means an urgent need to reassess their approach to the crisis – 'staying relevant' will be a key strategic theme.

Many businesses have resorted to cutting costs and improving operational efficiency to 'ride out' the crisis in anticipation of a return to consumer spending, but that may not be sufficient. If no action is taken to keep the products and services relevant to consumers during this period, that demand may never return.

Businesses will need to provide equal focus on reviewing their value propositions and pricing model during pandemic conditions – an understanding of consumer preferences during these times, and a strategy to ensure goods and services can still be provided to them at compelling price-points, will be beneficial in ensuring continued relevance to consumers and preventing them for permanently shifting spending away.

In reassessing their value propositions, businesses should be prepared for drastic changes in customer perceptions and preferences.

The lockdowns and restrictions on activities in 2020 may have led to the impression that little time has passed, but in essence we have had a year of living with Covid-19, and counting. In many consumer-facing businesses, consumer tastes, fads and trends change within a year –especially when the pandemic has been such a profound experience to most consumers and is likely to accelerate changes in preferences and perceptions. The pre-2020, pre-pandemic understanding of the business' customer base may not be the most appropriate benchmark for post-recovery consumer behaviour.

For businesses in the higher-end consumer market, there are both opportunities and threats in a new class of consumers – the "middle-income social elites".

High-income earners have also been affected by the ongoing economic crisis, in particular those in sectors where the economic impact is disproportionate, for example the aviation, travel and hospitality sectors, where many have seen sharp reductions in income and loss of employment.

Many of these individuals have been accustomed to certain life-styles, and its associated projection of social status. These new (and perhaps temporary) "middle-income social elites" will have different perceptions of value, where spending decisions are not driven by a dichotomy of 'necessary' and 'discretionary', but also with consideration of preserving previous life-style and social choices – leading to very different perceptions of value compared to conventional consumer classes.

For example, these consumers may continue to enrol their children in private education, but could make drastic cuts in spending elsewhere – in buying cheaper groceries, and going out less to high-end restaurants.

For policymakers, there will be a need to anticipate that consumption patterns will be different compared to before the pandemic, and consequently evaluate the efficacy of government support for each sector.

Due to shifts in consumption patterns, some sectors may never see a return to pre-pandemic levels of importance or growth, and some business models may become obsolete. The long-term costs of providing blanket support for all industries and sectors based on pre-pandemic reference points will be sizable, and raises the risk of 'zombification' within the economy as certain sectors become highly dependent and artificially propped-up by government aid. The focus should instead be on easing a potential transition within the consumer-facing economy.

At the same time, policymakers will also need to take into account the potentially diminished effects of stimulus to households.

On one hand, depleted household savings will mean that for every dollar of stimulus, a significant portion will not reach the economy as conservative SEA households redirect the support towards rebuilding finances. On the other hand, anxiety over the virus will mean that as long as pandemic conditions remain, health concerns will continue to be drag on consumer spending, regardless of the stimulus provided.

Conclusion

The Covid-19 pandemic will undoubtedly be the defining crisis of our generation, where its accelerating effect on many changes within society has been widely discussed. To expect a static and unchanging picture of consumption behaviour and an eventual return to pre-pandemic ‘business as usual’ will be a risky strategy for both businesses and policymakers.

Get In Touch!

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