MARKET SECTOR INSIGHTS - NOVEMBER 2020

Footwear & Apparel Retail Market Sector

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Figure 1: UK retail sales index – textile, clothing & footwear stores

UK Retail Sector

According to latest figures from the ONS, in September 2020 retail sales volumes increased by 1.5% when compared with August; this is the fifth consecutive month of growth, resulting in an increase of 5.5% when compared with February's pre-pandemic level. Non-food store sales have also now made a recovery at 1.7% above their February levels.

In the three months to September, retail sales volumes increased by 17.4% when compared with the previous three months; this is the biggest quarterly increase on record as sales picked up from record-low levels experienced earlier in the year.

The proportion of online sales was at 27.5%, compared with 20.1% reported in February, despite small monthly declines across most of the retail sector. The strong growth experienced over the pandemic has meant that online sales are still significantly higher than February's pre-pandemic levels, even though levels have declined each month after peaking at 33.3% in May.

Online sales for textile, clothing and footwear stores accounted for 27.5% of all retailing in September 2020, which represents year-on-year growth of 27.7% for the category.

Consumer Spending

Consumer spending in the UK increased at the quickest pace for over three-and-a-half years in July 2020, according to data from IHS Markit. Visa's UK consumer spending index, compiled by IHS Markit, rose by 2.4% in July year-on-year, after recording an annual decline of 6.5% in June 2020 and 20% in May 2020. The increase in total consumer spending was helped by a record rise in e-commerce expenditure. At the same time, face-to-face spend fell at the weakest rate in the current five-month sequence of decline.

Payment card provider Barclaycard said UK consumer spending grew by 0.2% year-on-year in August, the first rise since February this year. This was followed by growth of 2.0% year-on-year in September delivering the biggest increase since February 2020. Despite a renewed stockpiling spree in October prompted by the re-introduction of lockdowns, overall consumer spending slipped 0.1% in annual terms in October as people cut back on non-essential spending while stocking up on groceries. Barclaycard said spending on essentials jumped 4.2% in October as a third of people it surveyed said they were stockpiling ahead of potential shortages during lockdown.

Brexit and the Apparel & Footwear Industry

A report by the UK Trade Policy Observatory suggests that due to its high level of exports, reliance on international talent and dependence of raw materials from abroad, the UK textiles, apparel and footwear industry will be one of the hardest hit by the United Kingdom's departure from the European Union. Some 63% of clothing designers and 55% of UK-based luxury-goods makers are involved in exports, and around 10,000 EU citizens are employed in the UK fashion industry.

Fashion politics consultant for The Business of Fashion, Tamara Cincik, warned, "If the UK leaves the European Union without an advantageous trade deal, thereby defaulting to the basic rules set by the World Trade Organization ("WTO"), the cost of clothing purchased in the UK would rise dramatically, decimating spending."

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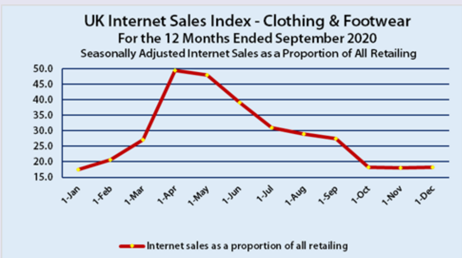

Figure 2:. UK internet sales index – clothing & footwear

In February 2020, the UK Fashion and Textile Association stated, “The Brexit deal needs to focus on creating a tariff-free market as British manufacturers rely heavily on exports to the EU. The British government should promote zero-tariff, zero-quota trade.”

- Apparel & Footwear Industry-

Global Outlook

According to The State of Fashion 2020 (“SoF”), a joint report from Business of Fashion and McKinsey & Company published at the end of 2019, the fashion industry faces a worrying year ahead. The macroeconomic context is challenging, and players will find that their route to value creation is either unclear or it requires significant levels of investment. Successful companies will be the ones that make moves early, focus on boosting earnings over revenue growth, and work out how to improve productivity while ensuring operational and financial flexibility. Crucially, all this will require leaders who make quick decisions in an environment of great uncertainty.

Global E-Commerce Sales

Forrester reports showed the online fashion segment held over 27% share of the global e-commerce market in 2019 and by 2022 it will have reached 36% of total fashion retail sales. Within the e-commerce market, mobile commerce has seen significant growth as more and more consumers turn to their smartphones for online shopping. Mobile commerce earned 57% of total online sales last year. Additionally, millennials have shown a strong preference for online shopping with 67% of them choosing this channel over physical stores.

More than half of UK consumers are now shopping online, and UK online spend is forecast to increase 29.6% between 2019 and 2024, according to retail analysts at GlobalData. Furthermore, the online channel is forecast to account for 19.3% of total retail spend by 2024 and 28.2% of non-food retail spend. Clothing and footwear will remain the largest product sector in the online market until 2024, accounting for almost 35% of total online spend.

According to Digital Commerce 360’s new 2020 Online Apparel report, online apparel sales accounted for 38.6% of total US apparel sales in 2019 and 100% of the growth in retail clothing sales. E-commerce’s share of US apparel sales has grown nearly 10 percentage points in the past three years, and e-commerce captured an even greater share of US apparel sales throughout 2020 due to the coronavirus pandemic.

Economic Impact of Coronavirus

Undoubtedly, coronavirus is a black swan event – something that happens once in a century. Its spread has left businesses around the world counting costs, with many investors fearing the spread of coronavirus will pose an insurmountable challenge to the economic growth of all major countries across the globe.

Almost every industry has been affected, with governments scrambling to somehow arrest the economic decline. Central banks in more than 50 countries, including the US Federal Reserve and the Bank of England have cut interest rates to try to strengthen their economies. Furthermore, most

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McKinsey analysis approximated that 80% of publicly listed fashion companies in Europe and North America would be in financial distress if stores were closed for more than two months.

countries have announced unprecedented stimulus packages in the hopes of reviving their economy

Apparel & Footwear Industry Forecast

McKinsey released a Coronavirus Update to The State of Fashion 2020, in which the firm has taken a stance on what the global fashion industry's "new normal" will look like in the aftermath of this pandemic.

The report stated, "We estimate that revenues for the global fashion industry (apparel and footwear sectors) will contract by 27 to 30 percent in 2020 year-on-year, although the industry could regain positive growth of 2 to 4 percent in 2021."

Uncertainty remains high and the strength of the recovery varies markedly between countries and between business sectors. Prospects for inclusive, resilient and sustainable economic growth will depend on a range of factors including the likelihood of new outbreaks of the virus, how well individuals observe health measures and restrictions, consumer and business confidence and the extent to which government support to maintain jobs and help businesses succeeds in boosting demand.

McKinsey analysis approximated that 80% of publicly listed fashion companies in Europe and North America would be in financial distress if stores were closed for more than two months. Combined with the McKinsey Global Fashion Index analysis, which found that 56% of global fashion companies were not earning their cost of capital in 2018, a large number of global fashion companies are expected to go bankrupt throughout 2020 and into the coming year.

Impact on the UK Retail Industry

The global retail industry has been hit hard, and the UK is no exception. The 12-week lockdown in the spring, with only essential shops being allowed to open meant huge losses for retailers, leading to many retailers shutting up shop.

After a rebound in retail sales as shops re-opened over the summer, the UK returned to a four-week lockdown in November. With the UK on lockdown throughout November, online shopping is expected take the strain of the seasonal demand. According to data from eMarketer, retail e-commerce holiday season sales will reach £28.5 billion this year, up 16.7% over last year, and account for a substantial 32.2% of total UK holiday sales in 2020.

Brick-and-mortar holiday season sales, meanwhile, are expected to fall by 19.0% to £60.0 billion. In-store sales will account for just over two-thirds of total holiday season sales, down from over three-quarters last year and 81.6% in 2016.

Effect on Global Demand

It is clear now that the spread of coronavirus has led to a decline in global consumer spending, the heart of global economic activity. Moreover, employee layoffs in various industries are becoming increasingly common, in many cases on a large scale. This will lead to further pullback in consumer spending, at least in the near future, exacerbating the economic impact of coronavirus.

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Pace of Recovery Losing Momentum

According to the latest OECD Interim Economic Outlook report, after an unprecedented collapse in the first half of the year, economic output recovered swiftly following the easing of containment measures and the initial re-opening of businesses, but the pace of recovery has lost some momentum more recently. New restrictions being imposed in some countries to tackle the resurgence of the virus are likely to have slowed growth, the report says

Global Economic Forecast

The OECD Interim Economic Outlook projects global GDP to fall by 4.5% this year, before growing by 5% in 2021. The forecasts are less negative than those in OECD's June Economic Outlook, due primarily to better than expected outcomes for China and the United States in the first half of this year and a response by governments on a massive scale. However, output in many countries at the end of 2021 will still be below the levels at the end of 2019, and well below what was projected prior to the pandemic.

If the threat from COVID-19 fades more quickly than expected, improved business and consumer confidence could boost global activity sharply in 2021. But a stronger resurgence of the virus, or more stringent lockdowns could cut two to three percentage points from global growth in 2021, with even higher unemployment and a prolonged period of weak investment.

The report warns that many businesses in the service sectors most affected by shutdowns, such as transport, entertainment and leisure, could become insolvent if demand does not recover, triggering large-scale job losses. Rising unemployment is also likely to worsen the risk of poverty and deprivation for millions of informal workers, particularly in emerging-market economies.

The rapid reaction of policymakers in many countries to buffer the initial blow to incomes and jobs prevented an even larger drop in output. The Interim Outlook says it is essential for governments not to repeat mistakes of past recessions but to continue to provide fiscal, financial and other policy support at the current stage of the recovery and for 2021. Such measures should be flexible enough to adapt to changing conditions and become more targeted.

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