The retail boom accelerates

24 August 2020

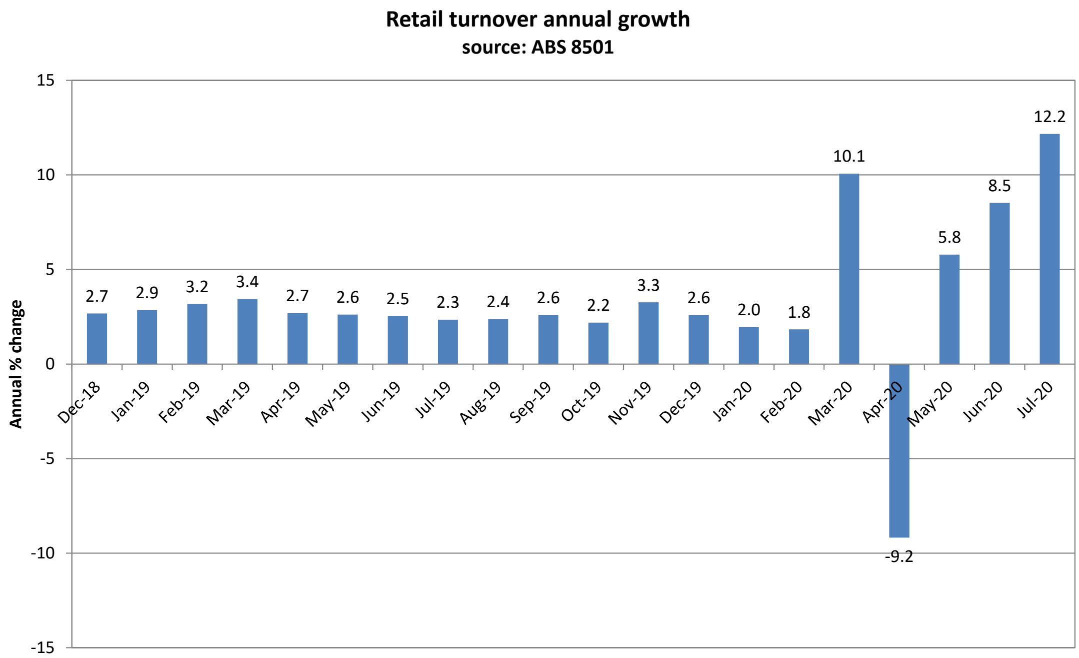
Amidst all the doom and gloom of a recession, aggregate retail sales growth was stronger in May and June than at any time since 2009 – the last time significant government stimulus was needed. Preliminary data for July indicates the strongest annual sales growth in 20 years.

Despite this roaring trade, advertisers are sitting on their hands. A survey conducted for the Australian Association of National Advertisers in June, by Ipsos, found that over 50% of Australian marketers are withholding their budgeted advertising investment as they wait for more stability in the country's COVID-19 status.

Those who have continued to invest are likely to have gained share in a strong market.

Chart 1 shows annual retail sales growth since December 2018. Dollar spend was at a record high in July.

Chart 1



The ABS states that:

At the national level, household goods retailing led the monthly rises across the industries in July. Turnover in household goods was 30 per cent above the levels of July 2019, with sales of furniture, whitegoods and electrical items remaining high.

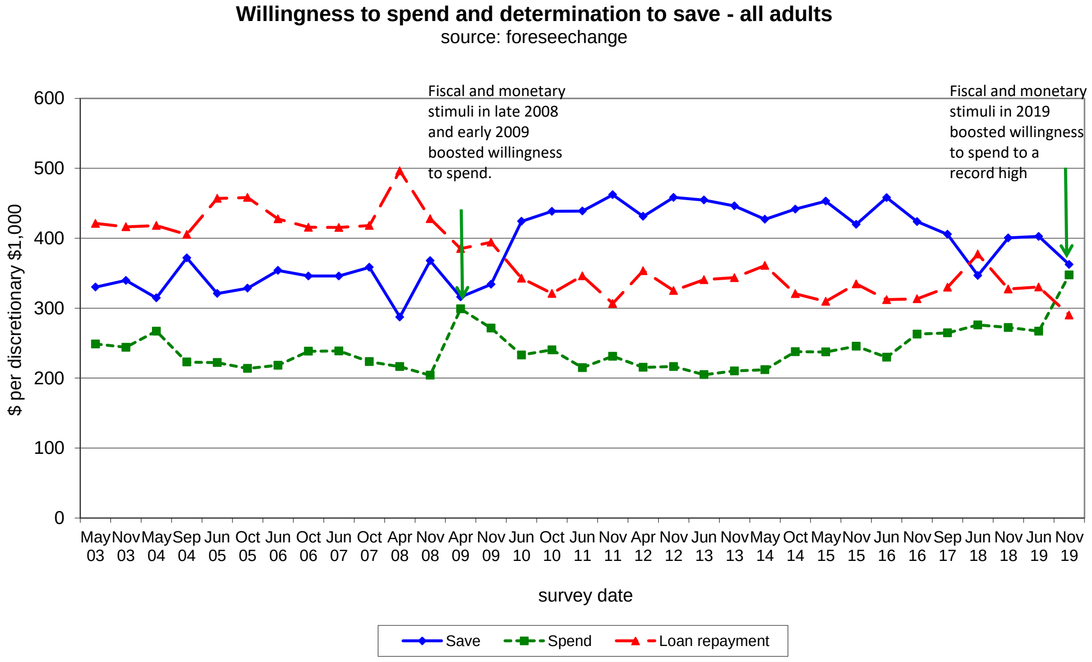
Other retailing and department stores saw similar monthly rises to household goods in percentage terms.

Some of this strong growth is due to easing of restrictions. But government stimulus payments have combined with record high willingness to spend to fuel the boom.

We also know that new vehicle sales to private buyers were higher in July 2020 than in July 2019.

This boom in Consumer spending was not surprising because consumer willingness to spend reached a record high in late 2019 (Chart 2). Willingness to spend is measured in tracking surveys by asking respondents how they would allocate a discretionary $1,000 between saving, spending, and loan repayment. Prior questions put respondents into an appropriate frame of mind.

Chart 2



The big lift in late 2019, from an already high level, was a reaction to boosted tax returns and tax cuts in the second half of 2019. Much of that money went into saving and repaying debt, and so willingness to spend rose. The previous record high, in April 2009, was likewise lifted by fiscal stimulus (in that case in order to avoid recession, which was successful).

All consumers needed to lift their spending was more money – which many received from May. Tens of billions of dollars have been received from the government and tens of billions have been taken from superannuation savings.

In addition, lower interest rates compared with a year earlier boosted discretionary spending power of households with a mortgage by over $25 billion per year. It would be expected that this would have reduced the marginal propensity to repay debt from a record low, raising willingness to spend and propensity to save. Sharply lower childcare expenditure and lower prices for automotive fuel combined with less distance travelled also put more money in pockets. Willingness to spend will remain elevated for some time, as it did after the GFC, because much of the fiscal stimulus will have been saved and some used to reduce debt.

The message here for marketing is that keeping your powder dry when it comes to advertising is handing market share to more optimistic competitors.

<u>Spending on the Brain!</u>

Peter Pynta, who is CEO APAC of Neuro-Insight, has conducted considerable research into how advertising interacts with the brain and he explains it this way:

This can be explained by the underlying science that brand memories are in constant flux. Advertisers need strong brand memories because they ultimately drive behaviour (spending). Effective advertising strengthens brand memories, but it can simultaneously weaken the competitors – which explains why ad spending recessions provide such rich opportunities for well-prepared advertisers to re-position one's brand in the mind of the consumer. This would be especially true for those consumers who are 'positively primed' in market and are willing to spend. Conversely, a lack of advertising is not only lowering a brands' defences, it's likely to be handing the competition an easier way through the doorway to memory (& on to their wallets!).

So what?

The much-feared fiscal cliff in October will now be much shallower since JobKeeper has been extended. In June and July, employment increased 343,000. Consumers are still willing to spend and more are able to do so.

More fundamentally, it's never been more important to understand consumer behaviour and how advertising delivers that vital payback during COVID. The abovementioned evidence is grounded in validated, forward-facing, predictive evidence that will empower the C-suite to de-risk their next move.

The risk now is that the retail spending window will be missed by brands!

Pynta & Nelson captured the opportunity:

Right now, the consumer spending stage is set – and here's the roadmap:

- *Creative execution is your most powerful profit multiplier – optimized creative significantly shortens the odds of success,*
- *Invest adequately in quality media,*
- *De-risk with confidence – using future-facing, predictive, actionable data,*
- *Contact us for more…*

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