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Retail recovery could be L-shaped as consumers remain frugal

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In a blow to retailers hoping for a rebound in consumption when the COVID-19 crisis eases, only 15 per cent of consumers plan to return to their old spending habits.

Just one in seven consumers expect their spending to normalise when the Australian economy improves, according to a survey of more than 13,000 households and almost 6000 consumers by data analytics company IRI.





Only 15 per cent of consumers plan to return to their old spending habits post COVID-19, according to an IRI survey. **Dallas Kilponen**

About 75 per cent of households expect the economic impact of the COVID-19 pandemic to last more than 12 months, 48 per cent think they're worse off than they were pre-pandemic and 45 per cent had seen their income compromised because of the crisis, with 39 per cent working fewer hours and 7 per cent no longer employed.

The results of the survey will crush retailers' hopes that consumer spending will bounce back due to pent-up demand and suggest the retail recovery will be more L-shaped than V-shaped.

According to ABS data released last week, [retail sales rose by a record 8.2 per cent in March](#), boosted by panic buying of toilet and tissue paper, flour, rice and pasta, but economists expect a record drop in sales in April, when most discretionary retailers closed their stores.

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"We're going to see more of a recessionary mindset come into play and people are going to be cautious about their spending, there's no doubt we're going to see that," said IRI Asia Pacific managing director Paul Hinds.

"There are going to be some positive areas of growth that come out of this," Mr Hinds said, citing increased demand for online ordering, home entertainment, meal kits and home baking products.

"But you'll see people focusing on their budgets ... there will be a real focus on value and price as well."

Pantry stuffing led to a 50 per cent-plus increase in supermarket sales in the week ending March 17, when the government started tightening lockdown laws.



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The average household spent an additional \$113 in the month of March, buying enough groceries to cover their needs for about two weeks, and consumers made an extra 30 million transactions, shopping at multiple retailers to stockpile pasta, flour and rice, and search for elusive toilet paper.



up 38 per cent in March compared with 21 per cent growth at Woolworths and 24 per cent at Coles.

But as new COVID-19 infections fell and as fear of missing out eased, food and grocery sales growth retreated to single digits in April, the survey found, echoing recent feedback from Woolworths, Coles and Metcash.

IRI has warned fast-moving consumer goods companies and food retailers to prepare for a possible migration to value brands and private label brands, with consumers likely to focus on finding the best deals rather than trusted brands.





Consumers were also more aware of rising prices. The survey found that food and grocery inflation had accelerated, with prices rising 1.4 per cent in the past four weeks. More than 60 per cent of households expected food prices to rise over the next six months, though a third were struggling to afford groceries.

"The intense battle to win price perception will take centre stage again," led by the major supermarket chains, the report said. Woolworths and Coles have increased promotional activity and resumed distributing printed catalogues after a six-week hiatus.

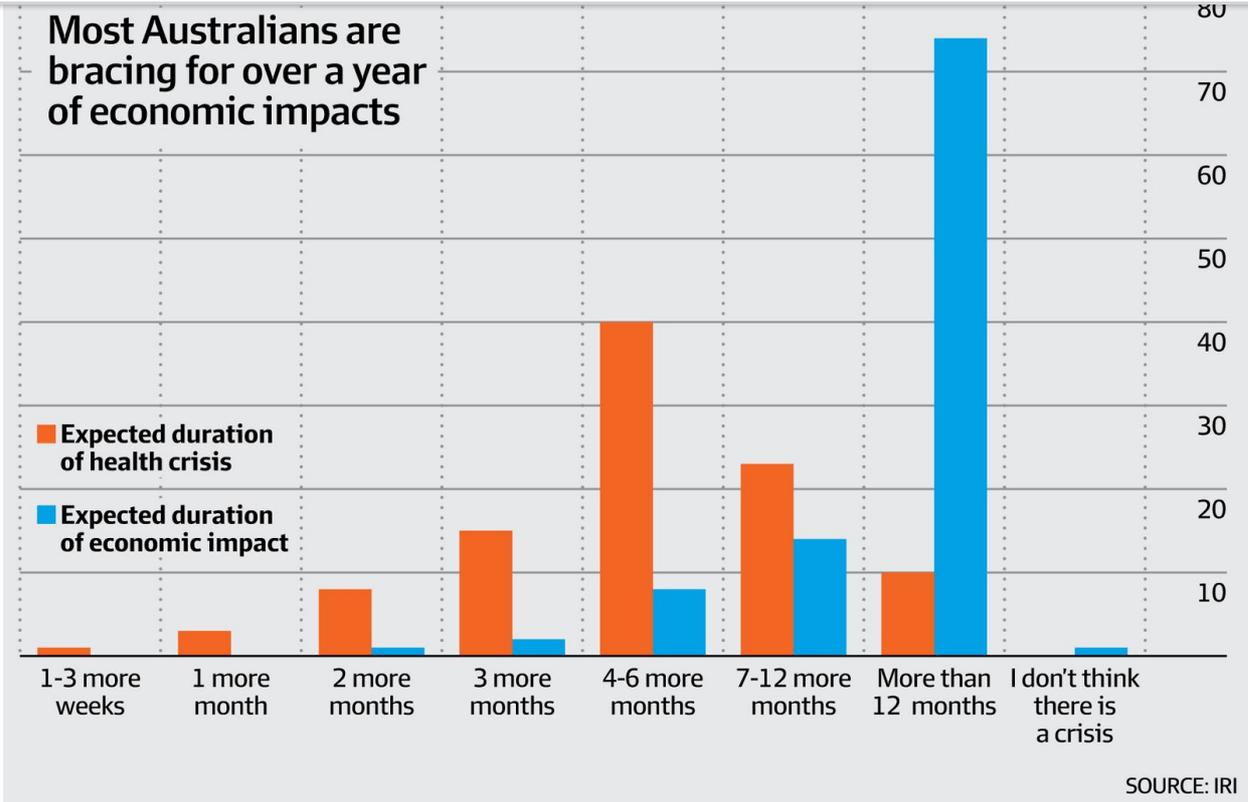
Meanwhile, weekly spending data released by Zip Co highlighted how consumer spending changed as lockdown laws tightened.

In the week after Prime Minister Scott Morrison's first national cabinet on March 15, consumers spent 28.9 per cent more on groceries than they had the week before, though there was only a 0.6 per cent increase in the number of people shopping (and the PM had begged shoppers to stop hoarding.)

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The following week, ending March 28, spending on groceries fell 16.8 per cent, but it was still the second highest week for grocery sales this year.

As pubs, clubs and bars closed, consumers stocked up on video games, takeaway liquor and electronics to while away the hours. Spending on video games rose 42.2 per cent in the first week of lockdown and by 56.1 per cent in the second week, bottle shop sales rose 33.9 per cent in the first week (surpassing growth pre-Christmas) and 34.2 per cent in the second, and electronics spending rose 21.2 per cent and 26.4 per cent respectively.



The losers included fuel retailers, fitness centres, clothing stores, beauty and nail salons, and dentists.

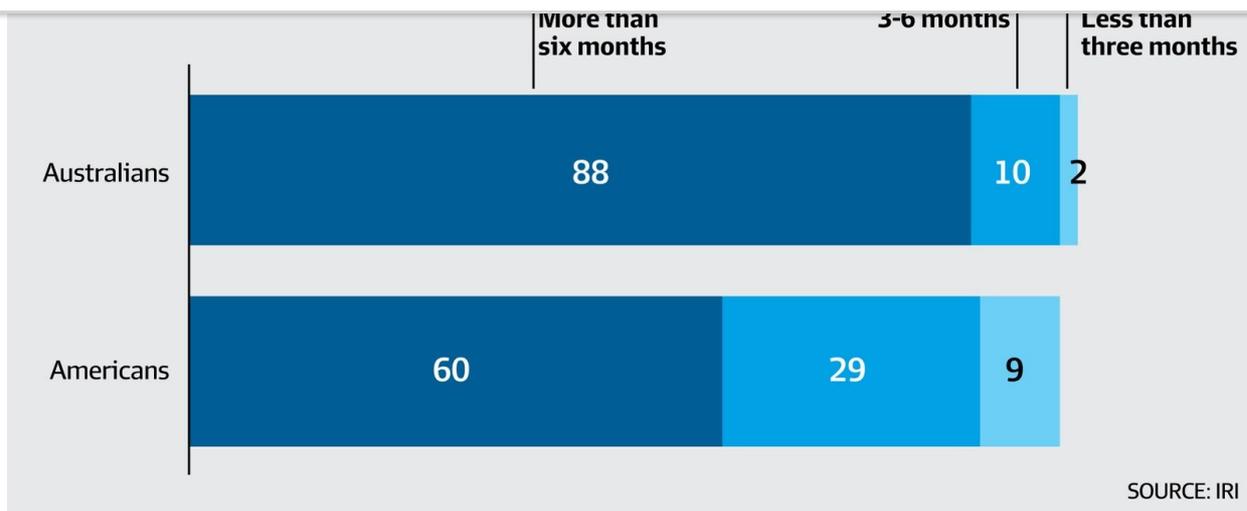
Clothing sales fell 16.9 per cent in the first week of lockdown and 29.2 per cent in the second week, auguring poorly for retailers such as Myer and David Jones, Premier Investments and Mosaic Brands.

Zip co-founder Peter Gray said the data showed how reactive consumers were to government announcements during lockdown.

"The next time a press conference is called, merchants need to be prepared. Ensure supply chains are ready, websites can handle traffic volumes and that key products are restocked," he said.



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