Key Questions

Who Wins and Loses in a Post COVID-19 World?

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COVID-19 has caused a foundational shift in the U.S. economy, causing consumers to change their approach to spending. Consumers are placing value on technology, convenience, speed, health, and safety.

Since mid-March, the U.S. economy has been dramatically altered due to COVID-19. This shift forced consumers to re-evaluate their spending habits.

As we move forward, an important question arises:
With 70% of the economy tied directly to consumer spending, how many and which of our new "habits" will permanently change?

We believe there are trends in at least four areas that will have lasting impacts:

1. Channel Share Shifts,
2. Urban Exodus,
3. The House as a Castle, and
4. Health and Wellness.

Channel Share Shifts

We see an accelerated shift to e-commerce and digitization as the single most significant change and one with the strongest staying power. Before the coronavirus, only 16% of all U.S. retail sales were online purchases. Online sales will most assuredly represent a significantly larger share going forward.

In terms of wallet share, even after many countries lifted stay-at-home restrictions, most consumers still feel the pull toward a "homebody economy." Industries such as cruise lines, airlines, hotels, and restaurants continue to struggle mightily as consumers stay away. In contrast, other industries saw an incredible acceleration in their share of the consumer wallet. Industries in this group include e-commerce, home improvement (see the "House as a Castle" theme below), and technology/software that allows millions to work remotely.

Looking further at the shift in wallet share, credit and debit card spending data shows that digitization is the most apparent winner. Many executives believe these trends will stick as consumers embrace this newfound convenience and grow more accustomed to making online purchases of items not traditionally bought that way, such as automobiles.

Urban Exodus

Dozens of high-profile tech companies have already announced that employees can work remotely permanently. Corporate America looks poised to benefit from this new work-from-home culture through:

1. Increased access to a larger talent pool,
2. Improved morale and newfound efficiencies, and
3. Potentially reduced costs associated with maintaining a large amount of office space concentrated in one urban area.

As the work commute decreases for many, the growth of ride-sharing services and other public transportation platforms may be called into question. Consumers may be more likely to own automobiles and possibly reside in suburban or rural areas.

The House as a Castle

Whether it's remodeling a kitchen or investing in a new backyard deck, consumers will inevitably be investing more in their homes. And that makes sense when you consider that they expect to be spending a lot more time there.

A recent survey by RBC Capital Markets revealed that, at least in the near-term, the activities consumers are most likely to avoid are:

1. Dining out (40%),
2. Going to bars (60%),
3. Going to a gym (55%),
4. Going to a movie theater (63%), and
5. Travel by plane or other forms of public transportation (64%).

As a result, those consumers may shift their buying behaviors to things like home improvement, home entertainment, home fitness, Netflix/video games, and vacations that are within a close driving distance. Food delivery is another industry we think could be poised for explosive growth, likely at the expense of dining out. Emblematic of these trends, we would highlight Uber's recent big bet on food delivery by spending $2.65 billion to acquire Postmates after its failed attempt to take over rival food delivery competitor Grubhub.

Health and Wellness

We believe decisions made on the health and wellness front are likely not made on a temporary timeframe. There is a definite shift to higher demand for at-home exercise equipment and cleaning supplies, such as bleach, Lysol, and cleaning wipes. We believe the heightened demand for cleaning items will be a long-term trend as well since consumers are likely to permanently expect more sanitary conditions.

Ultimately, it is difficult to predict with certainty what long-term secular changes in consumer behavior are likely to occur. But with new habits currently being formed and a COVID-19 world where consumers are increasingly valuing technology, convenience, speed, health, and safety, we believe the safest bets are on the industries that check those boxes. Those that don't could be in for a much bumpier ride ahead.

For more information, please contact your Key Private Bank Advisor.

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