The Big Thaw:

COVID-19 Consumer pulse survey report | Spring 2021

April 2021

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Executive summary:

Consumer reservations temper a bullish post-COVID-19 outlook

As the U.S. emerges from COVID-19 impact, the general and business press has been filled with bullish news, including projections the American economy will expand this year at the largest annual rate of growth since 1984.[1]

But KPMG research suggests the virus is still dictating economic outcomes.[2] Conditioned by 14 months of grim economic and health news, household financial impact, and workplace and schooling restrictions, consumers—possibly a bit shell shocked—are responding with understandable caution. The FOGO (fear of going out) and aversion habits we noted in our January *Revive to Survive: 2021 Retail State of the Industry Report*[3] are softening and thawing, though more tentatively than some expected. As confidence in the efficacy of mass vaccination grows, and the impact of stimulus checks ripple through households, consumers report increased spending across nearly all retail categories, but also share residual wariness about the timing of a full U.S. economic recovery.

The science of understanding consumer behavior and intent, always complex, has only been made more so by widespread disruptions in income, mobility and purchase options. To validate our anecdotal sense of marketplace developments, we turned directly to consumers themselves, and surveyed approximately 1,000 respondents across the U.S. at the end of March.[4]

> **"Every retailer is looking for insight about post-COVID-19 consumer intent. We're in an economic thaw, which will be significant yet uneven, with wide variation by segment and category."**
>
> – Matt Kramer, Principal, National Sector Leader, Consumer & Retail, KPMG LLP

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1 Casselman, Ben; "Strong U.S. Job Growth in March Fuels Optimism on Recovery," *The New York Times,* April 2, 2021

2 *A Tale of Two Economies: Pandemic Dictates Contour of GDP for 2021;* KPMG Economics, March 4, 2021

3 *Revive to Survive: 2021 Retail State of the Industry Report*, p.4. read.kpmg.us/ReviveRetail

4 KPMG COVID-19 consumer pulse | Spring report, April 2021. (Survey fielded March 24 - March 30, 2021. Detailed results available at https://advisory.kpmg.us/articles/2021/consumer-pulse-survey-spring-2021.html)

We conducted our field research—and published this report—to address topics that include:

- How patterns of COVID-19 financial impact, at the household level, may influence consumer confidence about full economic recovery for the U.S. as a whole.
- Where consumers report changes in their current spending across retail categories, and in what time frame they see recovery to pre-COVID-19 levels of household spending.
- What employees who are currently working from home think about returning to onsite work, when they can, and what will influence their place-of-work decisions.
- Where consumers who move their residence are going, and how long they plan to stay in their new locations.
- How vaccination status drives decisions to travel or socialize in groups this Spring and during the Memorial Day holiday, and whether demographic factors also have an impact.

The middle sections of this report call out selected high-level findings from our survey.

For retailers, a search for meaningful marketplace signals

Retailers looking for early insight about the direction and contours of post-COVID-19 consumer behavior are working in an unusual, time-sensitive moment. As of April 11, 36 percent of the U.S. population had received at least one dose, and 20 percent were fully vaccinated.[5] We are looking closely at indicators of emerging variations in out-of-home behavior between the vaccinated and unvaccinated segments of the consumer public, using sources such as credit card GPS tracking data. As the number of fully vaccinated people increases, this particular lens into vaccination-correlated behavior will close.

Looking ahead: Generally good news

As U.S. retailers consider and implement planning and strategy for 2021 and 2022, there are promising signs. Six trillion dollars has been pumped into the economy during the past 13 months,[6] first to stave off recession and then to jump start economic recovery. KPMG economists believe that relief efforts, though significant, are unlikely to ignite runaway inflation even if consumption and wages surge.[7]

Like many thaws, the recovery to full pre-COVID-19 levels seems to be incremental, uneven, and by no means guaranteed. Many variables remain.

> **“There are some powerful tailwinds driving purchasing right now—economic stimulus, vaccinations, pent-up demand, even warmer weather. Even discretionary spending is up, for the first time in a year.”**
>
> – Scott Rankin, Principal, National Advisory and Strategy Leader, Consumer & Retail, KPMG LLP

[5] USA FACTS, usafacts.org, based on CDC statistics

[6] Mutikani, Lucia; “U.S. producer inflation heats up in March as prices increase broadly”; Reuters, April 9, 2021

[7] *A Tale of Two Economies: Pandemic Dictates Contour of GDP for 2021*, KPMG Economics, March 4, 2021

Within the U.S., the social and economic implications of a "K-shaped" economy,[8] dividing those financially impacted by COVID-19 from those largely unaffected, will take time to solve. Retail performance between categories will remain varied for months, and innovative new entrants continue to emerge and challenge legacy retailers. The continued relevance and resiliency of brick-and-mortar-based operating models will be challenged and need to evolve.

Globally, potential disruption from both demand- and supply-side factors continues: While economic developments in the U.S. have been increasingly positive, news from other areas of the world[9] remains more mixed.[10] U.S.-based retailers with extensive global supply chain operations are watching closely, as increasing domestic U.S. consumer demand meets stretched inventories and fulfillment lags.[11]

KPMG CEO research[12] and ongoing conversations with retail leaders suggest steady optimism, and major new interest in capex-intensive investment, to position their organizations for growth in the next several quarters. So, our closing section outlines KPMG recommendations for action in the next six months, generally applicable to all consumer and retail organizations. We invite specific inquiries to discuss how they and other approaches can help your business.

"We're seeing some cognitive dissonance in consumer optimism. Many households report rising spending, but believe full economic recovery is still a ways off."

– Juilia Wilson,
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8 *A Tale of Two Economies: Pandemic Dictates Contour of GDP for 2021*, KPMG Economics, March 4, 2021

9 "Managing Divergent Recoveries, April 2021," International Monetary Fund. imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021

10 Bird, Mike; Hannon, Paul; "Red Hot US Economy A Mixed Blessing for Rest of World," *The Wall Street Journal*, April 2, 2021

11 McLain, Sean; Matthews, Christopher; Paris, Costas. "Everywhere You Look, the Global Supply Chain is a Mess," *The Wall Street Journal*, March 18, 2021

12 *2021 KPMG Global CEO Survey*, https://home.kpmg/xx/en/home/insights/2021/03/ceo-outlook-pulse.html

Dissonance, on public and personal economic outlooks

Despite a recent drumbeat of positive economic news, consumer confidence reflects divergent outlooks for full economic recovery, and residual uncertainty.

While negative impacts on household income lessen…

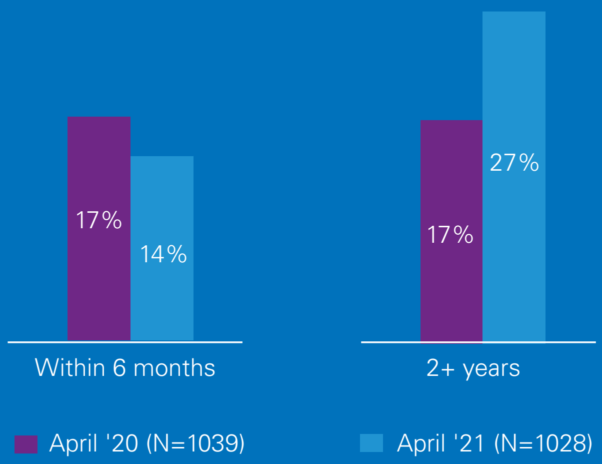
In the immediate aftermath of national lockdowns in April 2020, 44 percent of our respondents reported a negative impact on household income. A year later, only 38 percent of survey respondents reported household income had a negative impact.

…confidence in full U.S. economic recovery is mixed

The percentage of our respondents who believe the U.S. will return to pre-COVID-19 economic levels "within six months" has declined during the past year from 17 percent to 14 percent. But the number who believe full recovery will take "two or more years" has increased during the same period from 17 percent to 27 percent." The percentage who said "uncertain" stayed about the same: 13 percent in April 2021 versus 14 percent in April 2020.[13]

Divergent optimism on economic recovery

Recovery expectations April 2020 vs. April 2021



Survey participants asked, "When COVID-19 is under control, how long do you expect it will take for the overall economy to rebound to pre-COVID-19 levels?"

[13] KPMG COVID-19 consumer pulse | Spring report, April 2021, slide 6 (All additional references in this report are from this source.)

Positive but cautionary signals on household spending

After reporting pronounced dips in discretionary spending in April 2020 and September 2020, consumers indicated increases across both essential and discretionary categories. But their projections for the timing of eventual return to pre-COVID-19 spending levels are more reserved.

Consumers report increased spending across all retail categories…

Asked to compare current spending with pre-COVID-19 levels across 11 discretionary and essential retail categories, consumers reported across-the-board increases. In nine discretionary segments, increases ranged from 6 percent to 16 percent, including, for the first time since April 2020, categories like restaurants and entertainment. In our two essential categories of prescription medicines and groceries, the reported increases were 13 percent and 25 percent, respectively.[14]

…but express reservations and uncertainty about long-term spending

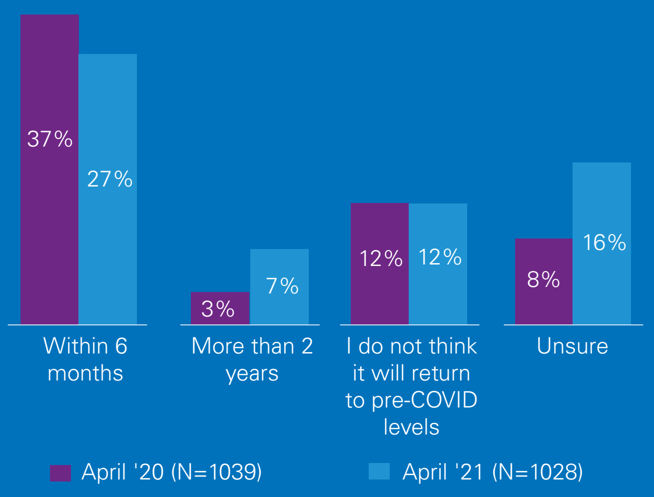
These short-term indicators stand in contrast to long-term spending expectations. Asked when they expected their own spending to return to pre-COVID-19 levels, 27 percent answered "within six months," down from 37 percent a year ago. Seven percent said, "more than two years," up from 3 percent a year ago. Perhaps significantly, 12 percent do not believe their household income will ever return to pre-COVID-19 levels, a number that has held fairly steady during the past year.[15]

[14] Slide 8

[15] Slide 7

Uncertainty and caution about long-term spending

Spending outlook, April 2020 vs April 2021



Survey participants asked, "When COVID-19 is under control, how long do you expect it will take for your spending to return to pre-COVID-19 levels?"

Implications for work-from-home

If consumers have their say, the seismic changes in workplace and remote working patterns set into motion by COVID-19 are here to stay, bringing potentially dramatic repercussions for brick-and-mortar retail, restaurant and various other service industry businesses surrounding commercial districts. The effects of COVID-19 on place-of-residence, by contrast, seem less permanent.

Consumers weigh personal convenience with employer expectations...

If given the choice, personal preferences will determine work-from-home decisions after COVID-19 is under control. Twenty-eight percent cited "save commute time"; while 24 percent equally named "more comfortable working conditions at home" and "improved work/life balance" as their major motivators. By contrast, consumers say their employers or employment opportunities drive the return to office work: 41 percent said "employer expectations" will drive onsite work arrangements.[16]

...as selected work-from-home habits settle in.

The percentage of respondents who used to do certain activities away from home has fallen during COVID-19. Fifty-six percent of our respondents, for example, indicated they had purchased dinner outside of the home, compared with 62 percent a year ago. For lunch, the comparable drop is to 62 percent, from 70 percent; for breakfast, coffee or tea, the decline is 67 percent from 75 percent a year ago. The percentage of consumers reporting trips to gyms, and fitness centers declined to 25 percent, from 32 percent a year ago.[17]

[16] Slide 11

[17] Slide 12

Relocations appear to be more temporary

Most relocations associated with COVID-19 are temporary…

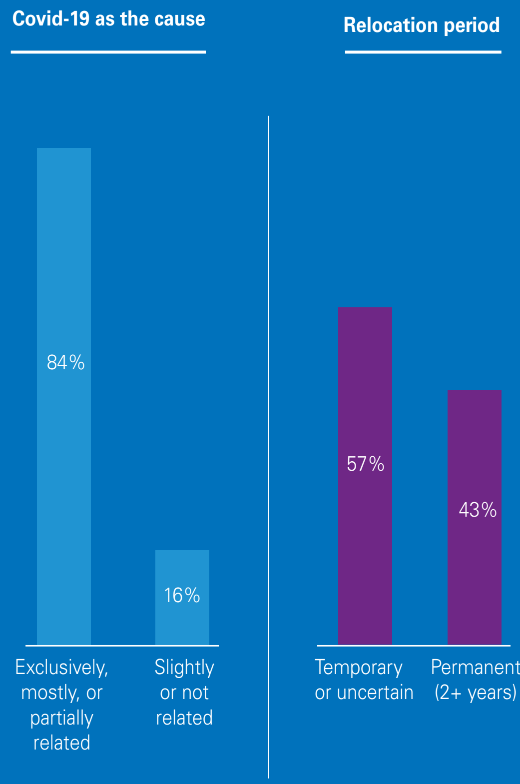
Almost one-fifth (18 percent) of our respondents say they moved during the past year, and 84 percent of those who moved cited COVID-19 as at least a partial cause. Among those consumers who have moved, more than half—53 percent—indicated their move was temporary, and that they'll shift back when COVID-19 is under control.[18]

…and most have been local.

Among those consumers who said they have relocated, the largest number reported moving within or near their city or metro area, based on zip code indications. "I moved in with family or friends" was the most-cited living arrangement (named by 44 percent), followed by "renting an apartment" (25 percent) and "renting a house" (14 percent)—all answers that would seem to point to temporary conditions. Just 10 percent reported what many would take as evidence of a more permanent relocation decision: "I purchased a new home."[19]

COVID-19 and residential relocation

COVID-19 is the driver of most reported residential relocations, but also more temporary than not



Survey participants asked, "Did you relocate during COVID-19?"; "Please indicate the extent to which your recent relocation was motivated by COVID-19?"; and "Was this relocation temporary or permanent?"

[18] Slide 15

[19] Slide 16

Vaccinations influence travel intent, and social activity

For consumer goods and retail businesses, one of the most watched early indicators of post-COVID-19 behavior is how vaccinated consumers are behaving, especially when compared to their unvaccinated peers. To account for other factors, we surveyed four age cohorts: Gen Z, Millennials, Gen X and Baby Boomers.

Vaccinations matter, but demographics matter more.

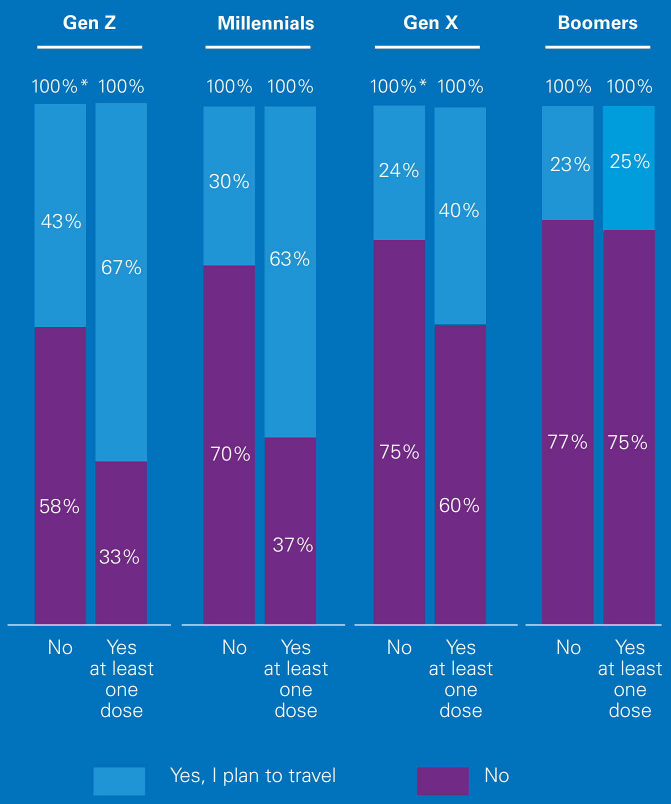
In general, the younger the age group, the bigger the impact of vaccination status on stated intent to travel. For Gen Z, 43 percent with no shot planned to travel during the Spring; 67 percent with at least one shot planned to travel. For Millennials, 30 percent with no shot planned to travel; while 63 percent with at least one shot planned a Spring trip. The older age cohorts show a more measured response: 24 percent of Gen X respondents with no vaccinations planned to travel; 40 percent with at least one shot planned a day or overnight trip. For Boomers, vaccination did not impact travel much: 23 percent of unvaccinated consumers in this group plan to travel, while 25 percent with at least one shot planned to do so.[20]

Vaccinations and age also drive plans for Memorial Day socializing

As the rate of vaccinations increases and personal-safety concerns recede, consumers are making tentative plans to socialize, either in small (<10 people) or large (>10 people) gatherings. Asked about their plans for Memorial Day, 28 percent of Gen Z respondents with no shot said they were planning to host or attend either a small or large social event. Fifty-four percent with at least one shot made similar social plans. For Millennials, 18 percent with no shot planned to socialize; 45 percent with at least one shot planned to do so. The older age cohorts show a more measured response: 10 percent of Gen X respondents with no vaccinations planned to host or attend a social gathering, compared with 15 percent for those with at least one shot. Boomers were the most conservative: just 11 percent of those with no shot planned to socialize, versus 12 percent of those with at least one shot.[21]

Where vaccinations meet demographics

The impact of vaccination status on travel plans varies strongly by age cohort



** Numbers do not tie to 100% due to rounding.*

Survey participants asked, "Have you received the COVID-19 vaccination?"; "Are you planning any travel this Spring (e.g. Spring Break, vacation)?"; and "How do you plan on travelling to your destination?"

[20] Slide 19
[21] Slide 20

Resetting for recovery: How consumer goods and retail businesses can prepare

As consumer goods and retail companies assess their strategies for a recovered economy, the smartest among them are not waiting for crystal-clear indicators of market direction in their categories. They are already in action, using the signals they have in hand, retooling their operational models to capture and lock in new consumers and potential revenue streams. They're setting long-term strategy that acknowledges permanent shifts to online consumption, systemic changes that will impact channel strategy, and a fast state of play in terms of changing consumer tastes and expectations. For companies who want to join those leaders, here are some recommendations that can serve as the launch point for further discussion:

Rebuild digitally:

Digital structure—including workforce, organization design and technology backbone—is the DNA of built-to-compete consumer goods and retail companies. Winners will prepare for an omnichannel future in which a respectable market-facing platform is just the starting point. Essential digital infrastructure includes order fulfillment, delivery, customer support, product returns, and data security.

Redefine the value proposition:

Most consumers aren't strongly brand loyal. So a differentiated value proposition—based on a five-pillar blend of product, price, convenience, experience and discovery—is critical across all retail categories. When embedded in strategy and operations, strength across at least three of the pillars sets a promising foundation for long-term success and strategic advantage.

Restructure the operating model:

Despite widespread disruption, many consumer goods and retail businesses have bet on legacy operating models that will return them to profitability and growth when circumstances "return to normal." By contrast, leaders are considering all strategic value levers, and permanently reshaping their operations for agility, customer-centricity, cost optimization and capital management. Deeper business-model transformation should address dimensions such as financial controls, supply chain and tax implications.

Reevaluate the store portfolio:

Brick-and-mortar retailers—and the consumer goods companies that depend upon them—may have suffered the most disruption during COVID-19, witnessing a rapid acceleration of shifts to online consumption. Survival and profitability depend on the ability to right-size the physical footprints—total numbers of outlets, requisite square footage for those kept open, inventory strategy, even minimum sales volume per outlet. For many, fixed costs will have to be rapidly and significantly reinvested to their digital business.

Reset customer expectations:

Of all the variables consumer businesses face as COVID-19 recedes, empowered and fast-shifting customers may head up the list. Keeping up with customer expectations requires investments in advanced data analytics and AI, to convert information about transactions, behavior and purchase paths into actionable insight. Predictive analytics are particularly important, to forecast consumer demand and allocate investments in areas such as product selection, inventory planning, pricing and promotions, and fulfillment.

Additional KPMG Consumer & Retail research reports:

In our roles as both marketplace observer and catalyst, the KPMG Consumer & Retail practice publishes a regular stream of research and analysis. To read some of our previous reports and subscribe to our insights program, please visit us at: visit.kpmg.us/consumer-retail.

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