

Big Picture Snapshot  
Issue 1, May 2021

# The outlook for food and consumer goods businesses

**Social Impact** from **IGD**





# Our view on what the future holds.

## **The benefits:** how this issue will help you

**As we move from managing a crisis, to longer term business planning in a period of economic recovery, we provide you with the big picture context to help you develop your strategy.**

We've considered a range of economic indicators and the latest forecasts, viewing them through the lens of the food and consumer goods industry, to unpick the implications for your businesses.

We'll also direct you to some of our deeper insight that will help you to build a fuller picture of what to expect.

## **Its aim:** about this series of reports

**Our experts track and monitor different sources of economic data and forecasts. Combined with our deep knowledge of the food and consumer goods industry, and rich shopper insights, this enables us to provide a big picture snapshot.**

We provide this analysis free of charge because we believe it supports better strategic planning and decision-making that ultimately benefits the shoppers we serve and society.

We'll be closely monitoring the longer-term impacts of COVID-19 and EU Exit, and will regularly bring you our view on what we think lies ahead in this new series of reports from IGD.

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## Meet our experts



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# The context

The UK has endured a prolonged period of disruption and uncertainty, impacted simultaneously by EU Exit and the COVID-19 pandemic – both layered on top of pre-existing issues such as low productivity growth.

Economic output declined by 10% in 2020, the most severe downturn on record – the financial consequences of this will affect government, businesses and all of us for years to come.

However, as 2021 progresses there are reasons to be optimistic. We have navigated the first stages of leaving the EU, and whilst COVID-19 remains a risk, the UK government's vaccination programme is progressing rapidly and the UK is emerging from lockdown.

## UK real GDP



Source: Chart 2.7, Economic & Fiscal Outlook, Office for Budget Responsibility, March 2021. Index, Q4 2019 = 100



# How quickly will the economy recover?

**With powerful short-term risks receding, economic forecasters are becoming somewhat more upbeat, overall, at least with regard to the near future.**

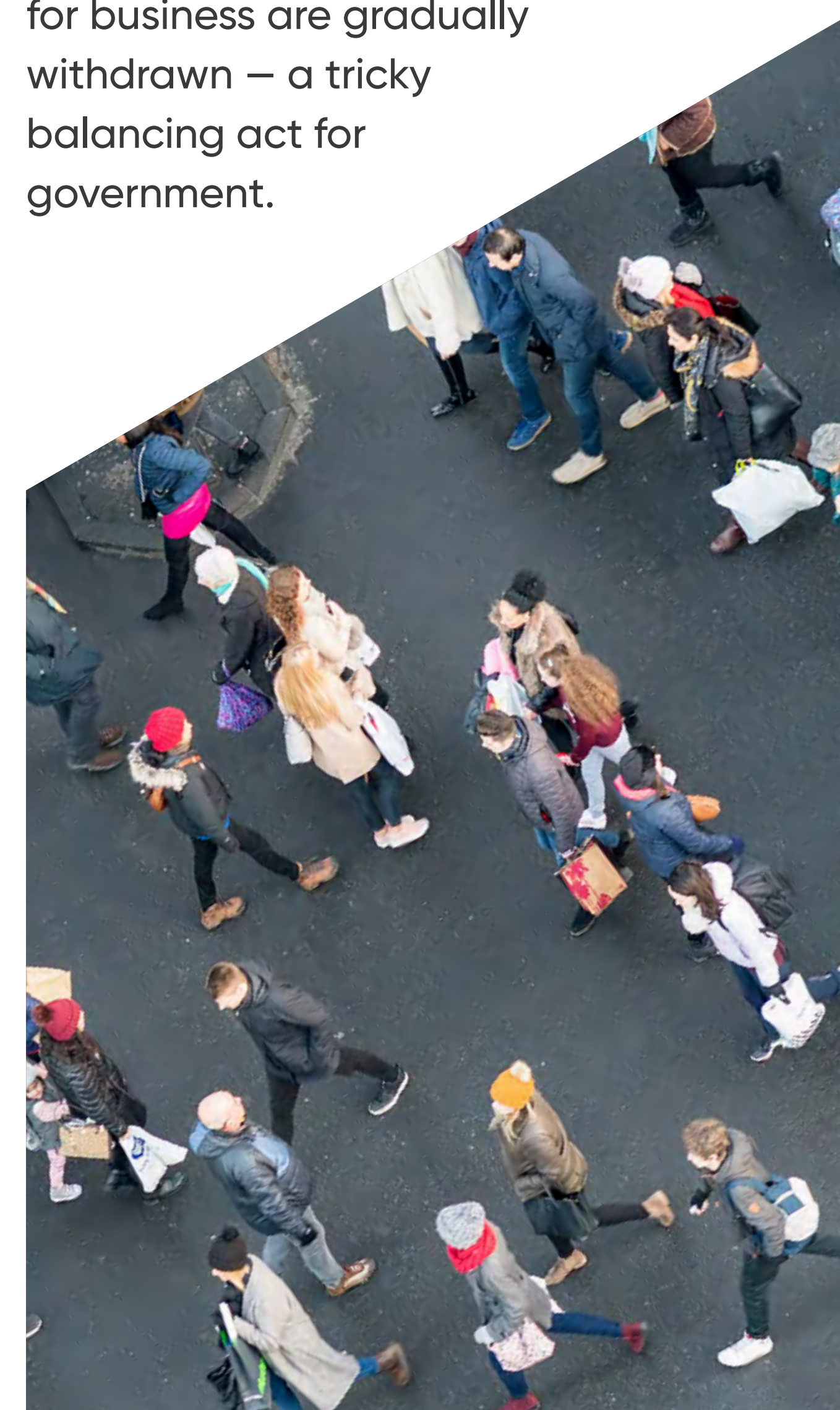
The Office for Budget Responsibility (OBR) – the government’s official forecaster – issued a [report](#) in March which was more positive than the previous version (published in November 2020). It suggested a brief, but rapid economic recovery in the UK over 2021 and further, but somewhat slower, progress beyond that.

This overall vision has been supported by other forecasters, including the [Bank of England](#) and the [International Monetary Fund](#).

Unemployment forecasts are also more upbeat – with the OBR’s central forecast from March offering a less alarming path than the previous version, with lower peak unemployment, though the return to pre-COVID-19 level is expected to take about the same time.

Indeed, data from the Office for National Statistics (ONS) shows that the worst labour market effects of COVID-19 may be easing – the rate of redundancies is falling and recruitment is increasing. These factors are expected to offer some reassurance to workers, in that the risk of job loss is receding and the opportunity to find new work – should the worst happen – is growing.

However, uncertainty and risk may remain, as government support measures for business are gradually withdrawn – a tricky balancing act for government.





# Data at a glance

## Key

Actual



Upside forecast



Central forecast (March 2021)



Central forecast (November 2020)

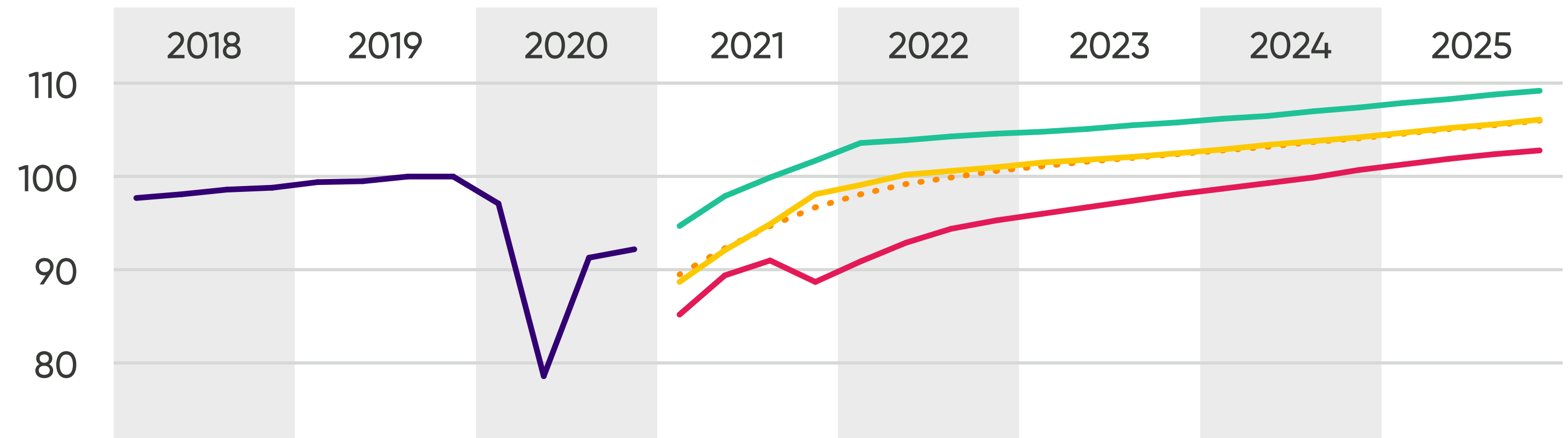


Downside forecast



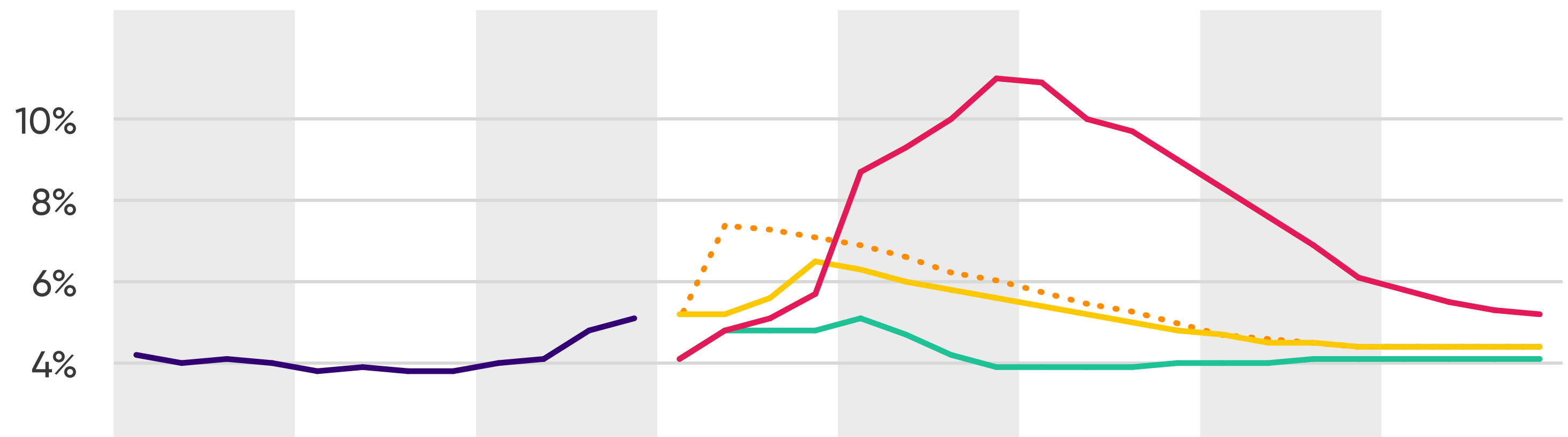
## Real GDP forecasts

Source: Chart 2.7, Economic & Fiscal Outlook, Office for Budget Responsibility, March 2021



## Unemployment forecasts

Source: Chart 2.14, Economic & Fiscal Outlook, Office for Budget Responsibility, March 2021



# Implications for your business

## **Expect a bumpy ride**

With so many downside risks in play, including COVID-19, businesses should not expect a smooth, straight recovery. There are likely to be many bumps on the way, especially if new viral variants continue to appear. Long-term planning will be difficult for a while – businesses should stay agile and keep planning cycles very short.

## **Pivot moments**

IGD research shows that grocery shopping choices are usually guided by habit. Change may be triggered by major life events or by major external events. At these 'pivot' moments, shoppers may switch to new retailers, new shopping methods or new products. COVID-19 and the traumas that have followed create a 'pivot' and, therefore, opportunities for businesses to win new shoppers – if they have the right offer. Conversely, businesses with the wrong offer may need to move fast to hold on to loyal shoppers.



# What impact will the pandemic have on household incomes?

**It is important to recognise that a lot of households were not in a great place, even before the pandemic, affected by years of static income.**

Data from the Department for Work and Pensions shows that incomes grew fairly fast and consistently in the years before the Credit Crunch and the recession. However, income growth did not really recover after that recession, even though economic growth did come back.

A significant number of people report their financial position has been weakened by COVID-19, with those in the lowest income groups particularly affected.

There is a minority that report being better off as a result of COVID-19 who may well have been able to increase their savings during the pandemic. This savings pile is substantial – it is thought to be over £100bn and government will be looking to businesses to unlock this commercial opportunity.

In terms of the outlook, average earnings are expected to return to growth following a dip as a result of COVID-19. Those in the lowest income groups might expect to benefit from further increases in the National Living Wage, with the government remaining committed, in principle, to raising it (if conditions allow).

However, inflation is an important factor that is likely to erode away any real benefit in earnings. We have seen that inflation is often the real determinant of incomes, especially inflation in housing costs.

Therefore, for incomes, the OBR believes that average disposable income will be static or falling for at least another two years before coming back which is not good news for shopper-facing businesses.

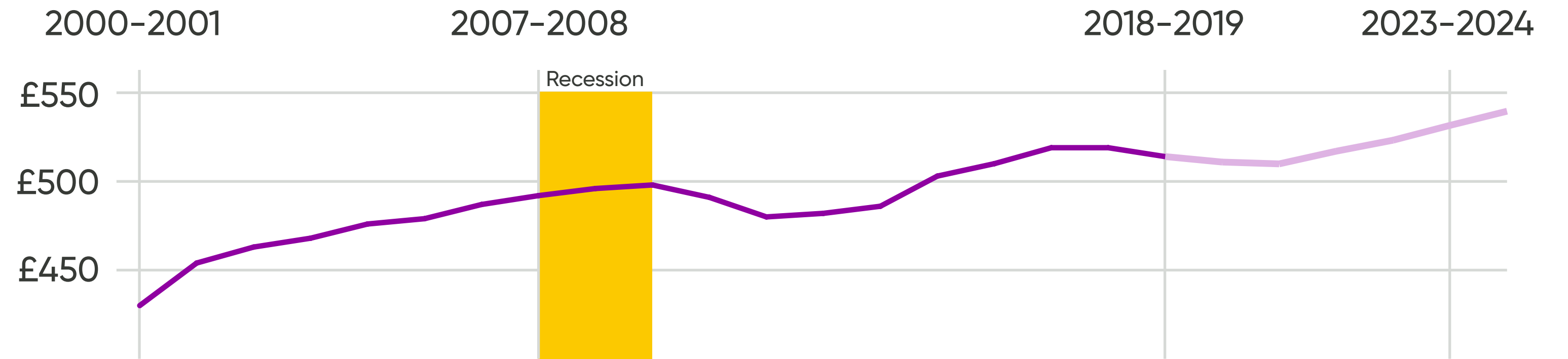




# Data at a glance

## UK household disposable income

Median value before housing cost, £ per week. Source: Table 2b, Households Below Average Income, Department for Work & Pensions / Economic & Fiscal Outlook, OBR, March 2020. Data shown at fixed 2018-19 values



## Household income change due to COVID-19

Economically active UK households, April to October 2020, % share of respondents Source: Personal and Economic Wellbeing in GB, ONS, April 2021





# Implications for your business

## Living Wage increases

For some years, the government has relied on the Minimum Wage and Living Wage to raise incomes for those in lower-paid jobs. The latest Budget shows that the government remains committed to gradual increases in the Living Wage and employers in the food and consumer goods industry should not be caught out by this.

## Foodservice re-opening

Whilst some food businesses will wish to keep shoppers within retail, others may see opportunities as customers return to foodservice, especially those with higher disposable incomes. Now is the time to support the reopening of this market and begin 'winning the recovery' in foodservice. Refer to IGD's latest [Eating In vs Dining Out](#) report (for Retail Analysis subscribers) to understand the forecast size of the UK food and drink market in 2021 and how retail and foodservice shares will evolve.



# Is inflation a risk to recovery?

**Food and drink costs were down 1.4% year-on-year in March 2021, in spite of continuing good volume demand growth. Competition between retailers evidently remains extremely strong.**

The Bank of England is bullish on inflation, predicting that economic recovery will be accompanied by an upturn in inflation (but within acceptable limits). OBR likewise foresees higher inflation in the future.

However, IGD believes that inflation risk is returning, especially in the food and consumer goods market.

There is reason to expect higher inflation in the near-term. This is partly due to higher costs as a result of COVID-19

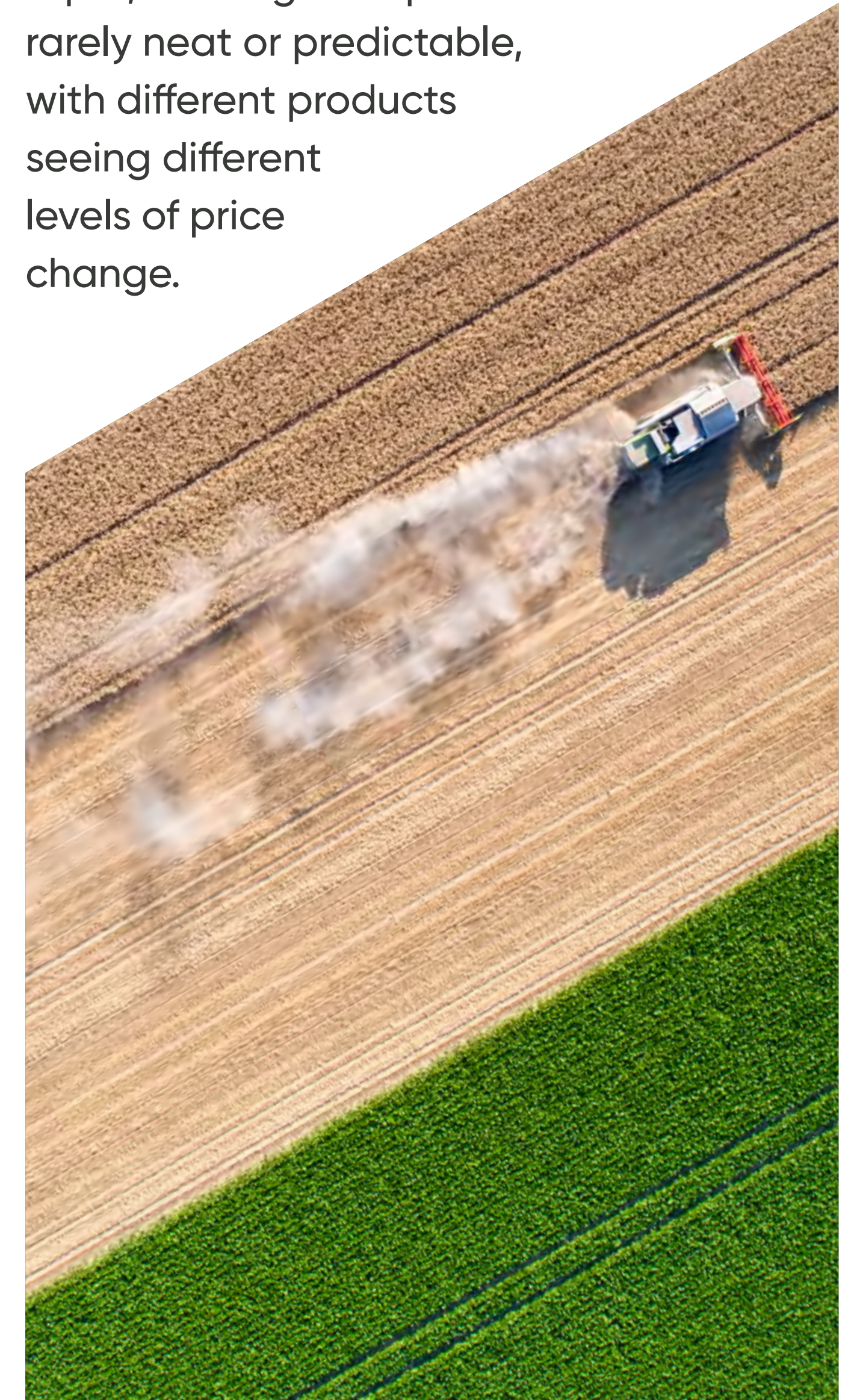
and EU Exit, which must at some point be passed on down the supply chain to shoppers.

Further pressure may come from increased input costs. UK yields for some key crops were low in 2020 but demand remains buoyant, especially demand for grain for use in biofuels.

Changes in international consumption are helping to support prices in commodity markets. Global markets are also disrupted by various issues including problems with containers driving significantly increased logistics costs.

Previous experience has shown that higher costs for commodities and fuel eventually manifest in the form of higher retail prices for food and grocery shoppers, especially for animal-derived products.

Price pass-through is typically quite rapid, although the process is rarely neat or predictable, with different products seeing different levels of price change.

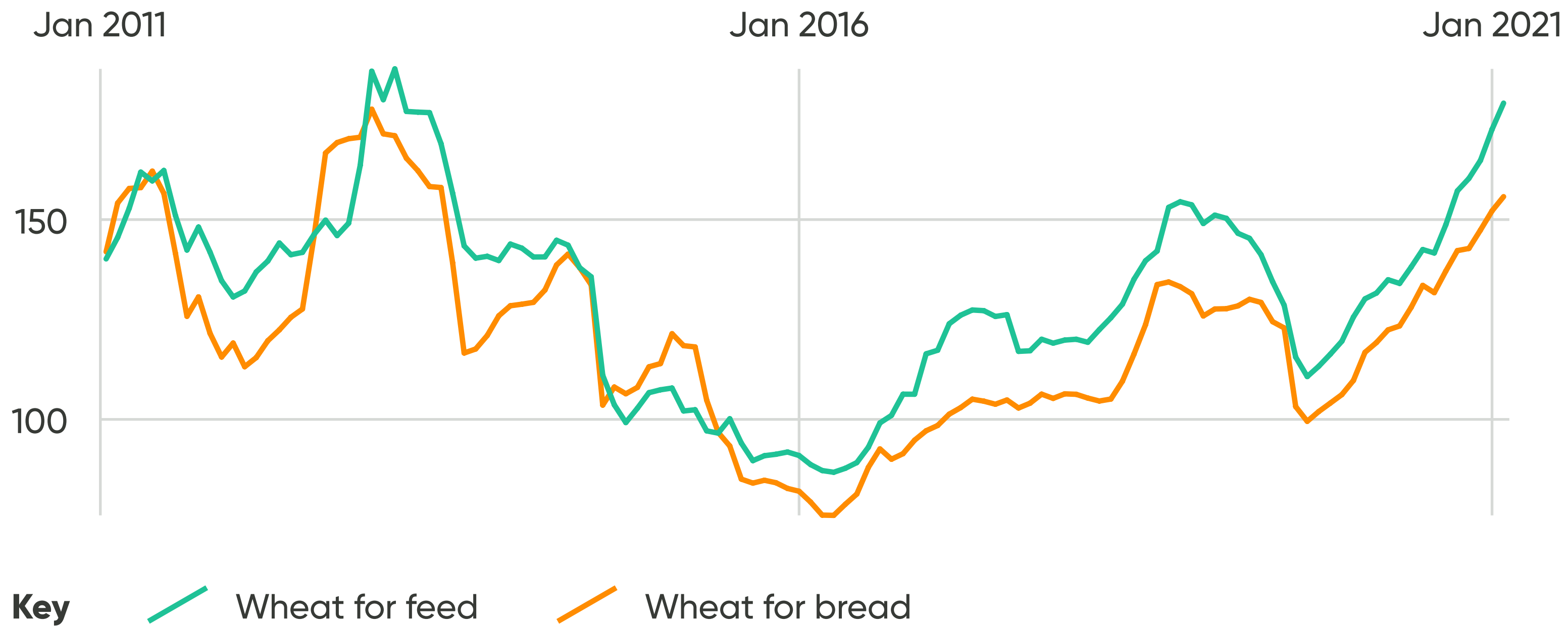




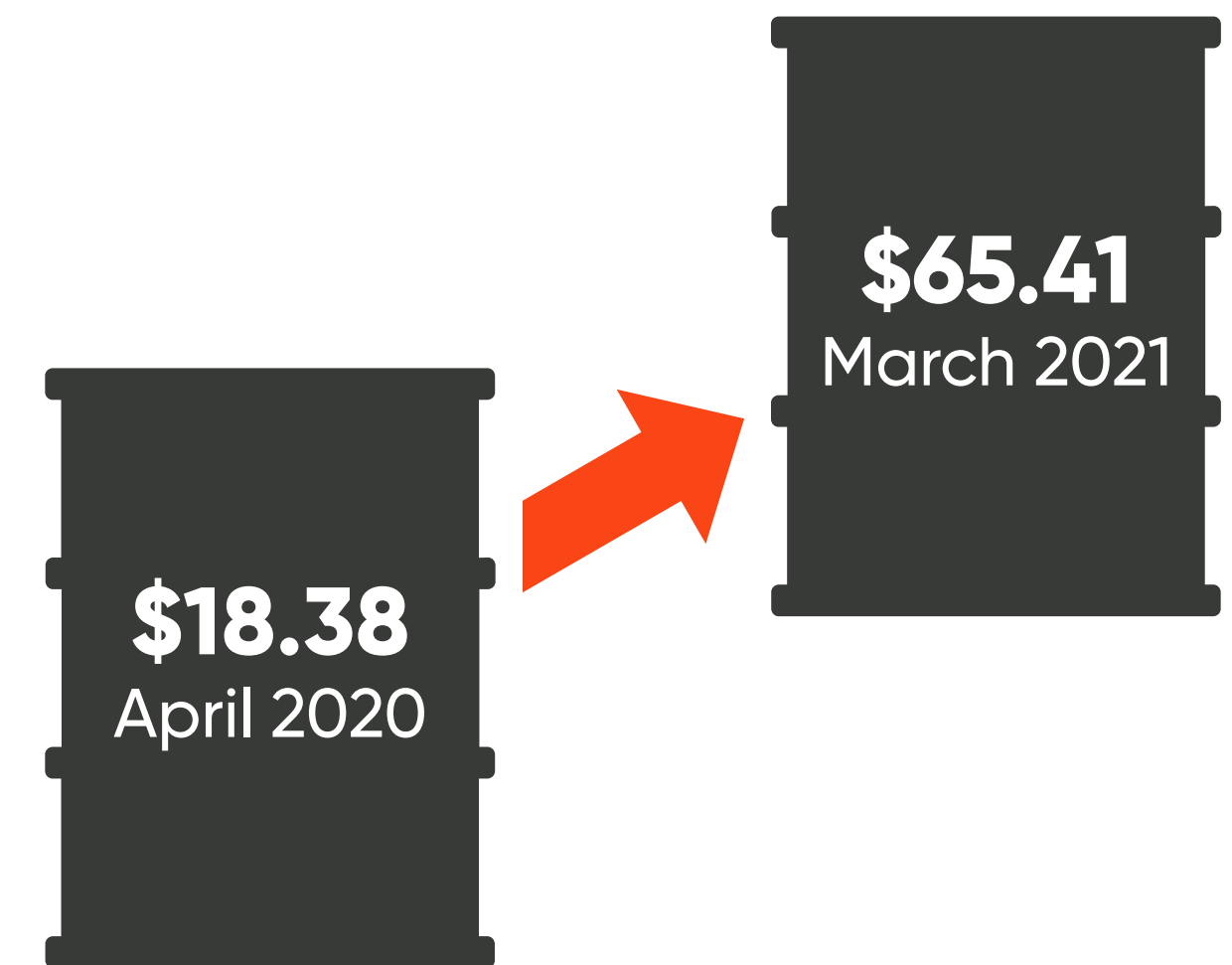
# Data at a glance

## UK farmed wheat prices

Agri price index, outputs (index, 2015 = 100).  
Source: Farm Prices, Defra, April 2021



## Oil prices are also rising



Spot price, Europe, Brent crude oil, US\$ per barrel. Source: Energy Information Administration, US Dept of Energy, May 2021



# Implications for your business

## Reduce energy use

Reducing your reliance on fossil fuels can limit your exposure to oil price increases. Investing in energy efficiency measures and renewables may prove good investment and will reduce your environmental impact. Look out for some new guidance from IGD in June designed to support businesses on the journey to net zero, simplifying a complex area and highlighting practical actions you can take in your own operations and across the value chain.

## More UK supply

With imported food and drink likely to be affected by new border costs, UK-sourced food may be more competitive after EU Exit. Not all foods currently imported can be produced in the UK, but some can. Local supply is limited, however, so it may be necessary to 'lock-in' supply via long term agreements or forward-buying. These methods also guard against local supply shortfalls.

## Prepare for tough negotiations

Periods of cost increase always trigger tough talks between manufacturers and retailers. Sales representatives for suppliers should prepare for demanding negotiations with retail buyers.

## Look for ways to work better

Talks between manufacturers and retailers need not be confrontational – there may be opportunities to work together more effectively, identifying ways to take needless activities out of supply chains and minimise the impact of cost pressures.

## Price sensitivity

Shoppers are always sensitive to food price change and often with good reason. The most vulnerable shoppers spend the greatest proportion of their income on food and so are most exposed to inflation. Businesses must be sensitive to the needs of less affluent shoppers when managing price change.



# How confident are shoppers feeling?

**As we emerge from lockdown and see more positive signs in terms of economic recovery this appears to be reflected in improving shopper confidence.**

Shopper confidence was -1 in April, the highest level in nearly five years according to [IGD's Shopper Confidence Index](#).

The boost has been driven by the further easing of lockdown restrictions including non-essential retail, declining COVID-19 cases and the rapid rollout of the COVID-19 vaccination programme.

Financial confidence has also been boosted with 22% expecting to be better off in the year ahead and 23% expecting to be worse off – the lowest level recorded.

However, an interesting picture is emerging when we look at confidence by different shopper demographics.

As we've already seen in the impact of COVID-19 on household incomes, experiences can vary.

IGD is seeing very clear evidence of an emerging '[K-Shaped](#)' recovery, where some are expected to enjoy better fortunes (eg: higher wages, rising house prices) whilst others lag behind – thus, the two groups diverge over time, like the legs of a letter 'K'.

It is, of course, normal, for different social groups to have different economic outcomes, but the effect is expected to be especially marked in the post-COVID-19 period due to:

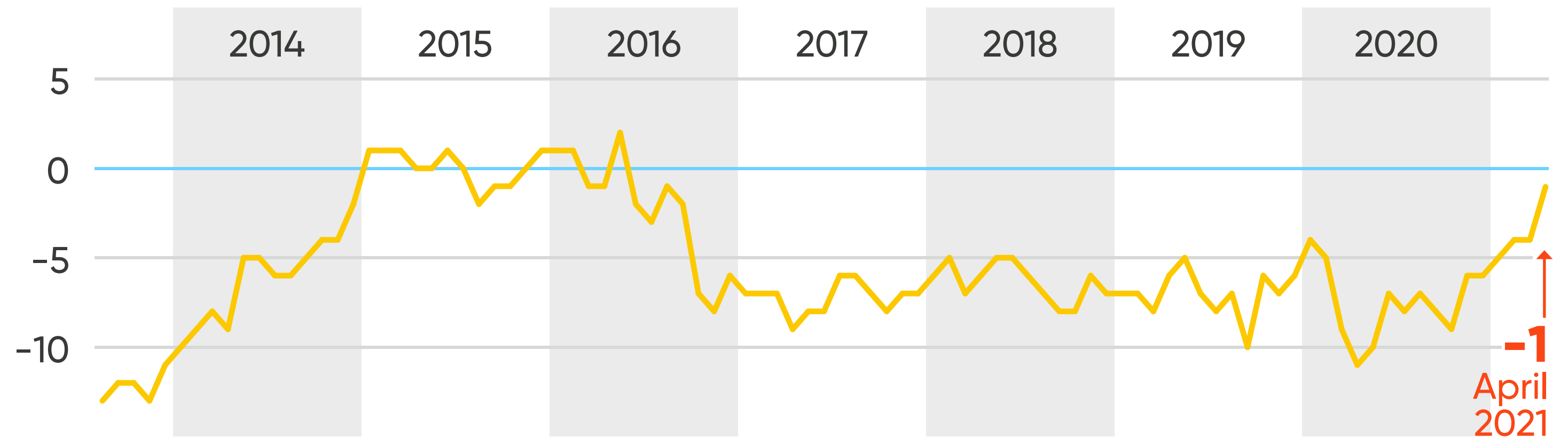
- The extraordinary severity of the downturn
- Differential impact of 'lockdown' measures on work (e.g. foodservice jobs vs office jobs)
- Intersection of COVID-19 with other factors, especially EU Exit
- Greater digital divide – some people unable to work from home
- Health impacts (e.g. effects of 'long-Covid')
- 'Scarring' effects (e.g. loss of productive capacity, lost investment)



# Data at a glance

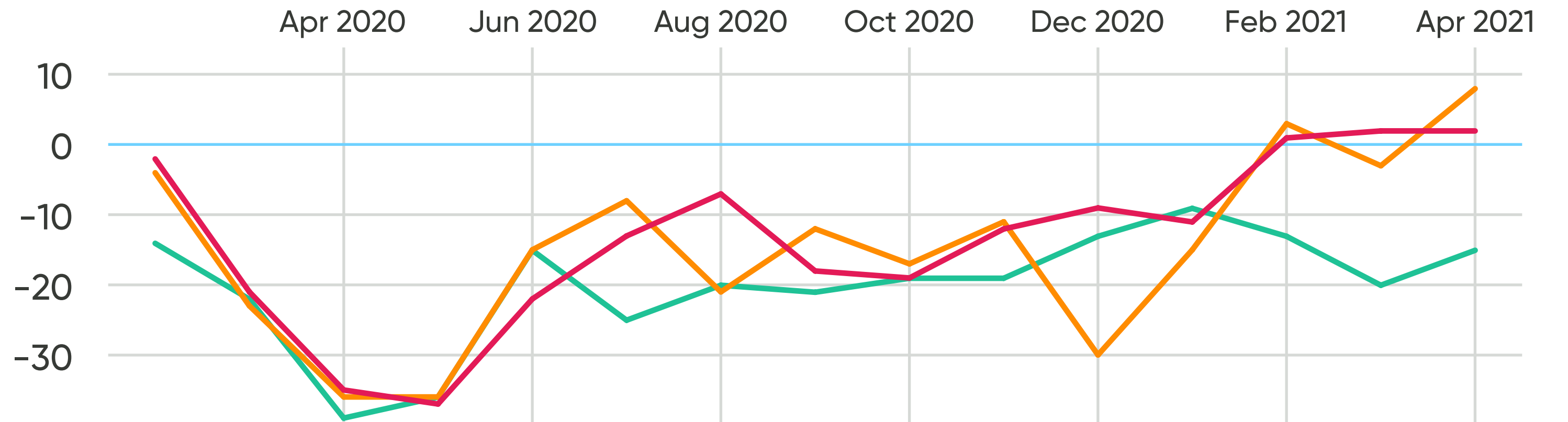
## Shopper confidence index

Source: ShopperVista from IGD research, April 2021.  
Base: 1,000+ shoppers per month



## Financial confidence

Same source. Net confidence  
(better off – worse off in year ahead)



### Key

Middle classes (ABC1)



Skilled working class (C2)



Working class/non-working (DE)





# Implications for your business

## Short boost

IGD anticipates an upturn in shopper confidence and spending over Summer 2021, as the economy opens up and the threat from COVID-19 recedes. However, shoppers are highly aware of the changing situation and may take fright easily – bad news could cause a sudden reversal in fortune.

## Make hay whilst the sun shines

Food and drink businesses of all kinds should note that the Summer trading opportunity is potentially limited – the race is on to make the most of it.



# Who will benefit from the recovery – and who risks being left behind?

**Research by ShopperVista from IGD shows that vulnerable households – less well off, younger, female – report lower overall confidence and lower financial confidence. They are also more likely to be experiencing financial strain including reduced wages.**

This is because they are most likely to have worked in sectors negatively impacted by the downturn (i.e. hospitality, culture and leisure). Unemployment is significantly higher among young adults: 13% vs 5% average (source: [ONS](#)).

It is these vulnerable households that are also most likely to be facing food insecurity. Studies suggest that COVID-19 has caused food insecurity to double in the space of just a few months, a very worrying finding.

Higher income households, older shoppers and men seem to have had a less difficult experience of COVID-19. All these groups are most focused on quality in the year ahead when food and grocery shopping.

Older shoppers are least concerned about their job security and their ability to save for the year ahead has increased, in contrast to younger adults.

It is these shoppers that are likely to have a savings pile to draw on and these will be the customers businesses are keen to win.

Although we expect to see some groups benefit more than others from the recovery, this K shape is unlikely to last forever.

We expect the experiences of different socio-economic groups to converge again after a while. A government focused on 'levelling-up' is likely to use fiscal methods (taxes and/or spending) to help ensure that the experiences of different social groups do not diverge too much.

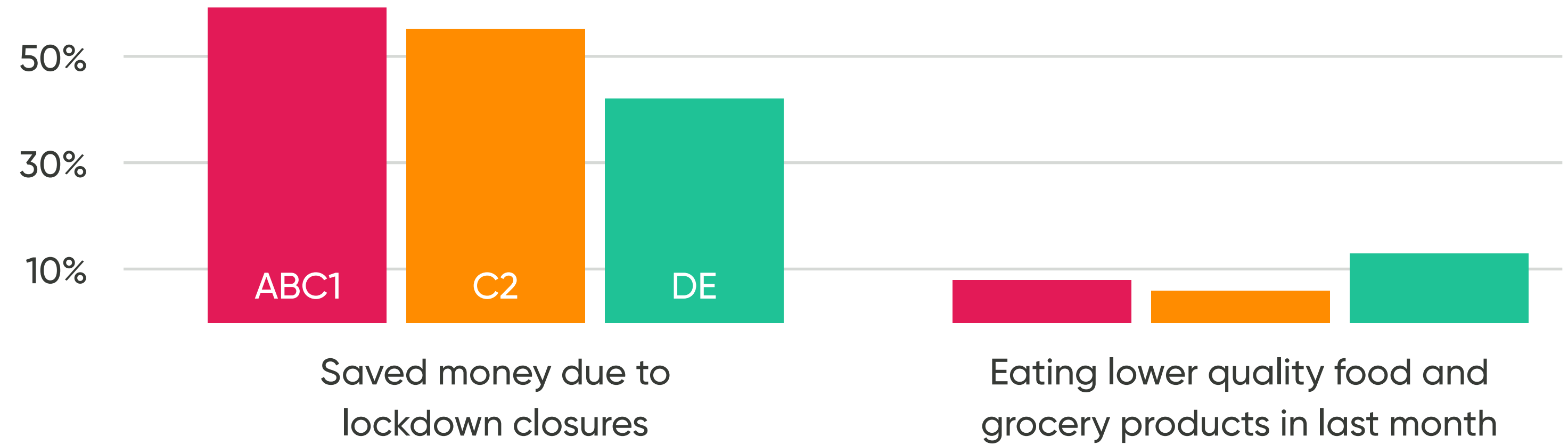




# Data at a glance

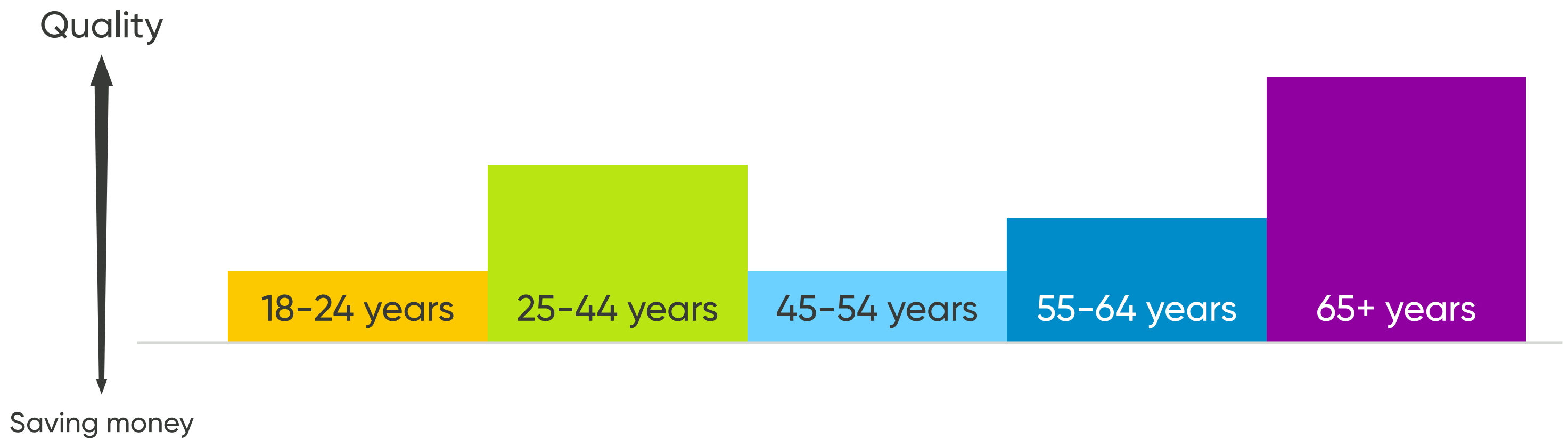
## Financial impacts of COVID-19

Share of shoppers (%) Source: ShopperVista from IGD research, February and April 2021



## Quality vs saving money, focus level

In year ahead. Source: ShopperVista from IGD research, April 2021





# Implications for your business

## Older and online

The surge in online grocery shopping in 2020 has been driven by greater participation by older, better-off shoppers. For retailers, the next challenge is to retain the loyalty of these shoppers and to maximise their spend across all services and product categories, 'locking-in' loyalty.

## Shoppers divided

The anticipated 'K-shaped' recovery means that the needs of shoppers will diverge – some will need affordable basics, others may be more willing to trade-up. For mass-market retailers, meeting both needs at the same time, without adding business complexity, will not be easy. See the [Recovering from COVID – retailers and shoppers compared](#) report (for ShopperVista subscribers).



# Will shoppers be pre-occupied with price?

**IGD research shows that many shoppers are very focused on price when shopping for food and groceries. Pricing is a key factor in store and product choice, and fear of price rises is widespread.**

Research by ShopperVista from IGD shows that three in four British shoppers currently think that food and grocery prices will rise in the next 12 months, which is typical.

However, as noted in section 3, this concern may be well founded – market fundamentals suggest that price change is indeed on the way and many households are not in a strong position to deal with this threat.

As more shoppers feel the economic impact of COVID-19, lower affluence shoppers will focus more on saving money on food and groceries.

Retailers and manufacturers may be expected to compete fiercely on price, using this mechanism to capture and hold shoppers.

Price increases – where they cannot be avoided – could be the trigger for shoppers to switch between retailers or between products.





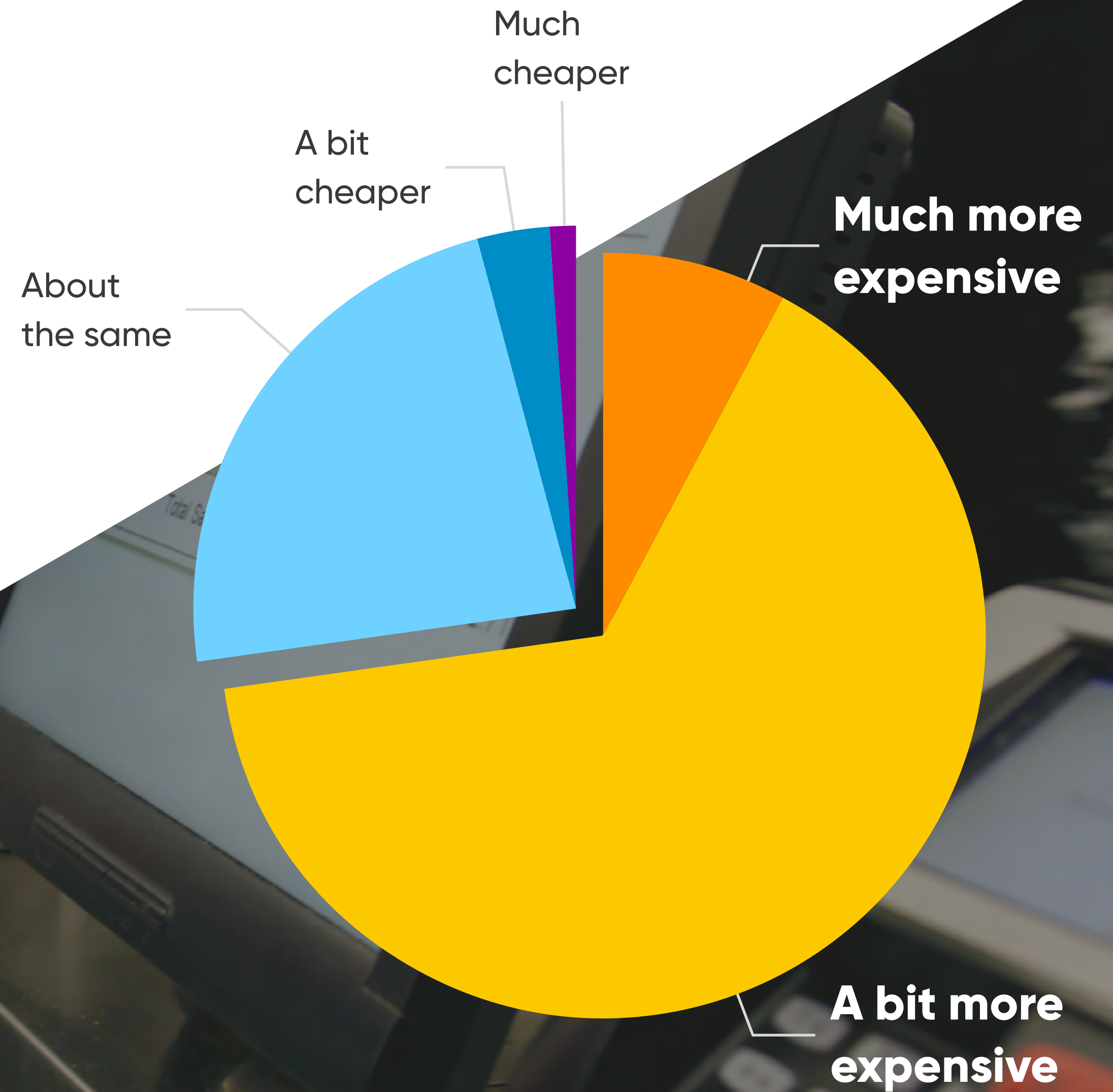
# Data at a glance

## Expected change in food and grocery prices

**3 in 4**

shoppers expect prices to rise in the next 12 months

Source: ShopperVista from IGD research, April 2021





# Implications for your business

## Discounter comeback

Discounter growth slowed during the COVID-19 pandemic as shoppers made fewer trips. With more shoppers now returning to discounters, remember that they remain a convenient choice for many shoppers, offering a compelling combination of price and quality. They will offer tough competition for mainstream operators and will no doubt seek to regain lost growth momentum. See our [ShopperVista update April 2021](#) (for ShopperVista subscribers).

## Trust and transparency

IGD research has shown that some shoppers have a perception that food and grocery prices have increased in recent months. With disposable incomes coming under strain for some shoppers, it will be important to clearly communicate value for money credentials and focus on ensuring shoppers have confidence in your pricing and promotions strategy.



# Has COVID-19 had a lasting impact on behaviour?

**COVID-19 drove great change in activity for shoppers, but with the threat apparently receding, it is time to consider whether behaviours will return to previous norms, or whether change will prove permanent.**

[ONS](#) has collected data on how people have adapted their behaviour during 2020-21, and what they anticipate doing in future.

The chart on the next page shows behaviours adopted or expanded during the COVID-19 outbreak and expected retention of those behaviours after the threat has passed. All the behaviours tested were expected to be 'sticky' to some degree.

Online shopping, for food or for other goods, was expected to be retained by about two-thirds of people who had used these options. This is supported by ShopperVista insight showing that many of the newly acquired online shoppers intend to stick with the channel.

If these anticipated behaviours become reality, then the impact on High Street businesses could be profound. Change in the physical fabric of communities, already under way before COVID-19, would be accelerated, posing tough challenges for both businesses and government.

Ordering more takeaways was less likely to be retained, suggesting that many people will return to restaurants and cafes when they are permitted to do so.

Another key question is where people will work in future. This will affect the future of many businesses such as public transport, foodservice and retail.

According to [ONS research](#), 37% of adults worked from home at least once in April, with 25% unable to work from home and 39% choosing to go to work. For those working from home, the most common reason was employer policy. This was followed by government advice. Only a minority of home workers said that they preferred it. This suggests that many workers currently at home will choose to return to their usual workplaces as soon as they are able to do so.

Employer policy will be the key determiner. A review of public statements by major businesses suggests that there is no clear consensus, but the future may well be 'hybrid' working, with workers sometimes at home, sometimes at their workplaces, as the situation dictates.

The extent of this change in behaviour and its relative stickiness will clearly have different implications for the various shopping channels. IGD will be reviewing the latest data and publishing our latest channel forecast in June 2021.



# Data at a glance

## Change in activity

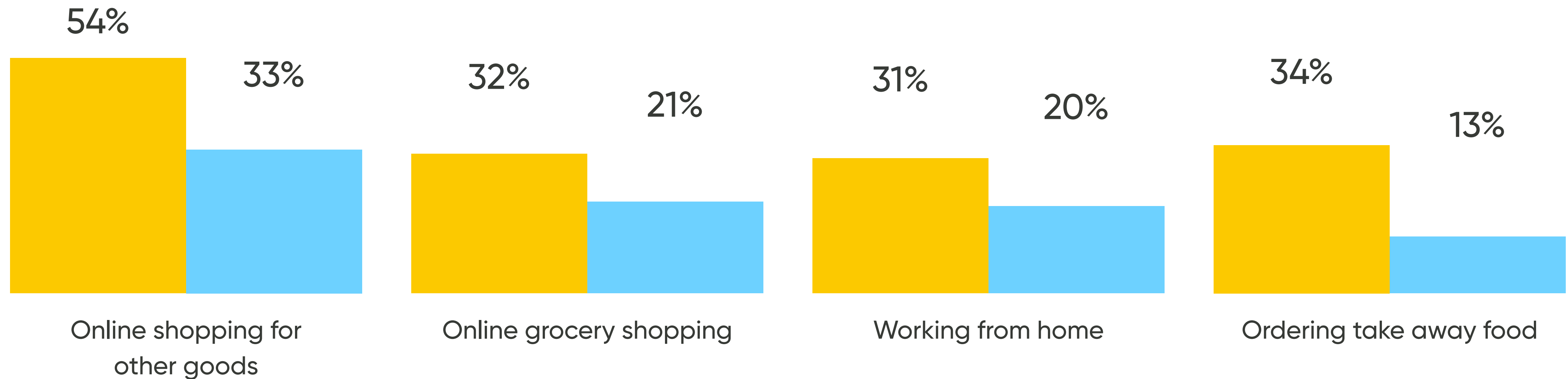
Source: ONS, March 2021

### Key

Done more of since start of COVID-19



Expect to keep doing more often after end of COVID-19 than before





# Implications for your business

## Getting shoppers back into stores

Online has been the winning format throughout the pandemic, but the cost of fulfilling orders remains a barrier to growth, even for the best operators. To protect profitability, retailers will wish to encourage shoppers back into physical stores – this may mean offering both reassurance (eg: biological safety) and a compelling offer (eg: relevant ranges). See our [Modernising stores' look and feel](#) report to gain further inspiration (for Retail Analysis subscribers).

## Welcoming shoppers back to work

Where shoppers leave their homes to go back to work (perhaps in their millions) the need for food-to-go and convenient lunch solutions will re-emerge. However, expect opportunities for trade-up to be more challenging in the medium term as the tax burden increases from 2022 – see our [analysis of the budget](#).

## Urban vs suburban

Expect a re-balancing between urban and suburban areas. People will increase time spent working from home and balance their time between suburban and urban areas. A rise of localism in the suburbs will lead to an increased desire for local brands and products, particularly as people look to support their local businesses. This will be a key space to innovate and create new connections with customers. See our [Post-COVID-19: where next for urban and suburban retail?](#) report (for Retail Analysis subscribers).



## Next steps

1

**[Sign up to our bulletin](#)**

to keep up-to-date on big picture developments for the food and consumer goods industry

2

**[Watch our latest webcast](#)**

to hear our experts talk you through the themes of this report and how EU Exit is shaping supply chains of the future

3

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