

TRENDS IN THE ECONOMY

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POST PANDEMIC TRENDS IN CARD SPENDING

UK Finance collects and aggregates a wide range of data sets relating to consumer and business finance to inform the industry about the latest trends and developments across the sector. In the first of a new series of quarterly *Trends in the Economy Analysis* papers, we take a dive into the detail of our card expenditure statistics.

The data provides insights into the level of card spending on a monthly basis, breaks down whether it is online or in-person expenditure and offers a detailed look at the categories of spend and how these change over time. Specifically, we explore what we can learn about post-lockdown spending behaviour from our card data, examining where the largest areas of growth have been since the economy began to reopen in the spring and identifying where we might be seeing some long-lasting shifts in spending patterns.

ECONOMIC CONTEXT

A range of official and private sector survey data have been pointing to a solid recovery in consumer activity since the economy started to benefit from the lifting of social distancing restrictions from April this year. Contact-intensive services, shuttered for large parts of the previous year, saw a strong rebound in activity in the second quarter of this year and retail sales have recovered to pre-pandemic levels. Consumer confidence about the recovery gained ground over the summer, supporting households' appetite to spend, although widely reported concerns about rising prices have led that confidence to falter more recently. Nevertheless, the broadly positive post-lockdown backdrop has been supportive of a solid pick-up in card spending through to July 2021, the most recent data we have available.

Under the surface of this up-turn we can also see that the effects of hybrid working, as well as technological advancements (for example in app payments), have resulted in a shift in the channels consumers use to purchase goods and services, which could result in a more permanent change in the mix of online and point of sale purchases. What's also notable in the data is that recovery has been uneven across a range of spending categories, with many sectors still well below pre-pandemic levels. In part this is a consequence of the sequencing of the lifting of Covid-19 restrictions, with spending on international travel lagging as consumers navigated the varying rules for different destinations.

TOTAL CARD SPENDING

As of July 2021, total card payments in the UK were 22 per cent higher than the same time the previous year and reached a record level both in terms of volume and value (chart 1). While total monthly card spending is at an all-time high as the UK economy emerged from the latest lockdown, the recovery in card spending differs by payment method. There has been a shift in many sectors in terms of how consumers use card payments with a greater proportion of card spending now via contactless and online methods. This record level of card payments has also been driven by the continued migration of cash payments over the course of the pandemic, as retailers and other businesses discouraged cash use at the outset of the pandemic.

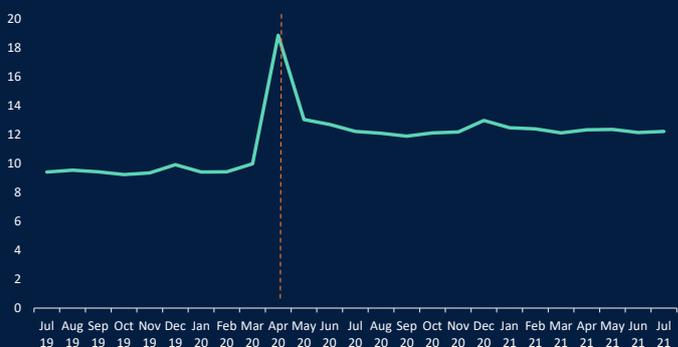
Chart 1 Total card payments in the UK, volume



CONTACTLESS CARD SPENDING

The proportion of contactless card payments increased from 44 per cent in July 2019 to nearly two-thirds (65 per cent) in July 2021. The increased share of contactless card payments has been driven by the contactless limit increase to £45 in April 2020 as well as continued migration from cash to contactless as retailers encouraged consumers to use contactless at point-of-sale during the pandemic. This has resulted in the average transaction value (ATV) increasing from around £9 pre limit increase, to £12 post the higher limit (chart 2).

Chart 2 Contactless average transaction value



Many consumers are now increasingly comfortable and familiar with making contactless payments. As the contactless limit increases further to £100 this will likely result in the contactless share of total card payments continuing to increase, allowing for people to use contactless cards for higher value purchases. We would expect to see a further gradual rise in the ATV as consumers make use of contactless payment more frequently in supermarkets and restaurants.

ONLINE CARD SPENDING

Lockdowns saw the proportion of card spending online increase. At its peak in January 2021, online spending accounted for nearly half (48 per cent) of the value of all card spending (chart 3). As more physical stores and parts of the economy have begun to reopen, the proportion of online card spending has decreased but remains above its pre-pandemic share. In addition, there has been a step change in certain sectors of the economy where online spending remains above pre-pandemic levels. The continued proliferation of mobile apps has also meant more online purchases are now occurring at physical premises.

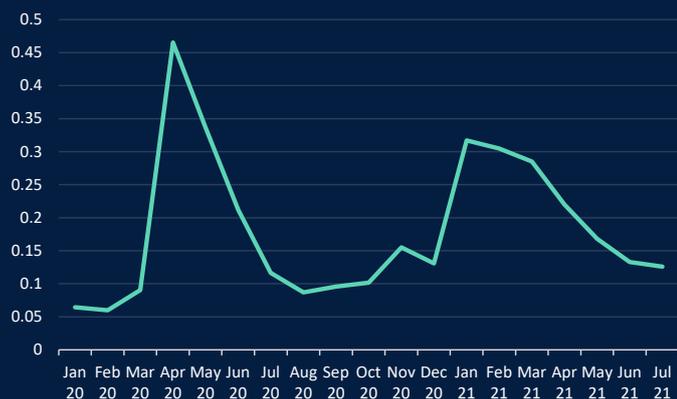
Though restrictions around dining in are now lifted, the level of online card spending in this sector has remained higher than pre-pandemic levels (13 per cent compared with six per cent). This can be attributed to many restaurants rolling out mobile apps allowing customers to order and pay via app when dining in and changes to business models where eat/cook at home options remain in place.

One of these sectors is restaurants. During lockdowns, indoor and outdoor dining was restricted and while many restaurants were forced to shut, some stayed open allowing for online orders either direct to the restaurant, or via food delivery apps such as Just Eat, Uber Eats and Deliveroo. This saw a huge spike in online card spending in these sectors before falling as dining in returned last summer as part of the Eat Out to Help Out scheme. As lockdowns returned over the winter, online spending also spiked again.

Chart 3 Proportion of online card spending in the UK



Chart 4 Proportion of online card spending in restaurants



Another sector in which consumer shopping channel preference has changed is supermarkets. During the pandemic the major supermarkets saw increased demand for online delivery slots. As a result, the proportion of online card spending in this sector increased from eight per cent to reach as high as 16 per cent. While this proportion has fallen slightly to 12 per cent as lockdowns have ended, it is still well above the level seen pre-pandemic.

Chart 5 Proportion of online card spending in supermarkets



This is attributed to continued use of online delivery slots, with more consumers being home during the week due to hybrid working arrangements, as well as many supermarkets implementing pay by app technology where consumers scan items on their smartphone and make an online payment via an app without having to use a point-of-sale checkout.

WHERE HAS SPENDING BEEN RECOVERING

While consumers continued to spend through the pandemic, albeit on a different mix of goods and services and through different payment channels, there was a lot of pent-up demand to be unleashed when economy began to reopen again. This section will look at which categories of spending have been the main beneficiaries of the lifting of restrictions between April and July this year.

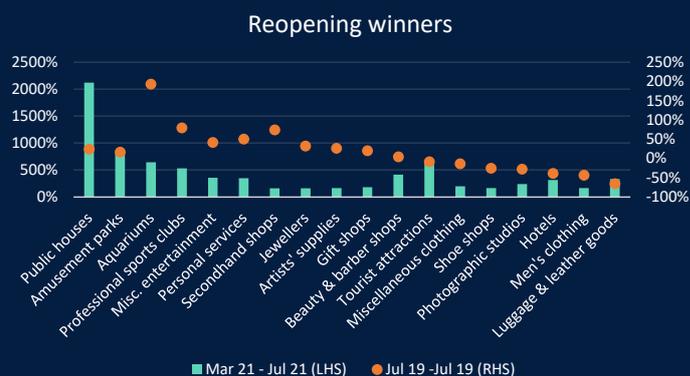
Chart 6 shows the percentage growth in spending by category between March 2021 and July 2021, it also compares the most recent figures for July 2021 with what was happening in July 2019 (chosen as some categories of spending may be affected by seasonality).

The big gains in the months when things were returning to normal were service based activities – these experienced rapid and significant declines in spending as many businesses were essentially closed or trading was severely curtailed. In the first few months of the economy reopening there has been a reversal of the spending shift from services to goods noted during the pandemic lockdowns.

Unsurprisingly the most significant growth in card spending between March and July was in public houses. And I say unsurprisingly as one of the biggest increases in google searches in April was for pubs with beer gardens (as discussed in our June Economic Insight¹). Spending in pubs rose from a meagre £41 million in March to over £900 million in July, which also surpasses spend in the month before the first national lockdown (February 2020).

Other categories of spend that have seen big increases since restrictions began to be lifted are also those that involve socialising and leaving the confines of the home office – amusement parks and aquariums - both of the which have not only seen a strong rebound in spending but also a recovery in spending above levels seen in July 2019. This is likely a reflection not just of households increasing their spend on leisure activities, but also consumers spending more on tourist attractions at home, as international travel restrictions remained in place.

Chart 6 Card spending growth by category, percentage change



Contact-intensive services such as beauty and barber shops saw a 400 per cent increase in spending in July compared with the last month of full lock down with levels of spend, again, higher than seen in the pre-pandemic period and the same month in 2019. Haircuts and professional beauty treatments were clearly a priority for many that had made do throughout the winter months.

While the post-reopening bounce hasn't been quite as significant in sports clubs and arts supplies stores, compared with some other segments of expenditure, the relative increase compared with the same period in 2019 is more significant – suggesting that new-found hobbies in lockdown are being sustained, or at least that is the intention.

A number of spending categories which have seen a post-lockdown rebound but where levels remain below those recorded in 2019 include men's clothing and shoe shops and some travel related areas of spending, such as hotels, and luggage and leather goods.

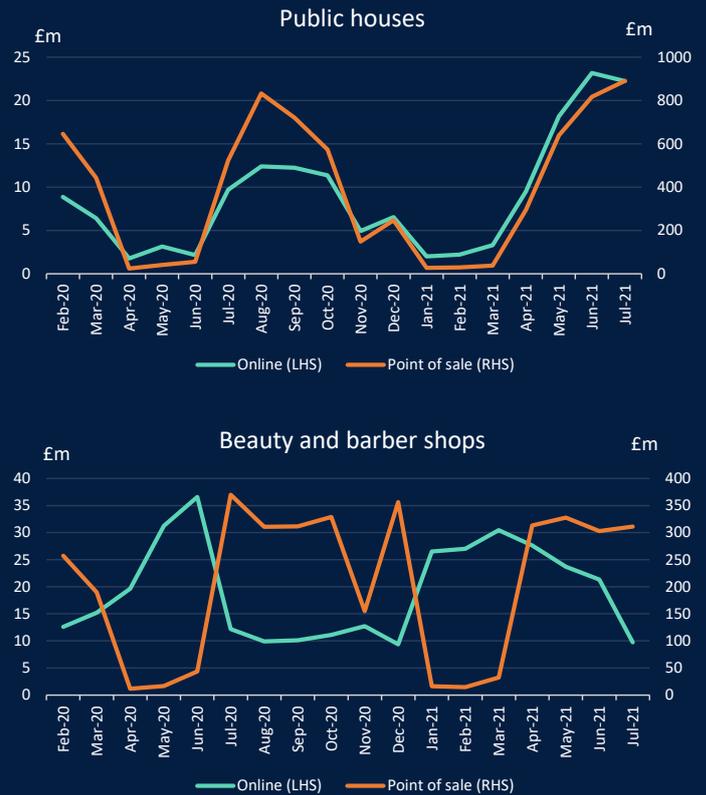
SUBSTITUTES AND TECHNOLOGY COMPLEMENTS

If we take a closer look at the breakdown of online and point of sale card spending in categories of strong post-lockdown growth, there are some clear differences in spending patterns. Charts 7 and 8 compare point of sale and online spending in public houses and beauty and barber shops over the 18 months to July 21.

Spending through both channels in public houses followed a similar path – falling sharply in the first and second lockdowns. Point of sale spending bounced back last summer as pubs reopened, with online sales recovering to a lesser extent. However, in more recent months the rise in online spending had matched that of point of sales transactions – this is primarily a result of many bars introducing apps where customers can order and pay at the table to reduce face-to-face interactions with staff, so while orders are being made on the premises more spending is essentially happening online. While this means of payment was a response to restrictions, it seems to have stuck around even as those restrictions were removed.

The reverse is true for contact-intensive services, such as barbers and beauty. The peaks and troughs of online spend are a mirror image of point of sales expenditure. This reflects a substitution of online purchases during lockdown for at-home treatments and a return to point of sale purchases as business premises reopened.

Charts 7 and 8 Online compared with point of sale spending, £ millions



TRENDS IN CLOTHING EXPENDITURE

The bounce in men's clothing card spend since March was one of the strongest categories of post-lockdown growth, but total spending remained below pre-Covid-19 levels. This is the case for both point of sales and online spending. Indeed, in July online spending in this category was over 30 per cent lower compared with February 2020. Has the move to hybrid working brought about lower demand for office wear and the demise of ties?

On the other hand, women's clothing spend on cards performed more strongly through and since lockdowns with both point of sale and online spending back above pre-Covid-19 levels. Online spending values have eased back since physical stores reopened with a corresponding increase in point of sale card spend, as shoppers have returned to stores in greater numbers.

Chart 9 Clothing expenditure online and point of sale, February 2020 = 100



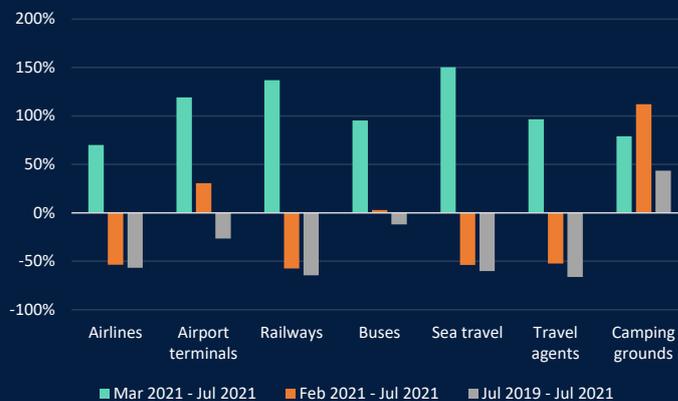
TRENDS IN TRAVEL SPENDING

One area of the economy which has followed a different path to reopening is international travel. The global nature of the pandemic means the sector has been under stricter restrictions for longer, with limitations on the countries where travel is permitted and hoops to jump through on departure and arrival. This has resulted in significant reductions in passenger numbers at airports, for example, and a slower recovery than other areas of spend over the period covered by our analysis.

While the introduction of the traffic light system (which has been subsequently streamlined) led to some recovery in spending on air travel, sea travel and travel agents since March, as key holiday destinations in Europe were open for travel, the value of spend in these categories remains significantly below pre-pandemic levels and the same period in 2019, when summer travel was last unrestricted.

In contrast, bus travel, which is largely domestic spend, is more or less back to normal – reflecting return to work and leisure and consumers returning to public transport in greater numbers. But the main outlier in this area of spend is camping grounds, which has enjoyed bumper growth over the summer since reopening and also compared with the same period in 2019. Like the rise in other tourist attractions and amusements noted earlier, this confirms the shift in household preferences to holiday at home.

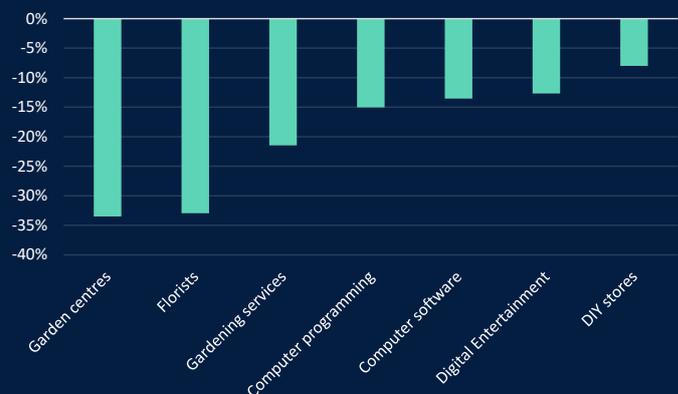
Chart 10 Spending trends in travel categories, percentage change



CATEGORIES OF DECLINING SPEND

Not every area of spend has benefited from the rebound in consumption since the end of restrictions, though it is worth noting that those categories that have experienced a decline in expenditure values are few and far between (chart 11). In contrast to those areas that have recorded a substantial post lockdown rise in spending as many premises reopened their doors for the first time, those seeing declining spending between March 2021 and July 2021 were operating normally to a greater degree in the last lockdown. For example, spending in garden centres and gardening services has declined as households spend more time on other leisure activities. Though, notably spending on both categories exceeded levels recorded in July 2019 in the most recent data. Similarly, spending on IT-related goods and services has also fallen back as consumers spent more on this during lockdowns to support working from home.

Chart 11 categories of declining spend post-lockdown, percentage change March 2021 to July 2021



CONCLUSION

Consumers have hit the high street with gusto since restrictions started to be lifted and services, which had been shuttered for months, have also seen the benefit, resulting in record levels of card spending in the July. There are signs that habits formed during the pandemic and in the early stages of reopening, such as a shift to contactless card spending and online purchases, have become a more permanent feature of our lives.

And inevitably, as the lifting of restrictions have been staggered across sectors, there are still some categories of spend that have still yet to get back to pre-Covid-19 levels. The future path of card spending will depend on continuing confidence to spend, particularly on bigger ticket items such as international travel, overall confidence in the economy as furlough comes to an end, and confidence in household finances, as consumers manage new challenges of rising costs.