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WHITEPAPER

CONSUMER SPENDING: A BEACON OF HOPE FOR ECONOMIC REVIVAL

SEPTEMBER 2021

EXECUTIVE SUMMARY

In 2020 the economies of 86% of the countries tracked by the International Monetary Fund (IMF) saw a contraction, making Covid-19 the biggest economic shock since the Great Depression of 1929. Overall, the global economy contracted by 3.3% in 2020 - compared to a contraction of 0.1% during 2009, the year following the global financial crisis - and global per capita income in 2020 regressed almost to 2017 levels. These figures could have been much worse were it not for the unprecedented fiscal and monetary policy support provided governments and central banks around the world during 2020. Many countries are expected to cross their pre-pandemic levels of economic output in 2021, while others are showing nascent signs of a strong rebound in 2022. One of the leading indicators that offer hope for this optimistic growth outlook is the increase in consumer confidence levels. This report analyses the factors underpinning the increase in consumer confidence levels, as well as the potential factors that can generate stark divergences in the economic growth pattern of countries.

We hope this paper will be a valuable source of information for business leaders in understanding the factors that are shaping new opportunities, and highlight risks in conducting commerce across borders.

KEY TAKEAWAYS

Consumer confidence has already raced to pre-pandemic levels across most economies. This increase is underpinned by five major factors: (1) improved public health led by vaccination; (2) improving economic activity supported by easing of restrictions; (3) improving labour market conditions; (4) a pile-up of excess savings during the pandemic; and (5) the wealth effect led by robust asset appreciation.

The latest real GDP readings displayed a positive trajectory in countries such as Argentina, Australia, Brazil, China, France, India, South Korea and the US. Similar momentum is expected for other economies in the second half of 2021, supported by the easing of restrictions.

The employment rate has already crossed pre-pandemic levels in some countries. While some countries will witness a V-shaped recovery in terms of employment, other countries could potentially see a W-shaped recovery.

An improvement in public health and the perceived stability of future income can unlock sizeable pent-up demand as households draw down on excess savings.

There will be significant regional disparities in economic revival. This presents varying levels of business opportunities and risks for those engaged in conducting commerce across borders.

THE RETURN OF CONSUMER CONFIDENCE

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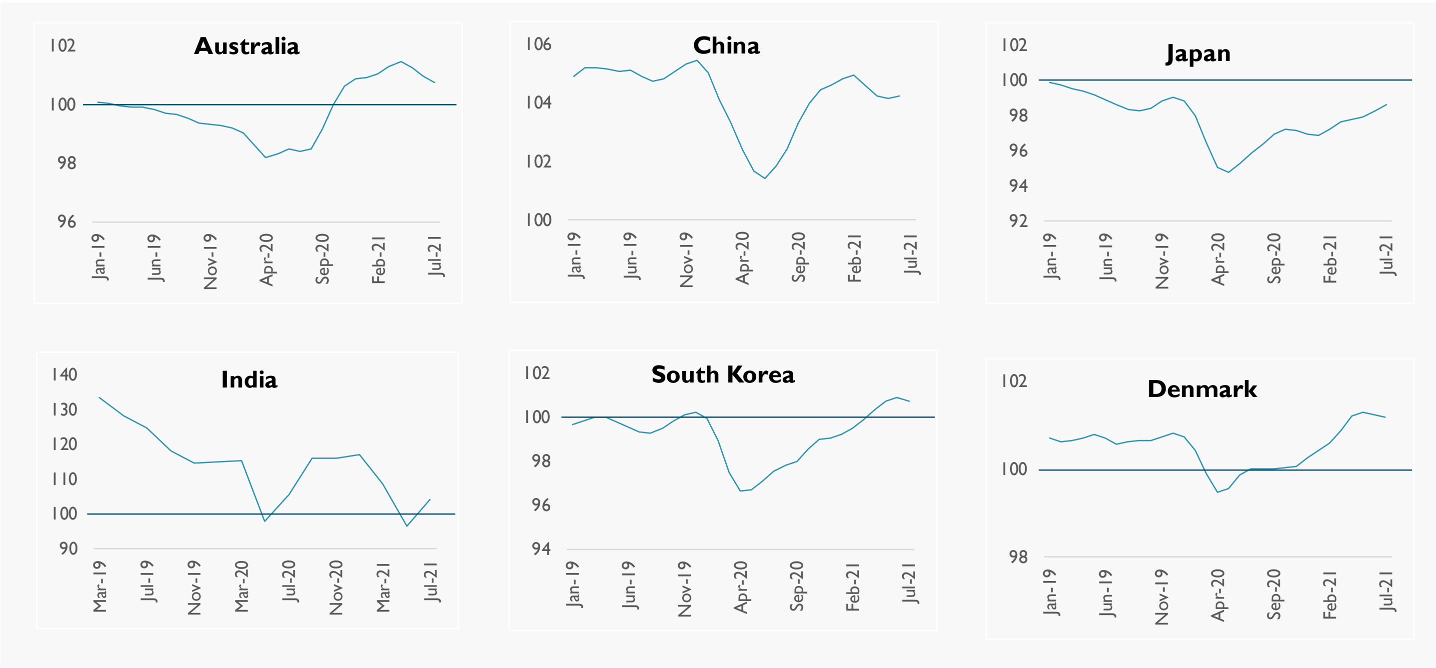
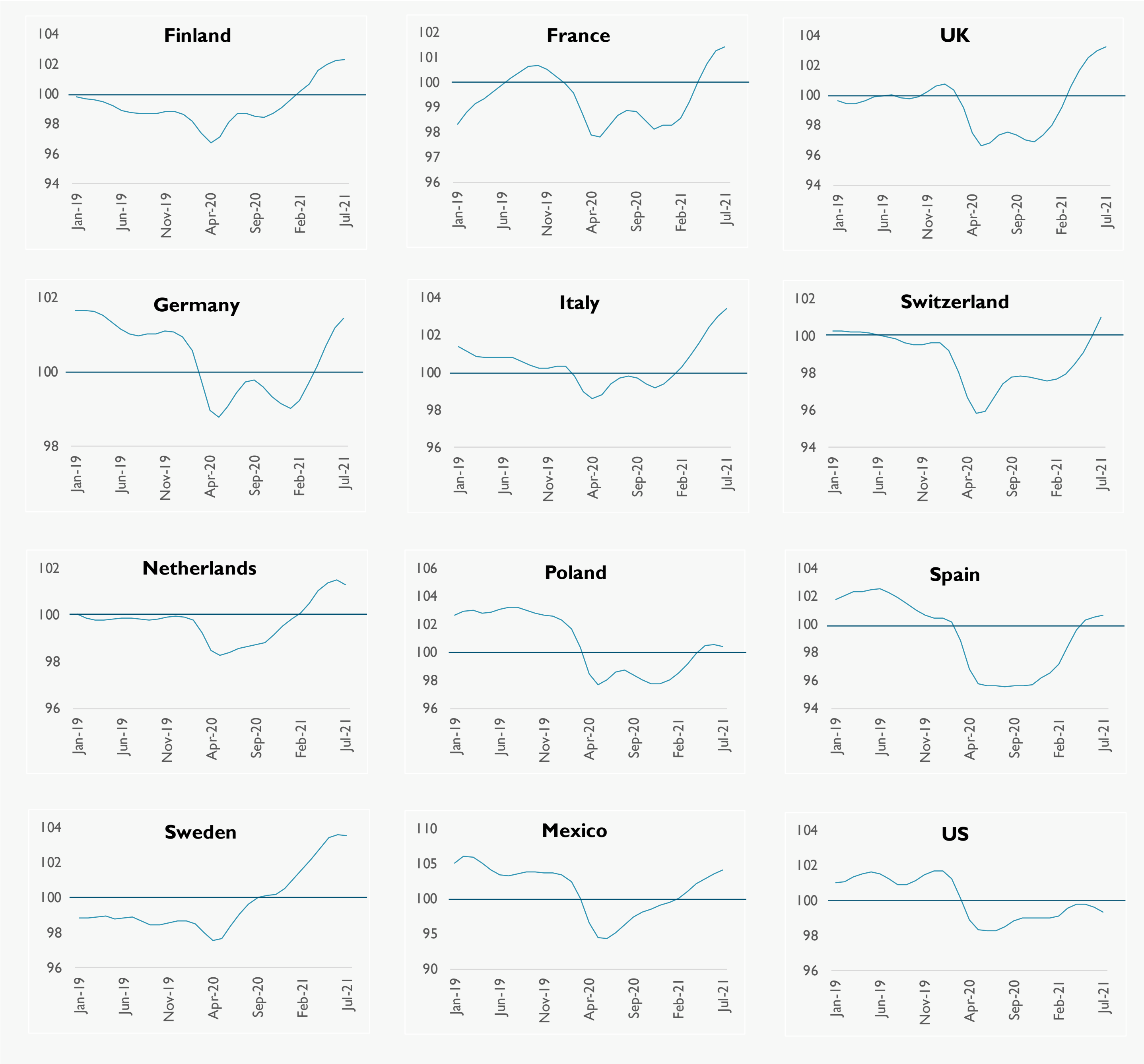
WHAT IS CONSUMER CONFIDENCE AND WHY DOES IT MATTER?

The global economy is expected to grow at its fastest post-recession pace in 80 years. Among other leading indicators that offer hope for this optimistic growth outlook is the consumer confidence level. In brief, consumer confidence is a measure of the optimism levels of consumers with regards to the general economic situation and their own personal financial conditions. Across most countries, consumer confidence has already raced to their pre-pandemic levels. As consumer confidence increases, consumers are less likely to indulge in precautionary savings, and more inclined to spend money. As consumer spending increases, the balance sheets of corporates improve - leading to more investment and employment opportunities, which in turn increases household income levels and leads to higher consumer spending. Thus, a virtuous cycle of economic growth is created. Given that household consumption expenditure accounts for 50% to 70% of Gross Domestic Product (GDP) in major countries, consumer confidence levels offer insights about the likely economic growth trajectory. The other components of GDP are business investments, government spending, and net exports.

ACROSS MOST COUNTRIES, CONSUMER CONFIDENCE HAS ALREADY RACED TO THEIR PRE-PANDEMIC LEVELS

CONSUMER CONFIDENCE INDEX





Source: OECD, Reserve Bank of India, Dun & Bradstreet

Note: An indicator above 100 signals a boost in the consumers' confidence towards the future economic situation, as a consequence of which they are less prone to save, and more inclined to spend money on major purchases in the next 12 months. Values below 100 indicate a pessimistic attitude towards future developments in the economy, possibly resulting in a tendency to save more and consume less.

WHAT EXPLAINS THE INCREASED LEVELS OF CONSUMER CONFIDENCE?

While the increase in consumer confidence is a result of the confluence of many positive developments in recent months, there are five factors that are notable. These are:

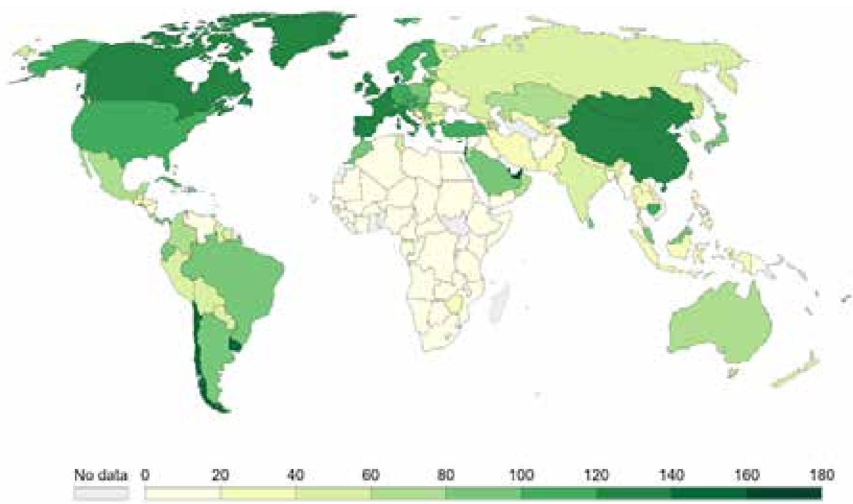
- Improved public health led by vaccination
- Improving economic activity supported by easing of restrictions
- Improving labor market conditions
- A pile-up of excess savings during the pandemic
- The wealth effect led by robust asset appreciation

VACCINATION

Around 24% of the world's population have been fully vaccinated as of 19 August 2021, up from virtually zero at the start of 2021. Around half of the population in high-income countries have been fully vaccinated; these countries account for around 63% of global GDP. A United Nations Development Programme (UNDP) analysis suggests that higher vaccination rates aid a faster economic recovery, with a USD7.93 billion increase in global GDP for every million people vaccinated. Upper-middle-income countries - which account for another 27% of global GDP - have fully vaccinated around 40% of their population. At this pace, high- and upper-middle-income countries might be able to vaccinate enough of the global population required to achieve herd immunity by early to mid-2022.

HIGHER VACCINATION RATES AID A FASTER ECONOMIC RECOVERY, WITH A USD7.93 BILLION INCREASE IN GLOBAL GDP FOR EVERY MILLION PEOPLE VACCINATED

COVID-19 VACCINE DOSES ADMINISTERED PER 100 PEOPLE



Source: Our World in Data

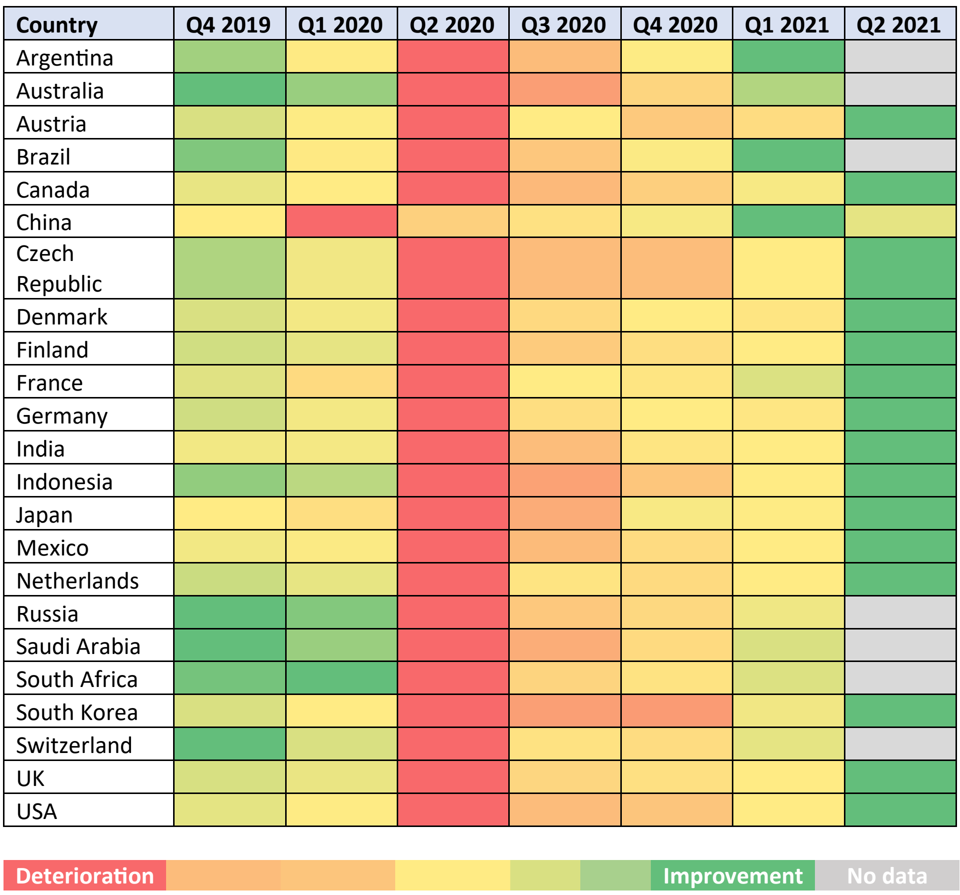
Note: Data as on August 24, 2021. For vaccines that require multiple doses, each individual dose is counted. As the same person may receive more than one dose, the number of doses per 100 people can be higher than 100.

IMPROVING ECONOMIC ACTIVITY

Most of the countries tracked by the IMF have retracted from the depth of their collapse witnessed during Q2 2020. The latest real GDP readings showed a positive trajectory for countries such as Argentina, Australia, Brazil, China, France, India, South Korea and the US. Similar momentum is expected for many other economies in the second half of 2021, supported by easing of restrictions. Only 33% of the countries had a reading that was greater than 60 in the University of Oxford's Stringency Index as at mid-August 2021, compared with about 50% of countries during the start of 2021. This index records the strictness of 'lockdown style' policies that primarily restrict people's behaviour on a scale of 0 (low stringency) to 100 (high stringency). Parallelly, the percentage of disrupted companies globally has reduced to 32% during mid-August 2021, compared to 41% during January 2021, according to data from Dun & Bradstreet's COVID-19 Commerce Disruption Tracker. The tracker defines disrupted companies as those impacted by government restrictions or changes in consumer behaviour and workplace practices. These developments bode well for economic revival.

THE PERCENTAGE OF DISRUPTED COMPANIES GLOBALLY HAS REDUCED TO 32% DURING MID-AUGUST 2021, COMPARED TO 41% DURING JANUARY 2021

REAL GDP GROWTH, Y/Y %

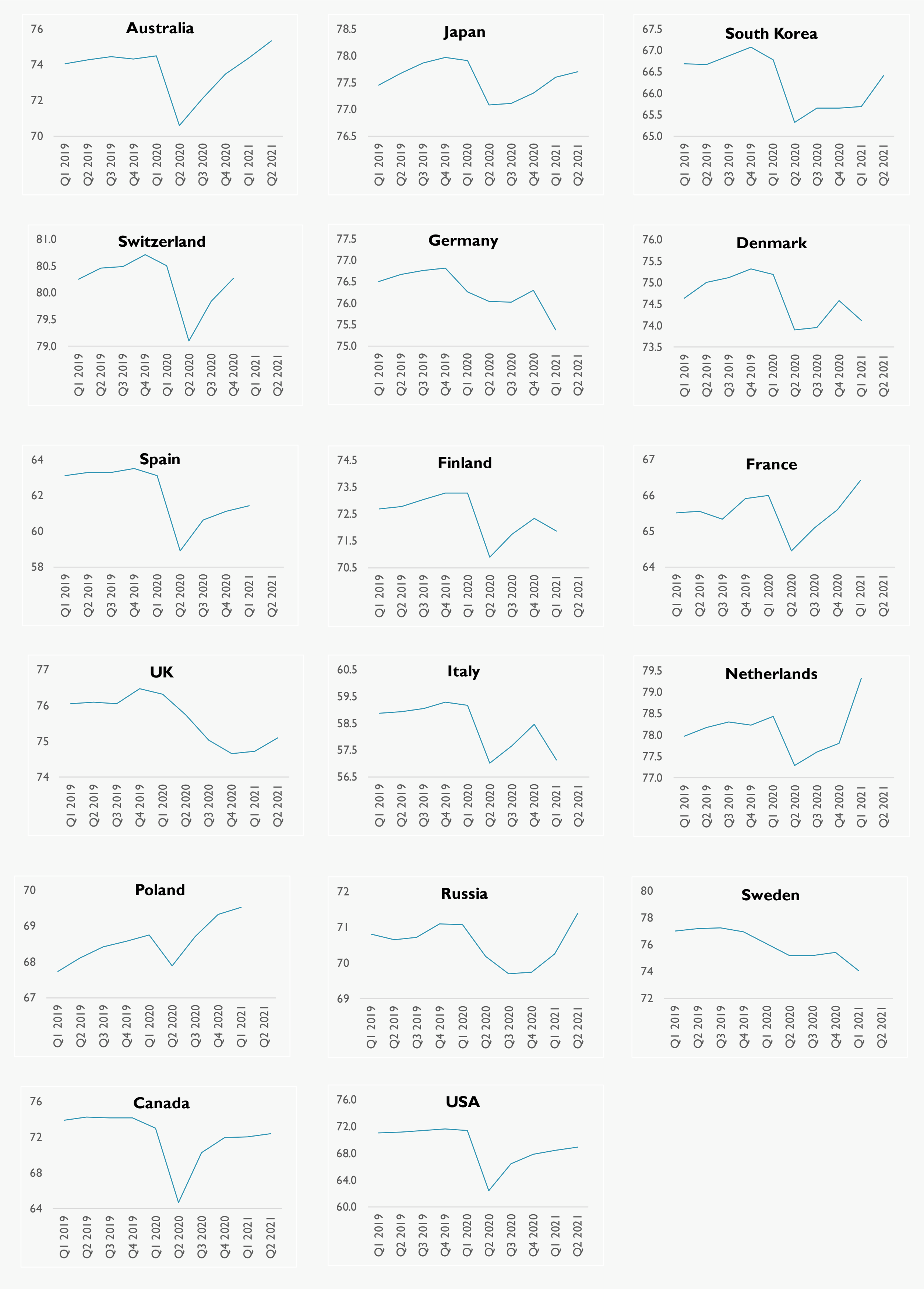


Source: OECD, Dun & Bradstreet

IMPROVING LABOR MARKET CONDITIONS

Estimates from the International Labour Organisation suggest that the pandemic has led to a 2.2 percentage points reduction in the global labour force participation rate in 2020, pushing up unemployment by 33 million. Much of this decline was witnessed during Q2 2020. However, the situation has been improving since then. The employment rate has already crossed pre-pandemic levels in some countries. Countries such as Australia, Poland and the Netherlands have witnessed a V-shaped recovery in terms of employment. Countries such as Finland, Italy and Denmark could potentially see a W-shaped recovery. As restrictions ease, unemployment and inactivity levels/furloughs will decline.

EMPLOYMENT RATE – PERCENTAGE OF WORKING AGE POPULATION



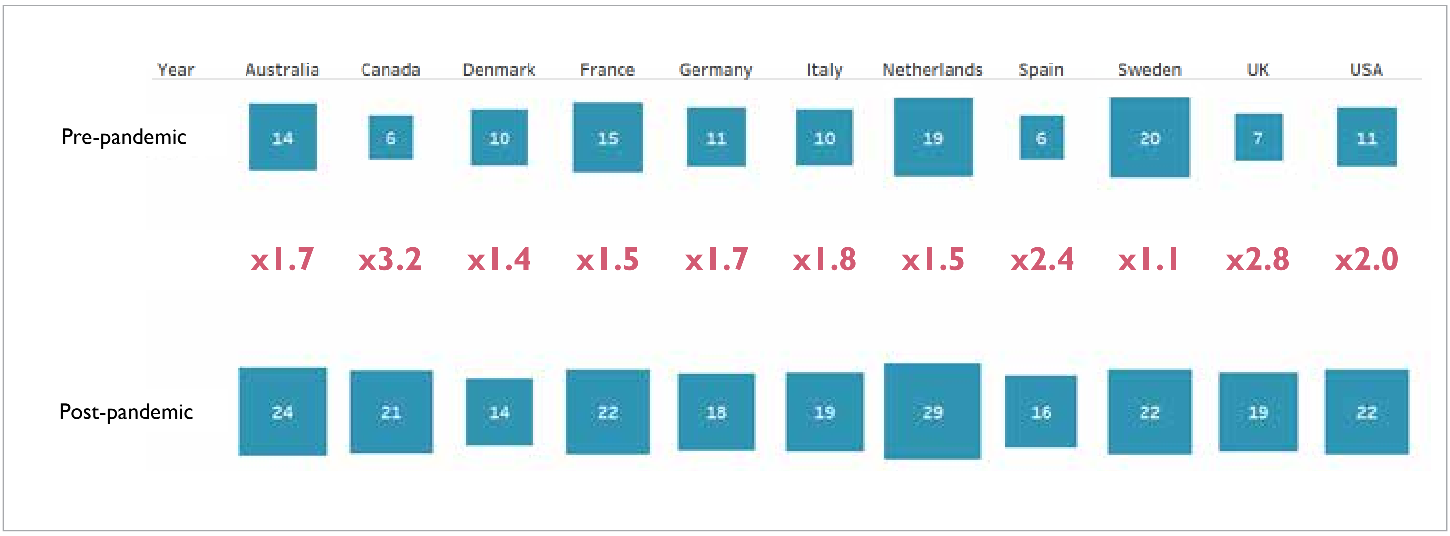
Source: OECD, Dun & Bradstreet

PILE UP OF EXCESS SAVINGS

Following the outbreak of the pandemic, households' savings surged worldwide. This was more pronounced in some countries. For instance, household savings rates as a percentage of disposable income increased in Canada to 30.7% during Q2 2020 compared to 6.3% during Q2 2019; in the UK to 25.1% from 6.6%; in the US to 28.6% from 10.7% during the same period. Two factors could have played a major role in the build-up of excess savings. Firstly, reduced mobility due to government-enforced restrictions or self-imposed social-distancing measures translated to lower consumption expenditure and higher savings. Secondly, elevated levels of uncertainty about future income or anticipated pay-cuts and furloughs led to higher precautionary savings by households. Other factors such as the initial supply-chain shocks and precautionary savings for unexpected health shocks could have also contributed to the surge in savings rates. The improvement in public health and the perceived stability of future income can unlock sizeable pent-up demand as households draw down on these excess savings.

THE IMPROVEMENT IN PUBLIC HEALTH AND THE PERCEIVED STABILITY OF FUTURE INCOME CAN UNLOCK SIZEABLE PENT-UP DEMAND AS HOUSEHOLDS DRAW DOWN ON THESE EXCESS SAVINGS

GROSS HOUSEHOLD SAVINGS AS A % OF GROSS HOUSEHOLD DISPOSABLE INCOME



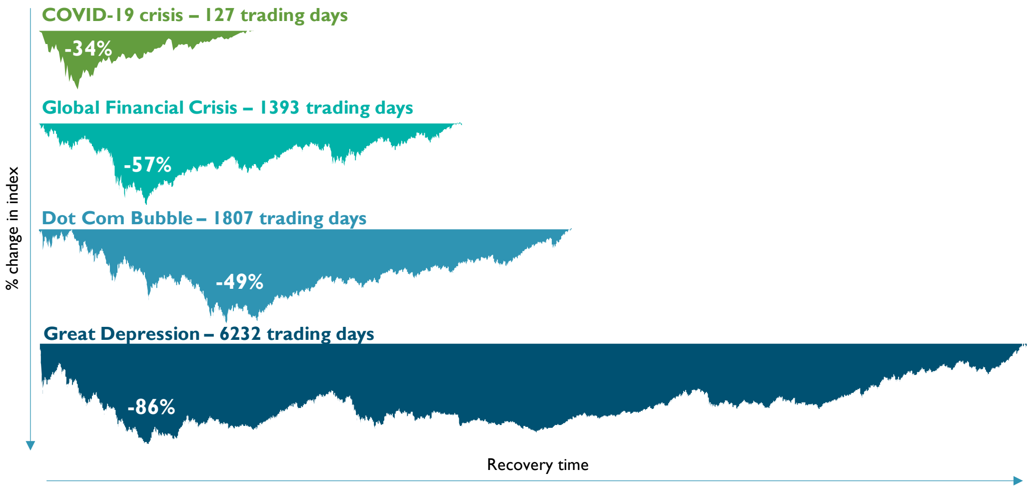
Source: Haver Analytics, Dun & Bradstreet

Note: Pre-pandemic refers to average value during Q1 to Q4 2019, Post-pandemic refers to average value during Q2 2020 to Q1 2021

WEALTH EFFECT

Following the outbreak of the pandemic, major stock-market indices across the world fell sharply. However, the fall was modest and short-lived relative to other major crises. For instance, the Standard and Poor's 500 index declined by just 34% during the Covid-19 crisis compared to a decline of 57% during the global financial crisis, 49% during the dot-com bubble, and 86% during the Great Depression. In terms of the time taken from trough to pre-crisis levels, the index recovered in 127 days during the Covid-19 crisis, compared to 1393 days during the global financial crisis, 1807 days during the dot-com bubble, and 6232 days during the Great Depression. Rapid recovery was supported by massive fiscal and monetary policy support. Not only have the major stock-market indices recovered quickly, but they have also hit record-high levels in the subsequent weeks. An uptick in asset prices typically results in a perceived increase in household wealth, which in turn induces consumers to spend more and stimulate economic growth.

PERFORMANCE OF S&P 500 DURING MAJOR CRISIS



Source: Yahoo Finance, Dun & Bradstreet

DOWNSIDE RISKS TO ECONOMIC RECOVERY

While all of the above factors offer hope for an increased level of consumer spending and economic revival in the coming months, there are two important factors which can generate stark divergences in the economic revival pattern of countries. These are:

- New variants of the virus
- Vaccine inequity

NEW VARIANTS OF THE VIRUS

The possibility of an emergence of new variants of the virus that render public-health interventions less effective cannot be ruled out. Fresh waves of infections will reduce mobility levels, increase business disruption, elevate uncertainty levels about future income, and delay consumer spending. Some countries have experienced recurring waves that have set back economic recovery. For example, following a major increase in new infections, the percentage of businesses disrupted in India rose to around 50% during May 2021 from just 13% during March 2021, according to data from Dun & Bradstreet's Covid-19 Commerce Disruption Tracker. The tracker defines disrupted companies as those impacted by government restrictions or changes in consumer behaviour and workplace practices. Regional variations in new infections will have a bearing on regional economic growth patterns.

NEW VARIANTS OF THE VIRUS AND VACCINE INEQUITY POSE A DOWNSIDE RISK TO ECONOMY RECOVERY

VACCINE INEQUITY

There are significant regional disparities in the progress of vaccination. While around half of the population have been fully vaccinated in high-income countries, less than 0.5% of the population have been fully vaccinated in low-income countries. Data from the UNDP, World Health Organisation and United Nations Children's Fund shows that high-income countries, on average, need to increase their healthcare expenditure by 0.8% to cover the cost of vaccinating 70% of the population. On the other hand, low-income countries, on average, need to increase their healthcare expenditure by 56.6% to achieve similar levels of vaccination. This is a significant financial burden. Inequitable access can be further compounded by logistical challenges in both the procurement and timely distribution of vaccines.

CONCLUSION

The global economy is expected to grow by around 6% in 2021, thanks to unprecedented fiscal measures and other policy supports. The projection is also shaped by an anticipated vaccination-fuelled economic recovery.
A sooner-than-expected normalisation of economic activity supported by better healthcare interventions could result in higher consumer and business confidence levels, and an eventual increase in consumer spending and business investment. However, on the flip side, stronger additional waves of infections will dampen optimism levels and derail economic growth. What is certain is that there will be significant regional disparities in economic revival. This presents varying levels of business opportunities and risks for those engaged in conducting commerce across borders.

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