Department for the Economy

Retail Economics

Research to inform the Northern Ireland High Street Scheme (HSS)

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RetailEconomics

Project outline

This paper sets out considerations for the introduction of a stimulus scheme whereby every person in Northern Ireland aged 18 and over will be eligible to apply for a pre-paid voucher card worth £100 to spend in their local high street.

The main question that we seek to address in this research concerns *timing*.

When is the best time to launch a high street scheme in Northern Ireland?

As we build a case to answer this question, we use a range of analysis and data to look at seasonal trends in retail sales. We analyse seasonal patterns of trade over a 10-year period from 2010 to 2019 using retail sales values, non-seasonally adjusted and including fuel sales.

We provide additional analysis of seasonal patterns of trade covering:

- Size of retail
- Store-based retail sales
- Retail sales by category

Additionally, we also provide: (1) background analysis and commentary on the backdrop for retailers; (2) the overall impacts of Covid-19 on business models and their financial positions; and (3) valuable insights extracted from a representative NI consumer panel.

Basic assumptions

The Office for National Statistics provide detailed retail sales data in the Retail Sales Index which is released on a monthly basis. This release covers Great Britain only.

We assume that retail sales trends in Great Britain reflect those of the Northern Irish consumer market. Using the latest Family Spending in the UK release, we compare the proportion of average expenditure in the UK with households in Northern Ireland. While there are some areas of expenditure that differ, we do not believe these differences will result in a material impact on seasonal retail spending trends throughout the year.

Expenditure classifications	UK	Northern Ireland
Food & drinks	12%	15%
Alcoholic drinks & tobacco	3%	3%
Clothing & footwear	5%	7%
Housing, fuel & power	16%	12%
Household goods & services	8%	7%
Health	2%	2%
Transport	16%	17%
Communication	4%	5%
Recreation & culture	15%	12%
Education	1%	1%
Restaurants & hotels	10%	11%
Misc goods & services	9%	9%

Source: Office for National Statistics

Approach to the paper

This paper provides a broad introduction to the current retail landscape throughout the UK. This provides context of the challenges and opportunities facing the industry and why the introduction of a high street scheme could act as an important stimulus to the consumer sector.

The research then focuses on seasonal trends in the total retail market, followed by more detailed analysis by category, channel and size of retailer.

The analysis concludes with key findings and recommendations on the timing of the scheme launch based on our research.

1. Introduction

A new normal

The Covid-19 pandemic sent shockwaves throughout the global economy, dislocating international supply chains and reshaping the way consumers live, work, communicate and shop.

The closure of non-essential retail outlets and hospitality venues necessitated a shift towards online retail for many consumers. Online sales accounted for 28% of total retail spending in 2020, rising from just 19% in the previous year. This step-change in the proportion of online sales saw the channel experience five years of growth in just 12 months.

Shoppers of all ages and from varying socioeconomic backgrounds have been exposed to new customer journeys with digital technology playing a more important role. Indeed, 40% of shoppers in the UK believe that the way they shop is likely to change on a permanent basis due to the impact of Covid-19, more so than how they work, communicate and travel.

Retail and hospitality businesses have invested heavily to pivot their propositions to meet these new trading realities, boosting their online capabilities and rethinking the way they use physical destinations. But this transformation has proved extremely challenging for many businesses who were already struggling to keep up with the pace of change facing consumer industries.

Burdened with too many stores, too much space and restricted by inflexible lease structures, many businesses were unable to cope with the significant blow to cashflow caused by lockdown measures and the hit to consumer confidence. Retailers such as the Arcadia Group, Debenhams, Peacocks, Edinburgh Woollen Mill, Bonmarché and others have already fallen into administration.

The unfortunate reality is that many others will follow with the greatest pressure likely to be felt across independent businesses who have depleted working capital and, in many cases, lacked the resource or technical skills to pivot their businesses towards online as effectively as multiple retailers.

In this sense, large parts of the retail and hospitality sector remain in survival mode. As Covid-19 restrictions are relaxed, a forensic-like approach to cost cutting will be adopted as businesses preserve working capital and start to recoup losses. The survival of many retail and hospitality businesses will depend on how quickly consumer spending ramps up, following the easing of restrictions and fewer government support mechanisms (e.g. furlough scheme, end of grant schemes, and reaching cut off dates for grant applications).

It will be critical for businesses, local authorities and government to provide an environment where confidence is quickly restored, and consumers feel comfortable spending more time in shopping destinations. The strength of regional economies will hinge on this confidence, which will be vital to boost consumer propensity to spend.

Incentives to support consumer spending could manifest in many forms, from the vaccine rollout, to Covid-secure practices that are adopted by local businesses. Now is the time for innovative and creative thinking where stakeholders adopt a collaborative approach to revitalise the high street.

The proposed High Street Scheme in Northern Ireland could form part of that solution. This paper aims to gather evidence to address some of the key questions about its potential timings and related issues concerning consumer behaviour in NI.

2. Jersey – Spend Local Scheme Case Study

What can be learnt from the Jersey high street scheme?

In early September 2020, every eligible adult and child in Jersey received a £100 Spend Local card which they could spend in shops, in cafes and businesses, and on services and experiences.

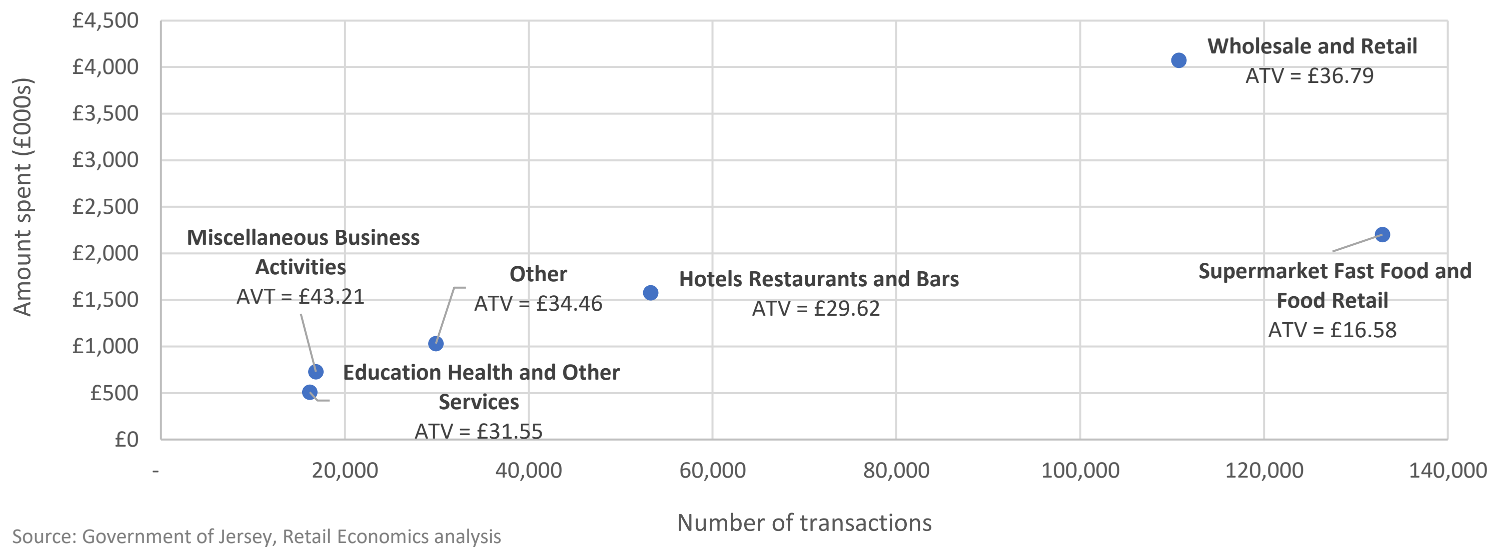
This was part of a £150 million fiscal stimulus package, aimed at supporting the local economy after the impact of Covid-19.

Key Findings

Cards issued	105,964
Total amount spent	£10.1 million
Average card balance spent	98%
Average transaction value	£28.14
Average number of transaction per card	3.6
Largest area of spending	Wholesales and retail (40%)

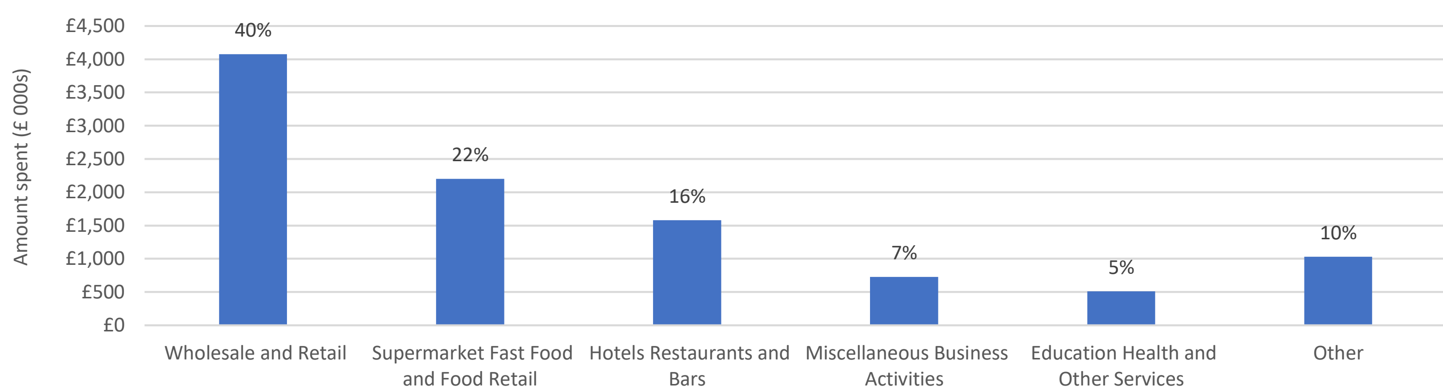
- 78% of all spending was attributed to just three categories: (1) Wholesale & Retail; (2) Supermarket Fast Food and Food Retail; and (3) Hotels, Restaurants & Bars.
- The average transaction value was £28.14 and the average card was used 3.6 times.
- Transport & Storage had the lowest transaction value of £14.86 with Financial & Legal Activities with the highest at £85.95.
- Card transactions peaked on the first Saturday of the scheme with c.20,000 transactions, about 6% of all transactions over the lifetime of the scheme.
- The number of transactions peaked every Saturday of the week, but tailed off after the first weekend in the subsequent seven weekends.
- However, the number of transactions picked up on the final Saturday of the scheme as shoppers used up any credit remaining on their cards.

Figure [1] Comparison of the total amount spent (£) and the number of transactions for top six categories



Source: Government of Jersey, Retail Economics analysis
ATV = Average Transaction Value

Figure [2] Total amount spent (£) and proportion of overall spend (%) by category

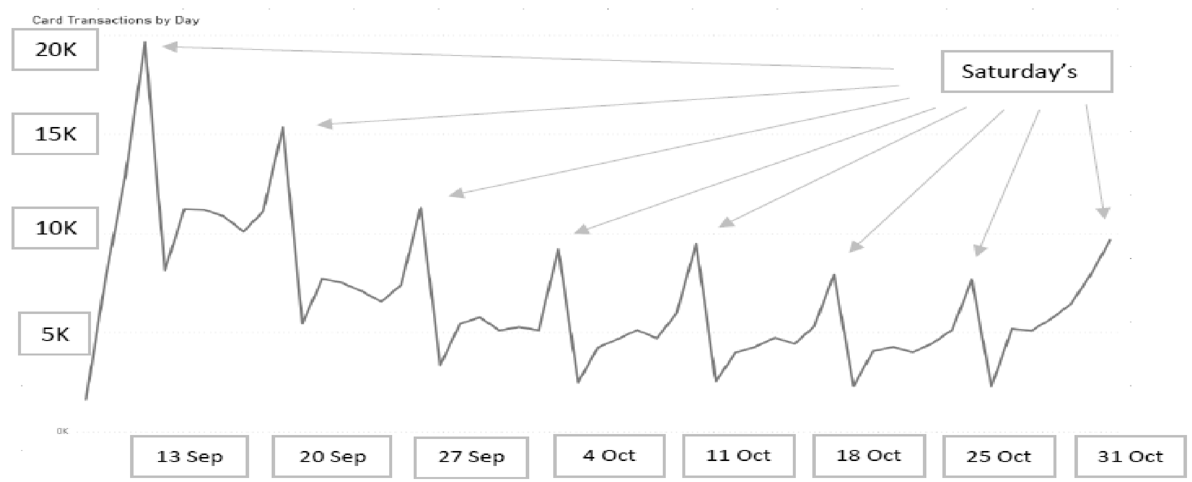


Source: Government of Jersey, Retail Economics analysis
Other made up just 10% of all spending made up of Construction, financial, Government parishes and courts, information and communications, transport and storage, utilities and waste

What can be learnt from the Jersey high street scheme?

- We estimate that the majority of the voucher was spent in the first 3-4 weeks of the scheme.
- While there were only limited restrictions on where the voucher could be spent (e.g. no gambling or spending online) the majority (78%) was spent in just three categories (Wholesale and Retail; Hotels, Restaurants and Bars; and Supermarket Fast Food and Food Retail).
- Given the low average transaction value for Supermarket Fast Food and Food Retail, it is likely that some consumers used their voucher on multiple occasions throughout the duration of the scheme. In other words, the voucher targeted for use for non-discretionary spending.
- Importantly, data collected in the scheme is collated using Mastercard and their pre-determined merchant industry segmentation. Spending data would be on type of retailer and not on the type of product purchased. For example, if a consumer purchased an item of clothing from a supermarket, such as Asda, the transaction would be classified under "Supermarket Fast Food and Food Retail" despite being an item of clothing.
- The same issue would apply for retailers selling across multiple categories (e.g. department stores) where the card issuer would not be able to determine the type of products purchased.

Figure [3] Number of transactions per day over the duration of the scheme



Source: Government of Jersey

Figure [4] Number of transactions and amount spent by category

	Number of transations	Total spent (£000s)	Average transaction value	% of total spend
Agriculture and Fishing	7,700	£263	£34.14	2.6%
Construction and Quarrying	1,534	£52	£34.09	0.5%
Education Health and Other Services	16,170	£510	£31.55	5.0%
Financial and Legal Activities	80	£7	£85.95	0.1%
Government Parishes and Courts	572	£20	£35.42	0.2%
Hotels Restaurants and Bars	53,272	£1,578	£29.62	15.6%
Information and Communication	1,750	£143	£81.83	1.4%
Miscellaneous Business Activities	16,831	£727	£43.21	7.2%
Supermarket Fast Food and Food Retail	132,890	£2,203	£16.58	21.8%
Transport and storage	13,343	£198	£14.86	2.0%
Utilities and Waste	4,924	£347	£70.42	3.4%
Wholesale and Retail	110,746	£4,075	£36.79	40.2%
Grand Total	359,812	£10,123	£28.14	100%

Source: Government of Jersey, Retail Economics analysis

3. Seasonality in total retail sales

Timing

The timing of the launch of the High Street Scheme will be an important factor determining its effectiveness.

The following section of the research provides a detailed analysis of seasonal patterns in retail sales across Great Britain using data from the Office for National Statistics. A core assumption is that seasonality of retail sales does not differ widely between Northern Ireland and Great Britain.

Seasonality

The research on seasonality of retail sales is mainly focused on a ten-year period between 2010 and 2019. Given the disruption caused by the pandemic and associated lockdown measures, 2020 was excluded from the analysis.

In the 10 years running up to December 2019, retail sales followed remarkably consistent seasonal trends. Figure 5 shows average weekly sales ranked by size, revealing that in eight of the ten years included in the research, October, November and December saw the highest grossing sales. November and December were consistently the highest grossing months over the 10-year period, driven by the Christmas trading period.

Conversely, January, February and March are consistently the weakest trading months of the year with average weekly sales in the first quarter of the year being 20% lower than the final quarter of the year over the 10-year period.

Figure [5] Average weekly sales ranked by size (£)

Total retail (inc. fuel)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	avg 10-year
Jan	12	12	12	12	12	12	12	12	12	12	12
Feb	11	11	11	11	11	11	11	11	11	11	11
Mar	10	10	8	9	10	9	10	10	10	10	10
Apr	9	4	10	10	7	8	9	5	9	8	9
May	6	7	6	7	6	6	5	6	5	6	6
Jun	5	6	5	5	5	5	7	7	6	5	5
Jul	4	5	4	3	4	4	4	4	4	3	4
Aug	7	9	9	8	8	10	8	9	7	7	8
Sep	8	8	7	6	9	7	6	8	8	9	7
Oct	3	3	3	4	3	3	3	3	3	4	3
Nov	2	2	2	2	2	2	2	2	2	2	2
Dec	1	1	1	1	1	1	1	1	1	1	1

1 = highest average weekly sales, 12 = lowest average weekly sales

Source: ONS, Retail Sales Index, retail sales value and non-seasonally adjusted (inc. fuel)

Seasonal trends for total retail sales

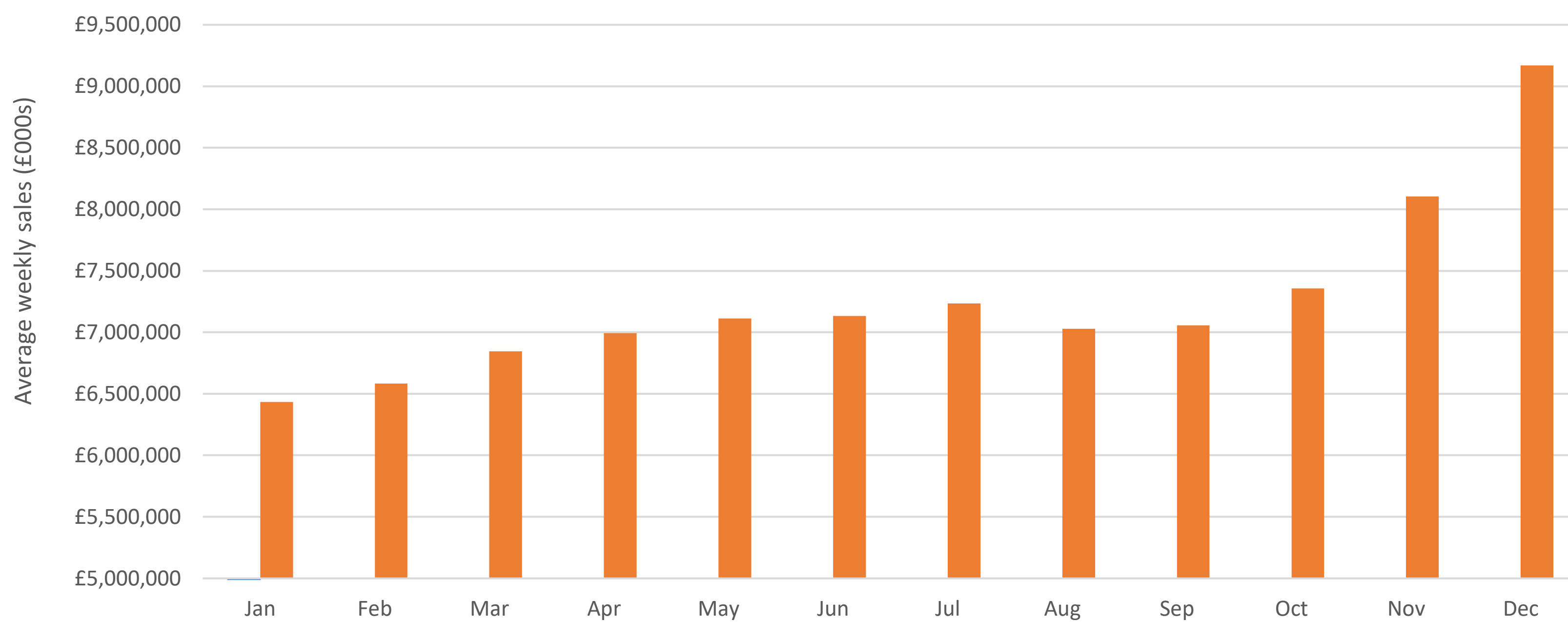
Aggregating sales data over the 10-year period, average weekly sales gain momentum each month from January to July, before slipping back in August as consumers cut back discretionary spending. Average weekly sales in September remain at broadly similar levels to August before retail sales then gathered momentum in the final quarter of the year in the run-up to Christmas.

Indeed, in eight of the ten years covered in the analysis, average retail sales consistently rose (month-on-month) from January to July. But then in all of the 10 years observed, average retail sales fell from July to August, on average by 2.9%.

Average weekly sales in September are broadly aligned to August, and over the 10-year period rose by 0.5% on average.

In the second half of the year (July to December), average weekly sales in August and September are the lowest in nine of the ten years analysed.

Figure [6] Average weekly sales for total retail, 2010 to 2019 GB

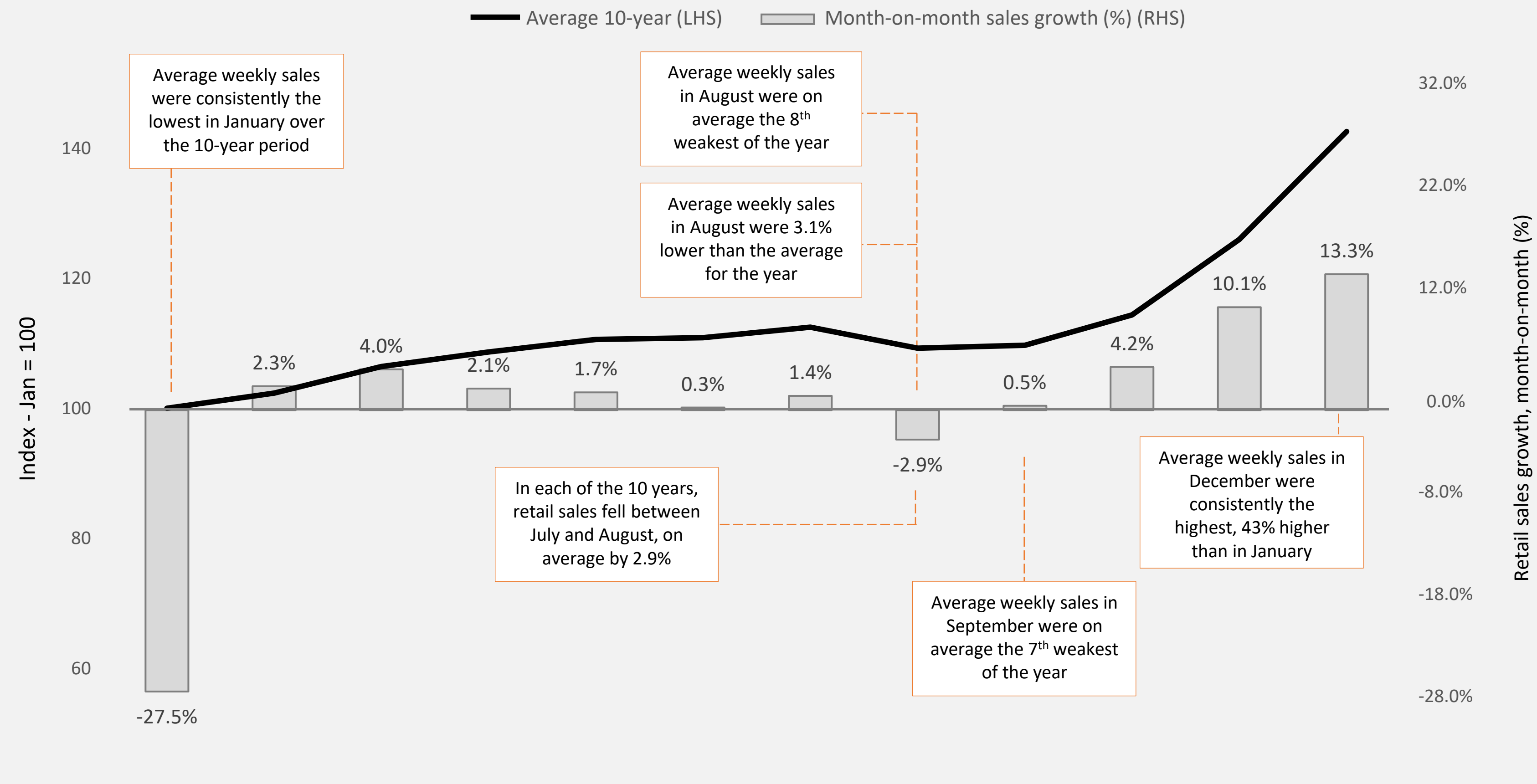


Source: ONS, Retail Sales Index, retail sales value and non-seasonally adjusted (inc. fuel)

How to read this graph

- Analysis covers average weekly retail sales from 2010 to 2019 (values and non-seasonally adjusted, including fuel).
- The black line on the graph shows an index of average weekly sales over the 10-year period rebased to 100 from January. Axis is on the left-hand side.
- This reveals seasonal patterns of retail sales throughout the year with January containing the lowest grossing sales weeks, leading up to December with the highest.
- The grey bars show month-on-month sales growth over the 10-year period. Axis is on the right-hand side.
- From January, average weekly sales consistently rise each month until July. On average, retail sales fall by 2.9% from July to August over the 10-year period.
- The heat-bar at the bottom of the chart ranks average weekly sales (£) for each month of the year.
- December has the highest average weekly sales, denoted by 1, with January the lowest, denoted by 12.

Figure [7] Distribution of retail sales, month-by-month, over a 10-year period from 2010 to 2019



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Ranked by average weekly sales (£)	12	11	10	9	6	5	4	8	7	3	2	1

12 = lowest average weekly sales

1 = highest average weekly sales

Source: ONS, Retail Sales Index, retail sales value and non-seasonally adjusted (inc. fuel)

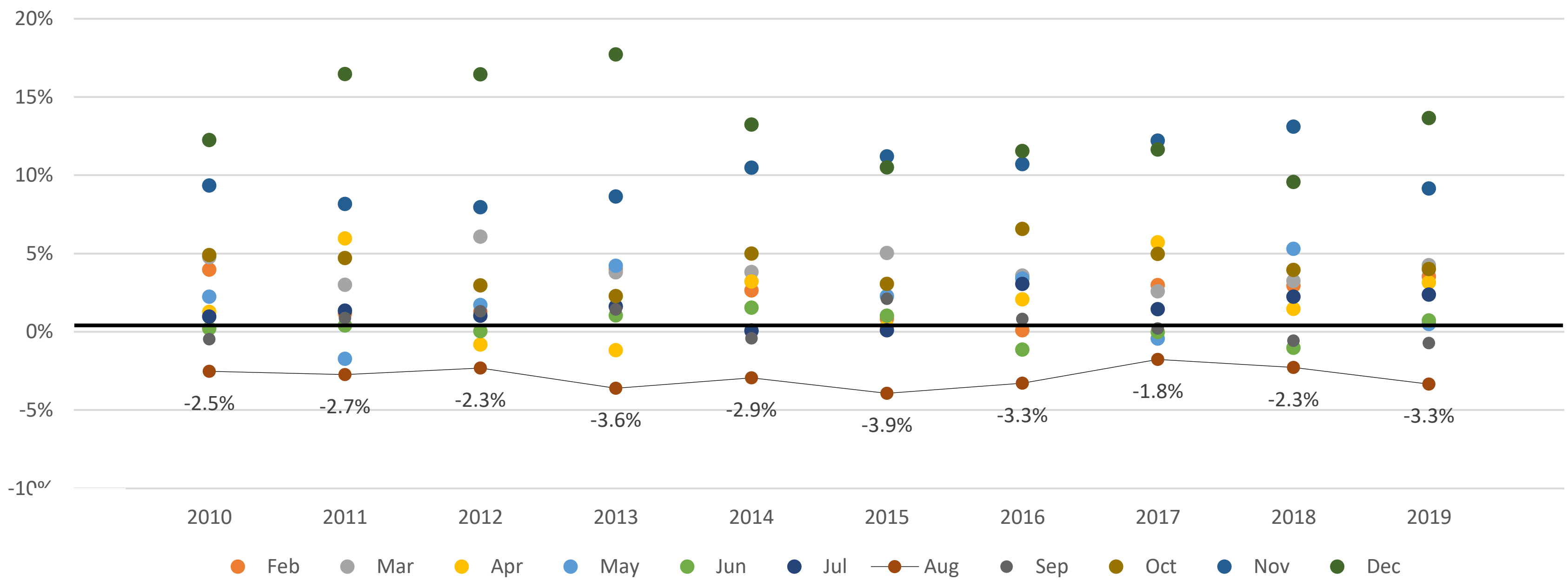
Seasonal trends for total retail sales

Figure 8 shows month-on-month growth rates for retail sales for each of the years included in the research. Note that January, being considerably weaker than every other month of the year, has been excluded in this chart.

It shows that throughout the period, retail sales in December grow most significantly on the previous month, driven by the Christmas trading period. However, the variation between December and November's performance has narrowed considerable since the mainstream adoption of Black Friday throughout the UK.

Conversely, in each of the ten years from 2010 to 2019, retail sales in August fell on the previous month [Figure 8], while average weekly sales in August were consistently the lowest grossing over the period. August is the only month of the year that showed a consistent decline on the previous month (excluding January).

Figure [8] Total retail sales, month-on-month percentage change, 2010 to 2019 (excluding January)



Source: ONS, Retail Sales Index, retail sales value and non-seasonally adjusted (inc. fuel)

4. Non-Food Sector analysis

Covering Clothing, Household Goods and other non-food

Seasonal sales trends by non-food retail sector

Figure 9 shows month-on-month retail sales growth across a range of non-food categories. Overall total non-food month-on-month retail sales growth shows a sharp decline from December to January, reflected in the overall total industry. Over the 10-year period, average weekly sales in February fall further, particularly for Clothing (-3.2%) and Household Goods (-4.2%). Overall non-food sales then consistently rose, month-on-month, from February to July before declining in August, on average by 3.5%.

The end of the summer months and the transition from Summer to Autumn/Winter product lines sees a lull in sales activity, particularly for clothing, which declined on average by 5.7% compared to July. A transference of spending away from retail to other areas of the economy such as leisure, holidays abroad and daytime activities (e.g. visiting amusement parks) underlies softer levels of spending over this period.

Within the non-food category, Household Goods exhibit less seasonality, and display considerably less volatility than the overall non-food sector. In part, the Household Goods sector is less dependent on Christmas trading than other parts of the retail sector as shown in Figure 10. The underlying strength of the Household Goods is better correlated to the health of the housing market, house moves and confidence to make big-ticket purchases.

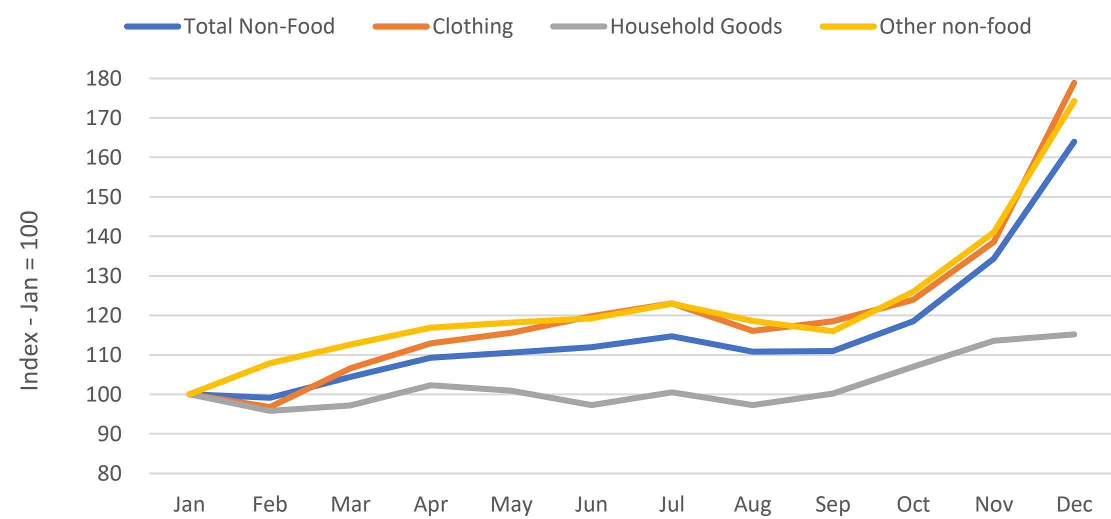
Other non-food categories (e.g. electricals, DIY, beauty) experience a sharp month-on-month decline in January, following the Christmas period, but also in August and September. On average, weekly sales fell by 3.5% from July to August and a further 2.1% from August to September over the period.

Figure [9] Month-on-month sales growth by retail sector

	Total non-food	Clothing	Household Goods	Other non-food
Jan	-37.3%	-43.1%	-11.6%	-40.5%
Feb	-0.9%	-3.2%	-4.2%	7.9%
Mar	5.3%	10.2%	1.4%	4.4%
Apr	4.7%	5.9%	5.4%	3.9%
May	1.2%	2.5%	-1.3%	1.1%
Jun	1.2%	3.6%	-3.6%	0.9%
Jul	2.5%	2.8%	3.4%	3.1%
Aug	-3.5%	-5.7%	-3.3%	-3.5%
Sep	0.2%	2.2%	3.1%	-2.1%
Oct	6.8%	4.6%	6.9%	8.7%
Nov	13.4%	11.8%	6.0%	12.0%
Dec	22.1%	29.2%	1.9%	23.5%

Source: ONS, Retail Sales Index, value and non-seasonally adjusted

Figure [10] Non-Food retail sales by category, 2010-2019, rebased to January



Source: ONS, Retail Sales Index, value and non-seasonally adjusted

5. Stored-based sales analysis

Food and non-food (inc. category analysis)

Seasonal sales trends by non-food retail sector

For part of the analysis, we also estimated average weekly sales transacted in physical locations. Therefore, this excludes online transactions, but will include instances where consumers reserve a product online and then pick-up and pay for it in-store.

Aligned with previous observations, sales decline significantly in January following the Christmas trading period [Figure 11]. There is also a consistent pattern, across all store-based non-food categories with a decline in sales between July and August, and in some categories between August and September.

Also reflected in total store-based sales, and those for non-food, was a consistent month-on-month growth of average weekly sales leading up until July [Figure 12].

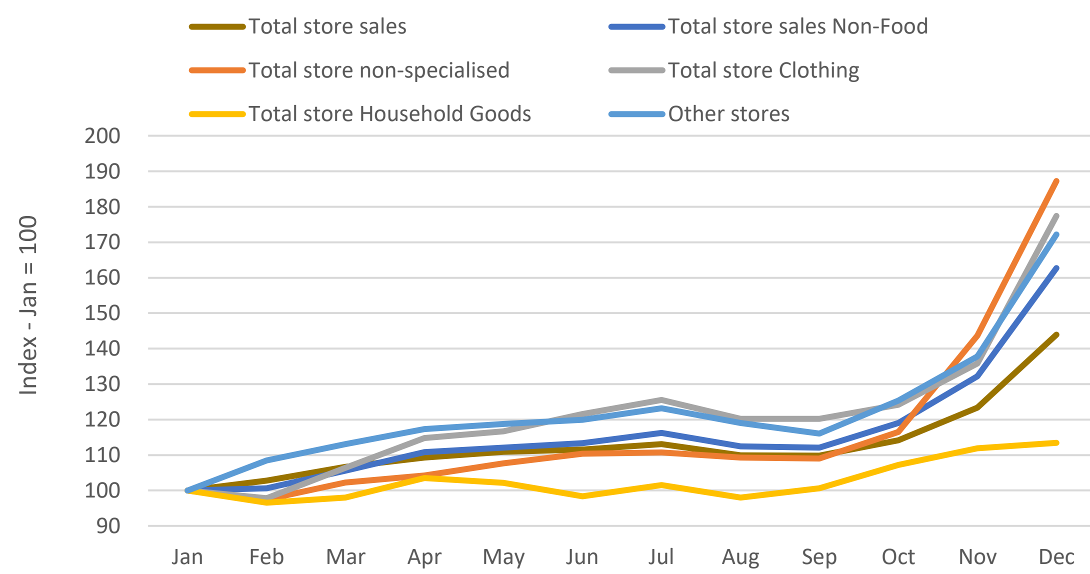
In terms of the quantum of average weekly sales; for overall non-food store-based sales, the final quarter of the year consistently reported higher average weekly sales compared with the rest of the year, with the first quarter reporting the lowest. In the second half of the year, September averaged the lowest grossing sales, followed by August.

Figure [11] Store-based retail sales by category, month-on-month, 2010-2019

	Total store sales	Total store sales Non-Food	Total store non-specialised	Total store Clothing	Total store Household Goods	Other stores
Jan	-29.5%	-37.6%	-45.3%	-43.5%	-11.4%	-40.4%
Feb	2.7%	0.6%	-2.5%	-2.1%	-3.4%	8.5%
Mar	3.8%	4.9%	4.8%	8.7%	1.5%	4.3%
Apr	2.5%	5.0%	2.0%	7.9%	5.8%	3.8%
May	1.5%	1.2%	3.3%	1.8%	-1.2%	1.3%
Jun	0.6%	1.1%	2.5%	4.2%	-3.7%	1.0%
Jul	1.4%	2.5%	0.4%	3.3%	3.2%	2.7%
Aug	-2.8%	-3.3%	-1.3%	-4.3%	-3.5%	-3.3%
Sep	-0.1%	-0.2%	-0.2%	0.2%	2.7%	-2.4%
Oct	4.0%	6.2%	6.8%	3.4%	6.7%	8.1%
Nov	8.1%	11.1%	23.3%	9.4%	4.3%	10.0%
Dec	16.7%	23.1%	30.4%	30.7%	1.7%	25.0%

Source: ONS, Retail Sales Index, value and non-seasonally adjusted

Figure [12] Store based retail sales by category, 2010-2019, rebased to January

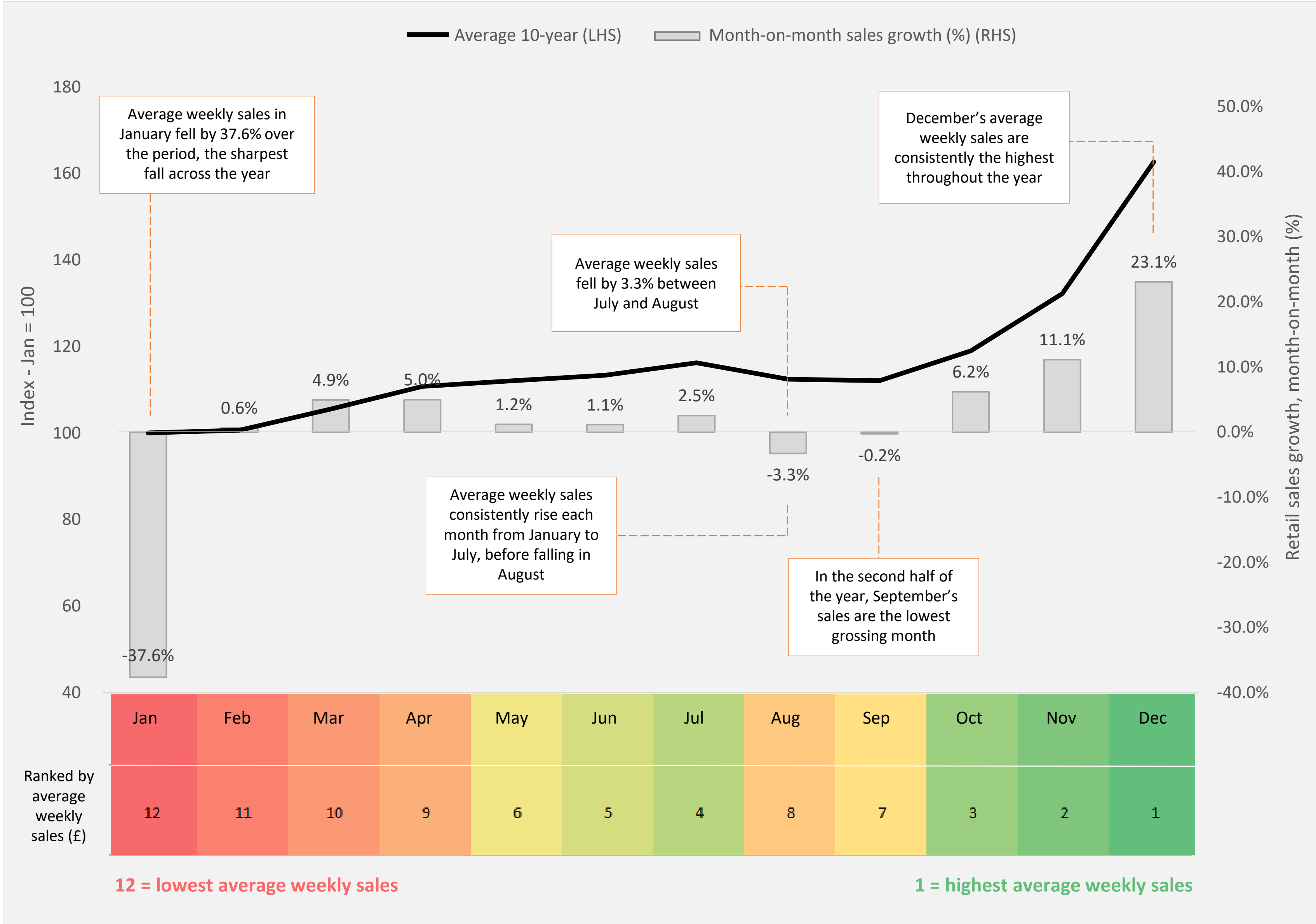


Source: ONS, Retail Sales Index, value and non-seasonally adjusted

How to read this graph

- Analysis is based on an estimate for average weekly sales for non-food store-based sales (values, non-seasonally adjusted, including fuel) from 2010 to 2019.
- The black line on the graph shows an index of average weekly sales over the 10-year period rebased to 100 from January. Axis is on the left-hand side.
- This reveals seasonal patterns of retail sales throughout the year with January containing the lowest grossing sales weeks, leading up to December with the highest.
- The bars show month-on-month sales growth over the 10-year period. Axis is on the right-hand side.
- From January, average weekly sales consistently rise each month until July. On average, retail sales fall by 3.3% from July to August over the 10-year period.
- The heat-bar at the bottom of the chart ranks average weekly sales (£) for each month of the year.
- December has the highest average weekly sales, denoted by 1, with January the lowest, denoted by 12.

Figure [13] Distribution of non-food store-based retail sales, month-by-month, from 2010 to 2019



Source: ONS, Retail Sales Index, retail sales value and non-seasonally adjusted (inc. fuel)

6. Retailer Size Analysis

For non-food retailers

Seasonal sales trends by non-food retail sector

Figure 14 shows month-on-month retail sales growth for non-food retailers by size of the retailer. It reflects a similar distribution of sales throughout the year to that of the total industry, but shows that small independent retailers experience less volatility in sales growth throughout the year. Although there is a strong and noticeable pick-up in the value of sales in the final quarter of the year for small retailers, it is not as pronounced as it is for large retailers. Incidentally, small retailers account for c.20% of total retail sales in 2019.

Apart from January, where there is an expected drop in sales from the December trading period, from 2010 to 2019, small retailers experienced a consistent decline in sales in June, August and September, on a month-on-month basis. In the second half of the year, the largest monthly drop off is from August to September, compared with July to August for large retailers.

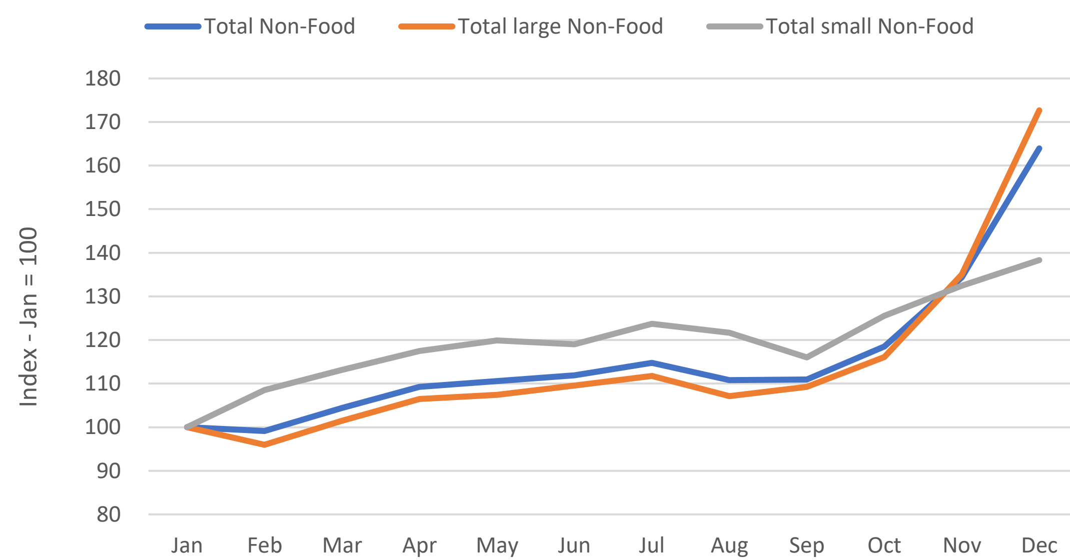
Reflecting trends in the overall industry, average weekly sales rise on a month-on-month basis from January to July for small retailers, with the exception of June when there is a small decline of 0.8% on average. What's more, Figure 15 shows that small independent retailers have less volatility in their overall sales throughout the year and so less dependent on a boost in Christmas trading.

Figure [14] Retail sales growth by size of retailers, month-on-month

	Total non-food	Total non-food - large retailers	Total non-food - small retailers
Jan	-37.3%	-40.7%	-24.8%
Feb	-0.9%	-4.0%	8.5%
Mar	5.3%	5.7%	4.4%
Apr	4.7%	5.0%	4.0%
May	1.2%	0.9%	2.1%
Jun	1.2%	2.0%	-0.8%
Jul	2.5%	2.0%	4.0%
Aug	-3.5%	-4.1%	-1.6%
Sep	0.2%	2.1%	-4.5%
Oct	6.8%	6.3%	8.3%
Nov	13.4%	16.3%	5.5%
Dec	22.1%	28.0%	4.5%

Source: ONS, Retail Sales Index, value and non-seasonally adjusted

Figure [15] Retail sales by size of retailer, 2010-2019, rebased to January



Source: ONS, Retail Sales Index, value and non-seasonally adjusted

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7. Retail & hospitality landscape

Considerations for the scheme's launch timing

While the seasonality of retail sales is an important consideration in the timing and duration of such a scheme, there are also economic and commercial realities to account for. This section considers other important factors that could influence decisions about the timing and duration of the scheme.

Pent-up demand and savings boost

The closure of non-essential retail shops and hospitality necessitated a shift towards online for many consumers. However, many shoppers delayed purchases of products, waiting for shops to reopen.

For example, furniture and flooring sales suffered a sizeable dent in demand from shop closures, falling by 15.3% in the three months to February 2021 in the UK (value and non-seasonally adjusted). High priced items such as furniture, where the customer journey is typically more considered and occurs less frequently, relies heavily on the physical interaction in stores.

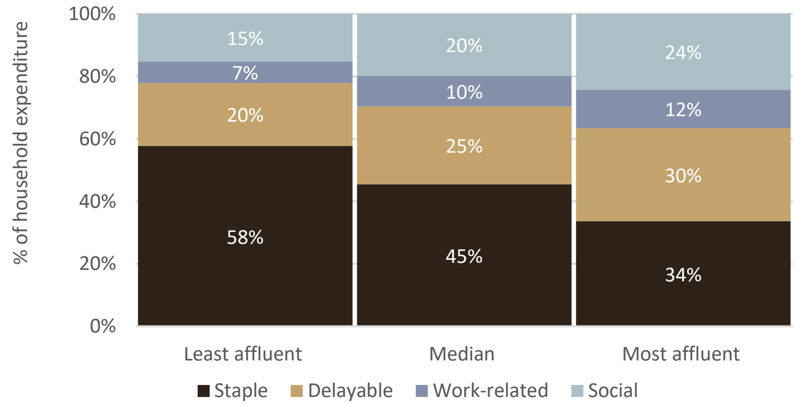
As such, consumers have displayed more 'friction' in the shift towards online. Given the nature of the purchase, shoppers are more hesitant to buy online without the sensory experience that shops and good customer service offers.

However, demand is likely to be postponed rather than cancelled altogether for furniture and flooring. Following previous periods of lockdown, consumer demand bounced back quickly. For example, after a 64.7% decline in May, sales grew by 8.5% in June and maintained an average of 9.1% annual growth until November 2020 when the second lockdown came into effect in the England.

In part, the boost in discretionary spending from less commuting, cancelled holidays and fewer nights out has helped drive demand in this category. Strong housing market activity has also been critical, and the extension of the stamp duty holiday will provide further incentive for many potential movers.

Indeed, the uprooting of habitual routines (e.g. cancelled holidays, less commuting, fewer trips out) continues to redistribute spending across the consumer basket. Our research shows that around 40% (Figure 16) of expenditure for the least affluent households has been impacted because of the impact of the virus. This proportion rises to c.65% for the most affluent households. The boost in discretionary spending for households provides strong support for a bounce-back in spend, but there is considerable uncertainty about how long this will persist.

Figure [16] Impact of the pandemic has boosted discretionary spending power disproportionately for higher earning households.



Source: ONS, Retail Economics analysis

What's more, the impact is likely to be felt unevenly across the sector. Around 40% of consumer say that they way that they shop will change on a permanent basis because of the impact of the pandemic, a large proportion of this sentiment is a permanent shift towards online. This polarisation in sales will disproportionately and negatively impact independent retailers who do not have the ability to seamlessly pivot their business models towards the online channel.

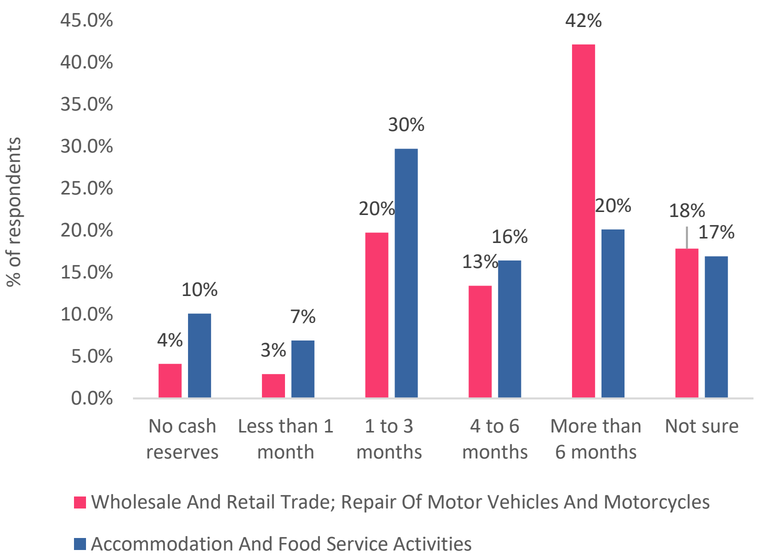
Business fragility

Swiftly, UK Government took unprecedented action to support businesses and protect jobs, while the Bank of England has cut interest rates to new record lows in response to Covid-19.

While these actions certainly saved thousands of businesses, liquidity remains under pressure across retail, hospitality and leisure, and as ongoing lockdown measures have endured.

As the economy begins to reopen, businesses will be nervously assessing levels of demand as operating costs are ramped up. For many businesses, liquidity has been eroded leaving little time for cash reserves to be rebuilt as demands on working capital intensify.

Figure [17] How long do you think your business's cash reserves will last? (UK businesses)



Source: ONS, conducted 6 to 18 April 2021

Indeed, the latest data from the ONS reveals that 4% of wholesale and retail business have completely depleted all cash in their business, rising to 10% for accommodation and food service activities businesses in the UK [Fig.17]. More than a quarter (27%) of all wholesale and retail businesses say they will run out of cash reserves within the next three months, rising to almost half (47%) for accommodation and food service activities.

Worryingly, as of 18 April, 11% of wholesale and retail businesses surveyed said that they were not confident that they will survive the next three months, rising to 13% for accommodation and food service activities businesses.

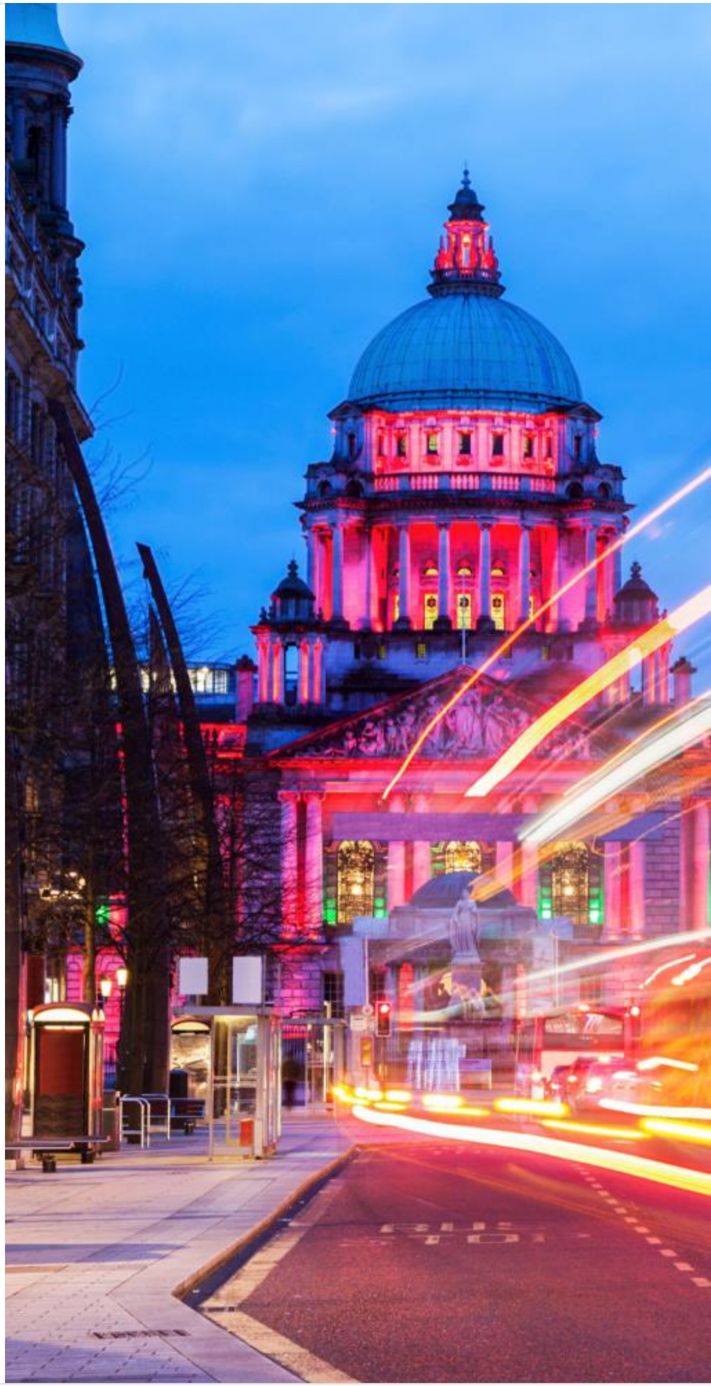
As such, consideration for the High Street Stimulus Scheme to launch as soon as possible should be seriously considered to increase the chances of saving businesses from administration. While a bounce back in consumer spending is expected, additional support and motivation for consumers to visit high streets will be welcomed by many businesses.

What's more, with data from the Jersey scheme suggesting that the average voucher is spent across 3.6 transactions, this will likely encourage additional footfall to high streets.

Black Friday and Christmas

Our research shows a consistent ramp up in retail sales in each of the years analysed starting in October. In order to maximise the effectiveness of the scheme, duration will be an important consideration. The coverage of the scheme should span the seasonal lull but importantly ensuring strong momentum is built up entering the final quarter of 2021 in the run-up to Christmas.

Lastly, the impact of Black Friday has shifted Christmas spending intentions forward, and in 2020 there was evidence of Black Friday lasting for longer and starting earlier. We suggest that a voucher / card expiration date be timed before the build up of Christmas trading; this will likely provide a greater incentive to spend earlier and support businesses during a more vulnerable period.



Considerations for the scheme’s launch timing

Unfortunately, there is limited data available comparing the business confidence by sector and by region/country. However, the following charts compare business sentiment for the UK and Northern Ireland across all industrial groups. It reveals that business conditions are broadly similar to the UK, if not slightly worse across key areas. However, in some key areas such as Accommodation and Food, businesses in NI are reported to be a more precarious financial position that the UK overall. However, the ONS caution about the accuracy of weighted regional estimates due to sample size.

Figure [18] How long do you think your business's cash reserves will last?

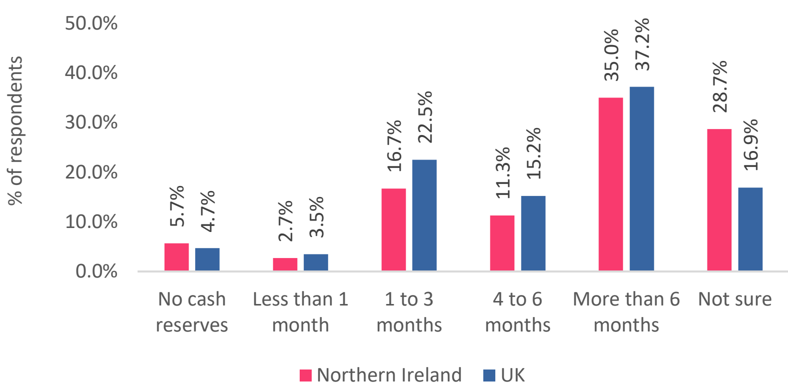


Figure [19] How much confidence does your business have that it will survive the next three months?

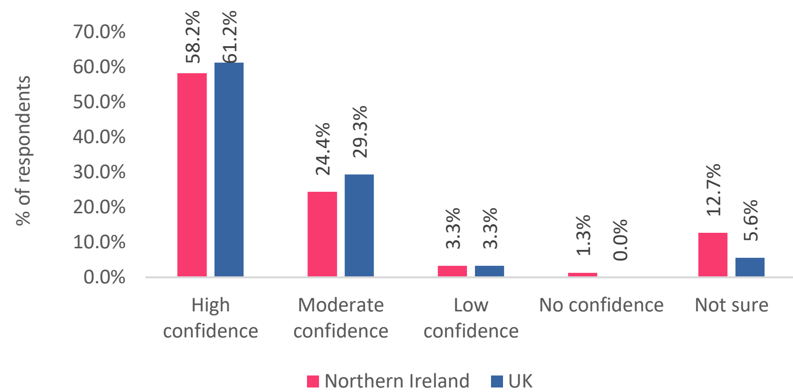
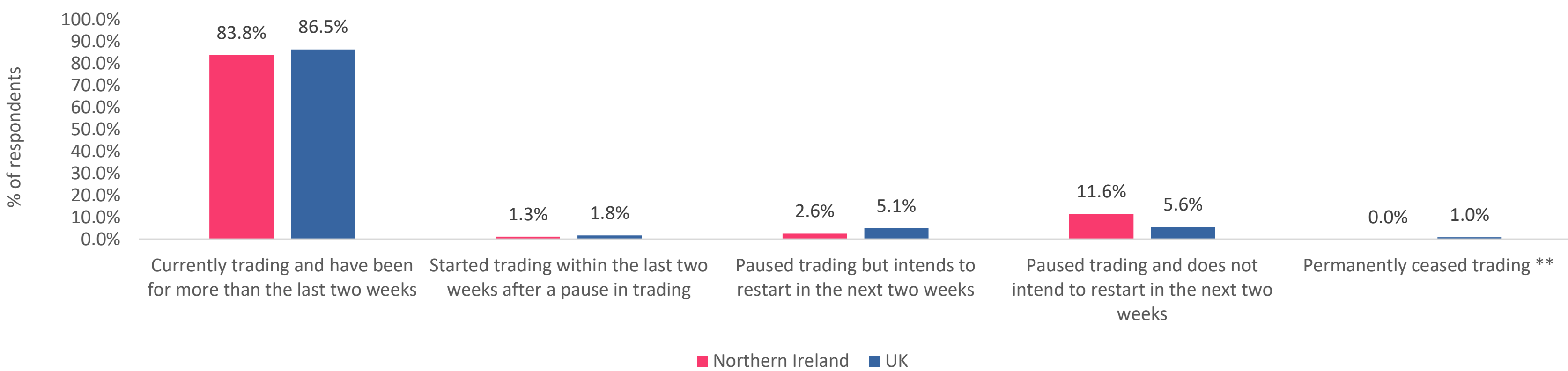


Figure [20] Which of the following statements best describes your business’s trading status?



Source: ONS, conducted 6 to 18 April 2021

8. The consumer perspective

Background

The pandemic has had a significant impact on habitual routines and with many households having to adapt the way they shop to access the goods they need.

As part of the research, we conducted a consumer panel survey from a sample of 1,000 households in Northern Ireland reflecting a nationally representative balance across age, gender, region and socio-economic groups. This enabled us to gather unique insights about confidence, potential spending intentions, the impact of the pandemic on behavioural change, and many other areas which supported our analysis about the effectiveness of a high street stimulus scheme.

The following section is formed of three main parts:

- The impact of the pandemic
- Reopening retail
- The High Street Scheme: Consumer insights

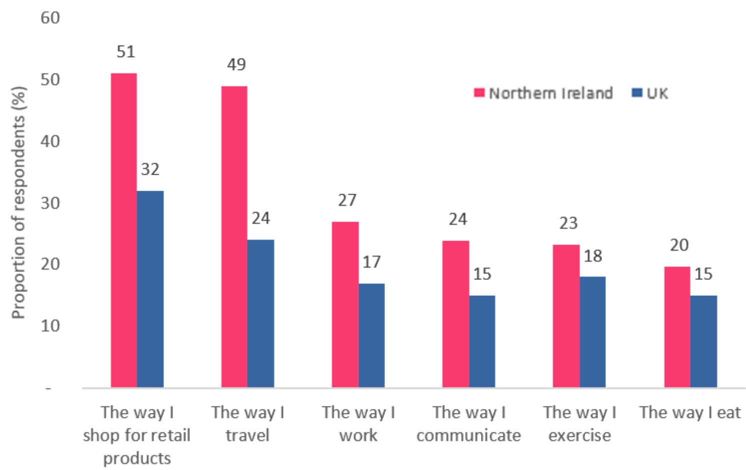
Impact of the pandemic

As high streets across Northern Ireland reopened on 30 April, considerable uncertainty remains about the long-term impact on shopping behaviour.

The closure of non-essential retail and hospitality outlets necessitated a shift towards online for many households, while also redistributing spending across physical channels. Many households embarked on new customer journeys, particularly online, breaking down barriers of setting up online accounts, entering payment details and overcoming issues of trust.

The majority of consumers (51%) in Northern Ireland believe that the way they shop will change on a permanent basis because of the impact of Covid-19. More so than the way they travel, work or communicate [Figure 21].

Figure [21] which of the following areas do you think will change on a permanent basis as a result of Covid-19?



Source: Retail Economics, NI consumer panel conducted 27th April - 2nd May 2021, sample=1,000
UK consumer panel conducted 1 Dec – 2 Dec, sample 2,000

However, there is a considerable difference between the perceived impact from UK and NI consumers. Consumers in NI appear to feel much more affected by the impact of the pandemic across all the areas that we measures. Interestingly, across both NI and UK consumers, the way people 'shop for retail products' recorded the greatest expected change. Admittedly, the survey was conducted at different times of the year and so could explain some of these differences.

Nevertheless, our research also revealed significant differences from consumer age groups. Younger consumers in NI are more likely to feel that their shopping habits will change on a permanent basis, more so than older consumers. Around 29% of Gen Zs (16–24-year-olds) believe that there will be a 'permanent change across the majority of their shopping', with 40% suggesting a 'permanent change across some products'.

8. The consumer perspective

How to read this graph

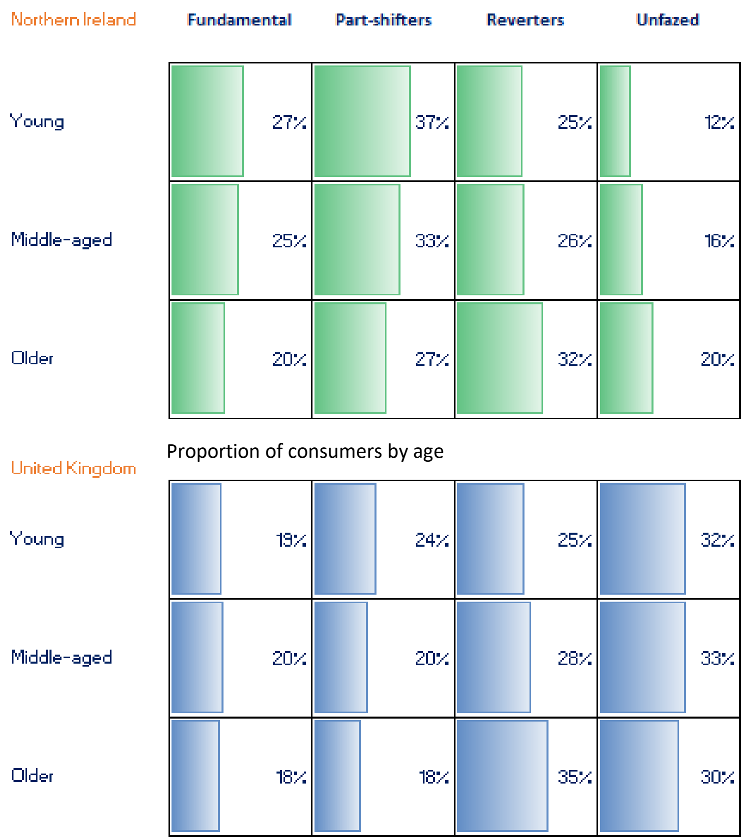
- Four consumer segments were constructed based on consumer's expectations around the permanency of their shifts in spending.
- Three age groups were constructed
    - Young = 16 to 34 years
    - Middle aged = 35 to 54 years
    - Older = 55+
- Each age cohort was split into one of the four segments. For example, 27% of young consumers in Northern Ireland suggested that their buying behaviour would change on a permanent basis across the majority of their spending, labelled 'fundamental'.
- This, compared with 37% who suggested a permanent shift in spending across some products – 'part-shifters'.
- Comparison can also be made with the equivalent cohort of UK consumers. For example, 19% of young consumers in the UK thought that their buying behaviour would change on a permanent basis (vs. 27% of young consumers in the NI).
- The largest differences in consumer expectations by UK and NI occur across those that expect 'no change at all' ('unfazed').

Consumer sentiment

Our research identifies four consumer buying behaviour groups, based on their expectations around the permanency of shifts in their shopping behaviour.

Figure 22 below, provides a comparison of these four behavioural groups in Northern Ireland (green), broken down by age and compared against the UK (blue).

Figure [22] Behaviour change segments



Source: Retail Economics

1. Fundamental

Spending has changed permanently across the majority of shopping.

This group represents consumers whose shopping habits will see the largest change. Just over a quarter of NI consumers say there will be permanent changes in the way they shop for most of their spending – rising for younger consumers.

2. Part-shifters

Spending has changed permanently across some categories of their spending.

This cohort represents the largest number of consumers in Northern Ireland, over a third of young consumers (37%), falling to 27% for older consumers. Our research suggests areas such as food, clothing, beauty and homewares being impacted the most.

3. Reverters

Spending habits have been impacted, but are expected to revert to pre-Covid-19 behaviour once the threat of the virus recedes.

This segment accounts for over a quarter (27%) of young consumers in NI, rising to almost a third for older consumers. These are consumers whose spending habits have been temporarily impacted, but they intend to revert to previous behaviours when 'normality' returns.

4. Unfazed

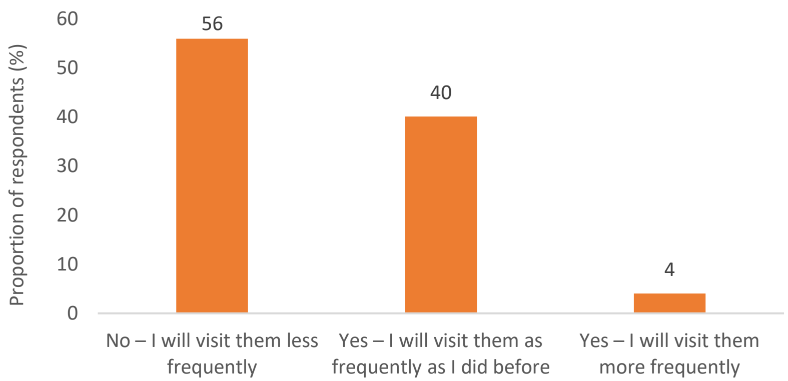
Spending behaviour and motivations are unaffected by the impact of Covid-19.

This group represents just 12% of young consumers in NI, rising to 20% for older consumer who suggest that their spending habits remain unaffected by the impact of the pandemic. Consumers in the UK were almost three times as likely to say their spending had been unaffected compared with NI consumers.

Undoubtedly, some of this shift in buying behaviour will result in a higher proportion of online shopping and fewer visits to the high street.

Our research showed that over half (56%) of consumers believe that they will visit high streets less frequently compared with the way they shopped before the pandemic. This proportion rose across middle-aged consumers, many likely with families, and discovered new and possibly more convenient ways to shop online.

Figure [23] As shops reopen in Northern Ireland, do you think you will visit retail shops as frequently as you did before the pandemic?



Source: Retail Economics, panel conducted 27th April - 2nd May 2021

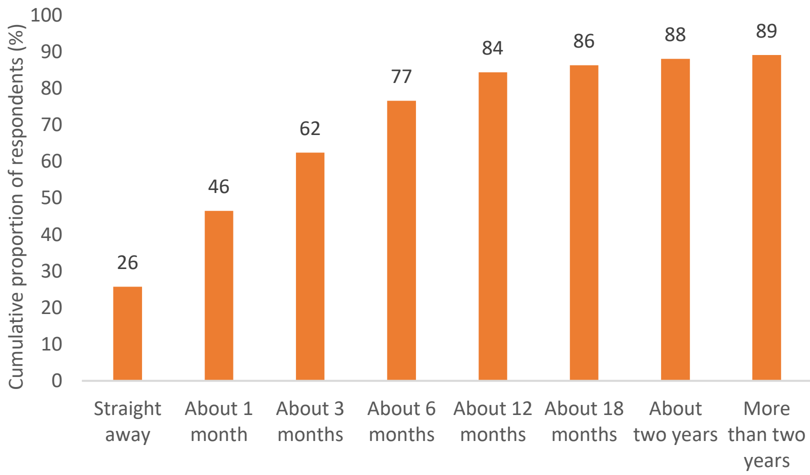
Of those that said that they would shop less frequently, the main reason was because of fears about the virus (59%). Interestingly, even those consumers who have had at least one dose of the vaccine remain extremely cautious about going out with 62% of this group saying that they will shop less because of fears about the virus. Notably, this group is also likely to reflect older consumers.

However, 58% of those who said they will visit retail shops less frequently noted one of the reasons being that they will do more shopping online, having discovered new digitally-centric customer journeys.

Reopening retail

While we expect pent-up demand to support some areas of retail, many consumers will remain anxious about returning to busy shopping destinations, particularly covered and enclosed centres which make social distancing measures harder to implement.

Figure [24] As shops reopen in Northern Ireland, how long do you think it will take you to feel confident to shop in physical locations?



Source: Retail Economics, panel conducted 27th April - 2nd May 2021

Our research shows that just over a quarter of consumers (26%) are ready to return to the high street straight away, but it could take up to six months before three quarters of consumers feel confident enough to return. Perhaps surprisingly, there is very little difference in sentiment between age groups within the first month. However, older consumers appear to harbour longer term concerns compared with younger consumers, with 17% of 65+

consumers suggesting that they ‘won’t feel confident and will adjust to a new way of life’.

There is also a significant difference between the cohorts of consumers who believe their shopping habits will change permanently. For example, those consumers who believe there will be no change in their shopping behaviour from the impact of Covid-19 are more than twice as likely to feel confident enough to return to the high street than consumers who believe there will be a permanent change across the majority of their spending.

Nevertheless, restoring confidence will be critical in the successful reopening of high streets and to boost the overall effectiveness of a high street stimulus scheme.

It will be essential for stakeholders to work together to provide the facilities and environment for shoppers (and employees) to feel safe in a retail setting. Our research shows that ‘cleaning stations in-store’ is consistently the most important factors in providing confidence across all age groups, followed by ‘limiting the number of people in stores’ and effective ‘social distancing’. The perceived importance of safety measures rises with age. However, there are other measures that appear more important across younger consumers than older consumers (e.g. ‘contactless customer service’) which could be applied to provide more bespoke solutions in certain parts of the market.

Indeed, should retailers, landlords and local authorities work together effectively, the experience of shopping in a safe and secure environment with the appropriate use of technology (e.g. virtual queues, apps to show whether shopping centres are busy) could provide a meaningful boost to levels of consumer confidence.

Figure [25] Thinking about shopping in physical locations, what factors are important to you as the lockdown restrictions ease?

Proportion of consumers who said this was an important factor (%)

Age group	16-24	25-34	35-44	45-54	55-64	65+
Cleaning stations in-store	57	61	69	79	83	86
Limiting people in stores	49	60	64	71	71	75
Social distancing measures	49	51	55	63	71	73
Staff wearing PPE	50	53	51	60	67	62
Contactless payments	48	49	50	57	52	61
Separate exit and entry points	41	52	40	50	58	59
One-way floor plans in store	22	33	37	37	46	37
Contactless customer service	27	20	13	14	15	12
Don’t know	9	12	14	8	5	4

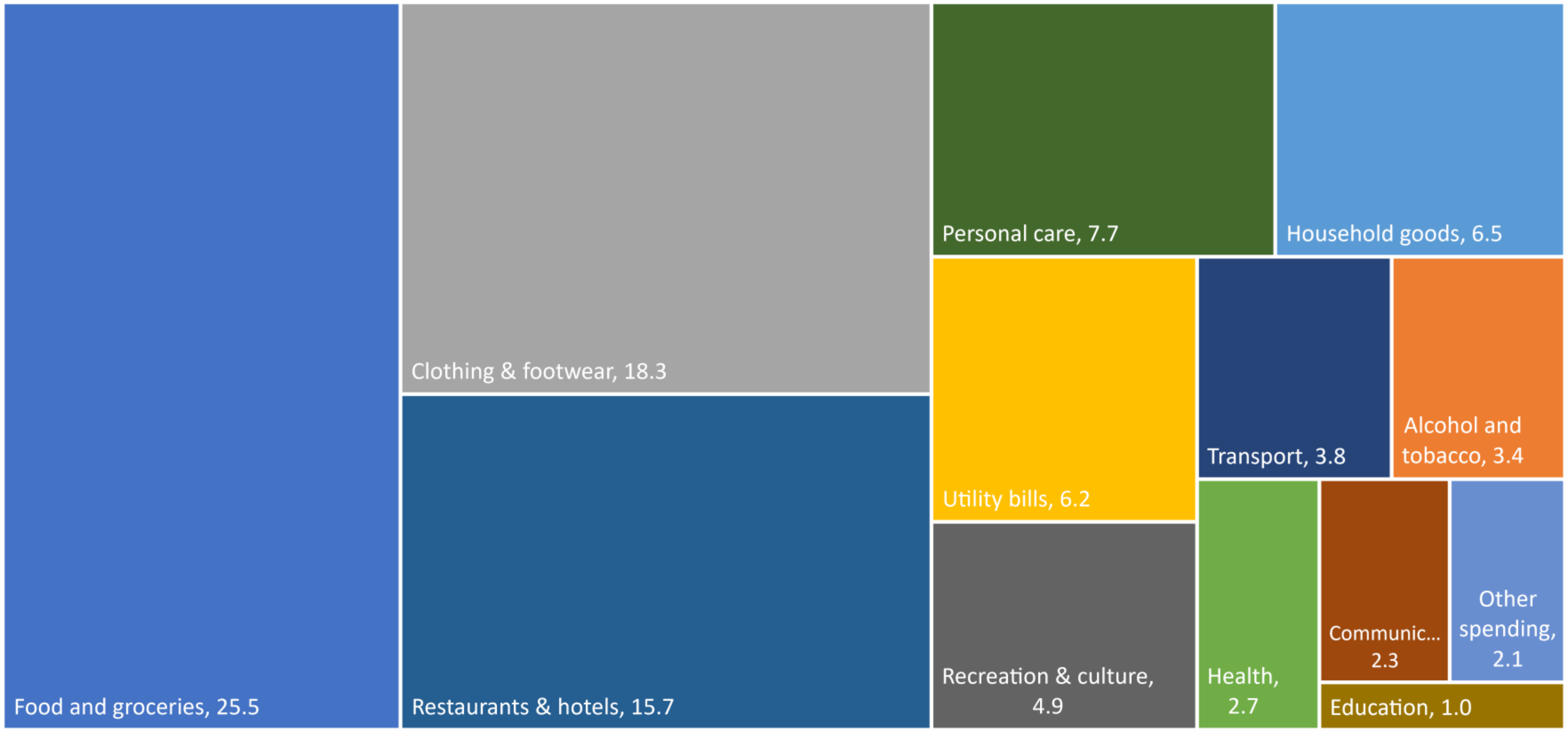
Source: Retail Economics, panel conducted 27th April - 2nd May 2021

High Street Scheme

Our research provided insights on spending intentions for a proposed high street stimulus across a range of spending categories. Our analysis found that, on average, households would spend the most across food and groceries (£25.50), followed by clothing and footwear (£18.30) and restaurants and hotels (£15.70). Indeed, these three categories accounted for 59% of proposed voucher spending.

Comparing voucher spending intentions against average household expenditure in NI revealed a disproportionate weighting towards these categories. Indeed, spending across food and groceries (15%), Clothing and Footwear (7%) and Restaurants and Hotels (11%) make up 32% of average household expenditure in NI (versus 59% of proposed voucher spending). The largest differences arose between food and drink (+11 percentage points towards voucher spending), Clothing and Footwear (+11 ppts) and Transportation (-13 ppts).

Figure [26] Which of the following areas are you most likely to spend your voucher?



Source: Retail Economics

High Street Scheme

Our research also showed notable differences in potential spending by category across difference age groups. Gen Zs (16-24 years) showed more evenly distributed spending intentions across a broader range of categories than older age groups. Middle-aged and older consumers appeared more likely to concentrate spending across restaurants and hotels (and food and groceries) than younger age groups. Conversely, spending intentions for younger consumers on recreation and culture far out-stripped older consumers.

Figure [27] Proposed spending of voucher across category and by age group

Proposed spending across age and category (£)

Age group	16-24	25-34	35-44	45-54	55-64	65+
Food and groceries	18.2	25.7	31.2	26.9	22.8	26.5
Clothing & footwear	19.1	17.2	21.6	23.3	17.2	12.8
Restaurants & hotels	7.4	16.4	13.3	14.2	17.6	22.3
Personal care	9.6	8.2	5.3	6.9	7.7	8.4
Household goods	6.0	4.2	6.2	5.4	10.5	6.7
Utility bills	7.5	9.2	6.2	8.1	4.2	2.9
Recreation & culture	9.1	4.6	5.6	3.6	3.9	3.5
Transport	4.0	3.1	2.9	2.8	4.1	5.6
Alcohol and tobacco	4.8	2.7	1.6	3.3	4.7	3.5
Health	1.8	2.8	1.8	1.7	2.0	5.3
Communication	5.4	3.3	1.8	1.2	1.8	1.2
Other spending	3.8	1.4	1.7	1.5	3.3	1.3
Education	3.3	1.1	0.8	1.1	0.3	0.1

Source: Retail Economics

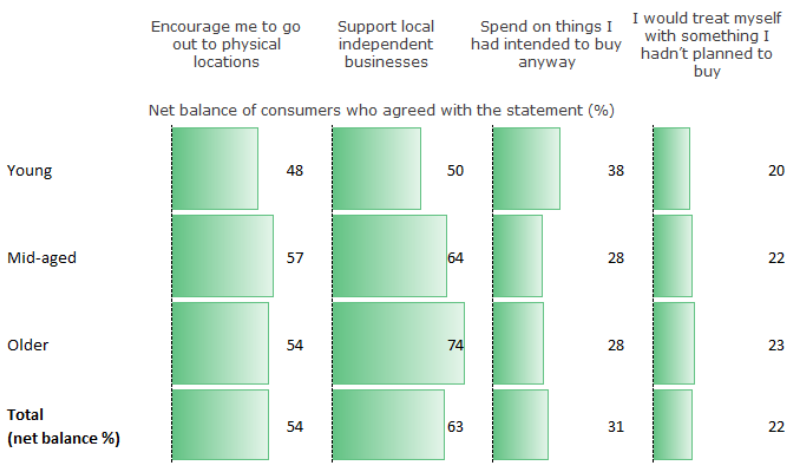
Considering the scheme is designed to stimulate local ‘bricks and mortar’ businesses in the retail and hospitality sectors (funnelling £140m onto NI high streets rather than online), it is encouraging to discover that almost two-thirds (65%) of NI consumers said that a voucher would indeed encourage them to visit physical locations. Overall, there was a net balance of 54% of consumers that said this was the case.

Of the 11% who suggested that it would not encourage them to visit physical locations, a disproportionate number said that their spending habits had not been impacted by the pandemic in the first place.

There is also a very strong desire to support local independent businesses, with a net balance of 63% of consumers who said that they would use their voucher to do this [Figure 28].

The intention to support local businesses rose considerably by age.

Figure [28] Motivations for voucher spend by age group



Source: Retail Economics

A net balance of 31% of consumers said that they would spend the voucher on something that they had intended to buy anyway. While this could potentially reduce the overall effectiveness of the stimulus scheme, it is important to consider the magnitude of the effect. The research does not quantify the proportion of spending that would go on products, just that some consumers intend to spend some of their voucher on intended purchases. What’s more, voucher spending focused on planned non-discretionary purchases does not imply that additional savings would not be spent across other areas supporting the recovery.

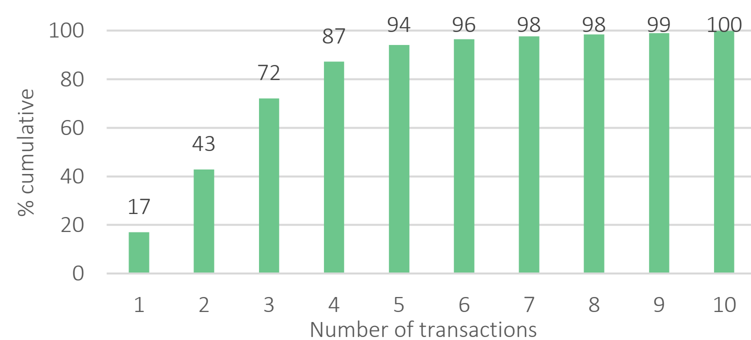
A redistribution of non-discretionary spending to more vulnerable business (e.g. local independent grocers or health businesses) would serve to meet some of the objectives of the stimulus package.

There was also a sizeable net balance (22%) of consumers who also suggested that they would purchase something they hadn’t intended to buy.

Frequency of voucher spending

Our research also showed that the majority of NI consumers thought it would take an average of three transactions to spend the entire voucher.

Figure [29] how many transactions do you think it would take you to use up your £100?



Source: Retail Economics

How to read this graph

- Using data from the consumer panel, we have constructed a 'Spending Intentions Quadrant' based on two core pillars:

1. **Additionality**
2. **Business support**

- Using questions that related directly to spending intentions around 'additionality' and 'business support' we weighted responses to create a simplistic quadrant of where spending would be focused (e.g. on local businesses) and whether it would be across non-discretionary parts of the consumer spending basket.

- For example, 'Non-essential local' suggests that 29% of intended voucher spending is likely to be focused on discretionary purchases across small local businesses.

- **Caveats**

- The Spending Intentions Quadrant should be viewed as a conceptual framework. Quantifying the precise overall impact of 'additionality' is outside the scope of the research.
- Our concept of 'additionality' is aligned to spending on 'treats' and 'non-essential' components of consumer spending. Consequently, not all non-essential spending intentions translates to additionality.

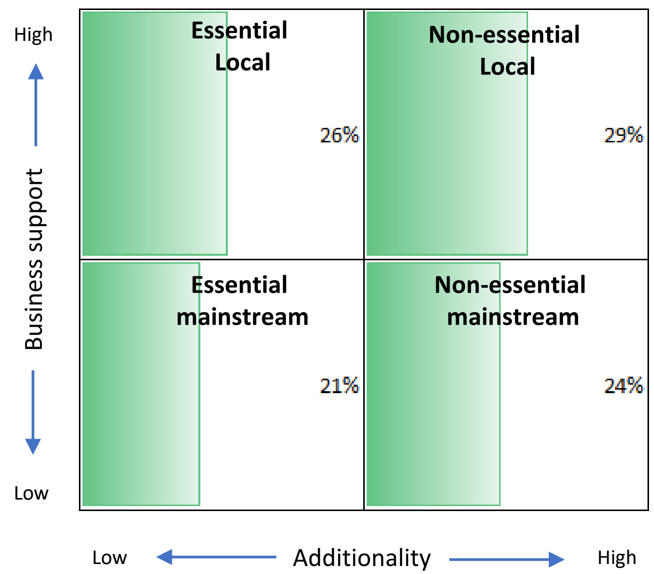
Spending Intentions Quadrant

A key measure of the effectiveness of the High Street Scheme is to assess 'additionality' - spending that would have occurred in addition to the status quo, considering any displacement impact. And secondly, the level of business support, taking into account any spending that is diverted from corporates to small and more vulnerable independent businesses.

Using data from the consumer panel, we have constructed a 'Spending Intentions Quadrant' based on two core pillars:

1. **Additionality** – spending that would occur in addition to the status quo. This is measured on the x-axis.
2. **Business support** – spending that could be diverted away from large corporate businesses to smaller independents. This is measured on the y-axis

Figure [30] Spending Intentions Quadrant



Bars measure proportion of consumers (%)

Source: Retail Economics

1. **Essential local (26%)**
Those consumers who are more likely to focus their spending on essentials, such as food, but also have motivations to spend across local high streets and support independent businesses.

2. **Non-essential local (29%)**
This cohort of consumers constitute the largest group, comprising almost 3 in 10 consumers. They intend to spend their voucher on non-essential items and treats, and also aim to do this locally and across small independent businesses.

3. **Essential mainstream (21%)**
Just over one in five consumers who expect to spend their voucher on non-discretionary purchases such as food, utility bills and health, are also looking to do this in larger shopping destinations where there is likely to be a higher proportion of multiple retailers.

4. **Non-essential mainstream (24%)**
Just under a quarter of consumers who are looking to purchase non-essential items with their voucher which could be in addition to what they would have spent anyway, are also more likely to spend with multiple retailers in established town centres and retail parks.

Key observations

The Spending Intentions Quadrant outlines a conceptual framework that suggests c.80% of voucher spending intentions are focused towards supporting vulnerable businesses and/or on non-essential spending. Almost a third (29%) of which is expected to fall within non-essential local businesses.

There appears to be strong consumer intention to channel spending towards the areas that the High Street Scheme is designed to support.

9. Key findings & recommendations

Recommendation on timing

Our recommendation is for the Northern Ireland High Street Scheme to run during the months of August, September and October. We believe that this will capture a period where retail sector sales are in a transitional period between seasons when underlying demand is softened and creates important momentum running into the seasonal build-up of Christmas sales.

1: Seasonality

Firstly, there is clear evidence that average weekly retail sales decline in August following six consecutive months of growth. Over the ten-year period analysed, sales in August fall on average by 2.9% compared with July and remain at similar levels in September.

This drop is even more pronounced for non-food store-based retailers – a part of the market the scheme is particularly designed to support. Retail sales then pick-up momentum in October and it will be important to encourage spending to build momentum and confidence at the beginning of the final quarter of the year.

2: Pent-up demand

There is likely to be a bounce-back in retail sales following the lockdown period that was experienced in GB. After the first full month of sales following the first lockdown in England, total retail sales rose by 2.8% in July 2020, the strongest growth for two years. Some categories such as Homewares (+8.4%) and Furniture & Flooring (+9.5%) performed very strongly after consecutive months of declines.

Following months of less commuting, fewer evenings out and cancelled holidays, many households are in a stronger financial position now than they were before the pandemic if they have retained their main source of income.

As businesses begin to reopen, a proportion of excess savings is likely to filter through to the consumer sector. But a significant proportion of this spending is still likely to flow through online channels with physical destinations supporting pre-purchase parts of the customer journey.

3. Business support

Government supportive measures played a significant role in assisting businesses throughout the pandemic (e.g. business rates holiday [extended until March 2022], and the ban of eviction of commercial tenants [until 30 June 2021]). In addition, the furlough scheme, albeit at a less generous level, has been extended until the end of September. Therefore, a stimulus package of this nature will be welcomed by business owners at a time when supporting grant schemes have ended, and active grants are no longer accepting further applications.

4. Christmas trading and Black Friday

To minimise any displacement impact of the stimulus scheme, our recommendation is to end the scheme before Black Friday events. In recent years, Black Friday has become a much longer event which often starts in the first half of November (rather than the last Friday of November).

Our analysis shows consistent levels of retail sales growth beginning to gain traction in October. Therefore, to help build momentum and generate confidence, the voucher / card redemption period should include October but end prior to Black Friday to avoid any Christmas spending that would have occurred irrespective of the scheme.

5: Restoring confidence

Our research shows that it will take 2-3 months before the majority of consumers feel confident enough to revisit high streets. If the voucher / card was released too soon after reopening high streets, there is a possibility that some consumers will continue to delay spending and may not use the voucher / card until much later in the year – if at all.

Other considerations

Mid-week shopping
The launch of the scheme should consider how to boost the possibility of mid-week shopping.

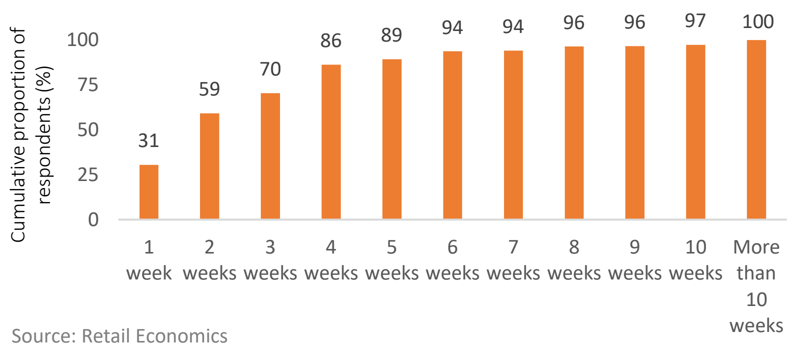
Firstly, it will reduce the risk of over-crowding during the early stages of the launch. Evidence from the Jersey scheme suggests a peak in voucher use on Saturdays. This follows the normal pattern of a retail trading week.

However, working with local authorities and retailers to try to incentivise mid-week shopping would reduce the risk of over-crowding on Saturdays and also could boost 'additionality' as shopping missions are more planned and purchasing more considered during a period outside the norm.

Incentives for mid-week shopping could include initiatives such as free parking to boost convenience.

Staggered launch
Our research suggests that the majority of consumers believe that they would spend the entire voucher within the first two weeks of the scheme being launched, and 86% within the first four weeks.

Figure [31] how long do you think it would take you to comfortably spend your £100 voucher?



Source: Retail Economics

To maximise the stimulus and overall positive impact on business, consideration should be given to releasing the voucher / card to different groups of households over different time periods to prolong the boost in footfall across high streets.

Announcement of the launch
Our research showed little evidence that consumers would delay their spending in anticipation of the voucher. A net balance of 13% of consumer suggested that they may delay spending to wait for the voucher / card. However, the amount of warning given to the scheme appears to have little impact on consumers' spending intentions. However, consumers did broadly agree that the less warning they had, the more likely they were to view the voucher / card as a treat.

Loss aversion
Loss aversion is the tendency for consumers to prefer avoiding losses to acquiring equivalent gains. This could provide a powerful incentive for consumers to spend – particularly in view of boosting additionality.

While we appreciate the complexity of executing the scheme and the benefits of simplicity in the messaging, providing a narrower window for redemption of the voucher once it had been activated could boost additionality.

Firstly, the fear of losing out on the voucher (loss aversion) could form a powerful incentive for consumers to spend the voucher, while a shorter window (e.g. four weeks upon activation) could encourage spending on non-essential items. In part, it will reduce the ability of consumers to spread out spending on essentials over a longer period of time. What's more, conditionalities placed around the voucher could boost its perceived value, further encouraging spending on non-essentials to maximise utility.

Conclusion

Our research suggests that a high degree of voucher spending will be focused on non-discretionary items across local independent businesses, therefore supporting the objectives of the High Street Scheme.

Although quantifying additionality and the value of the scheme falls out of the remit of this research, our conceptual Spending Intentions Quadrant supports our underlying conclusion that the scheme will deliver material benefits to the high street recovery.

While some spending across the scheme will inevitably displace previous intended spending, use of the voucher in these instances will increase savings levels, a proportion of which will boost consumer spending after the voucher has been spent.

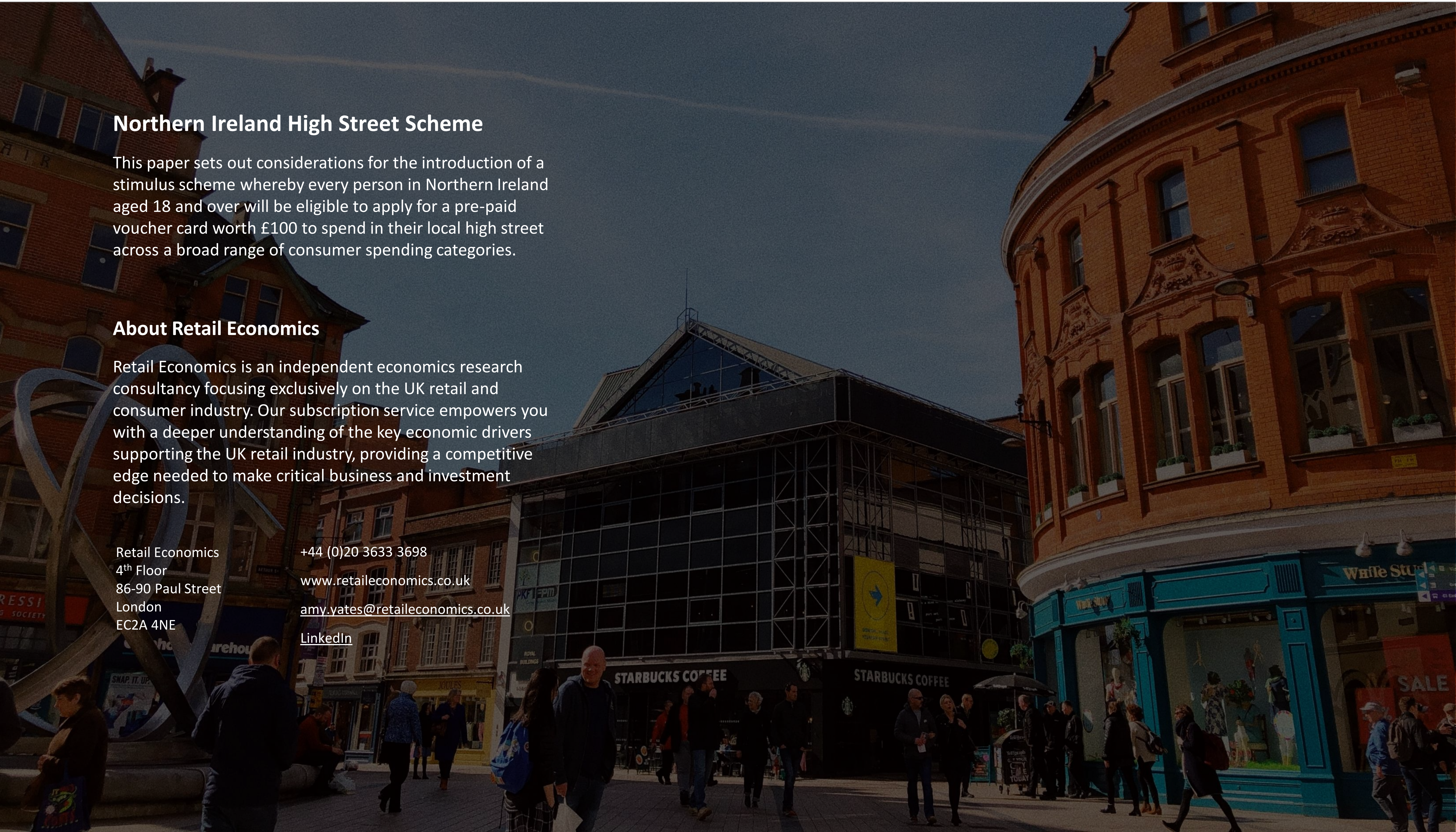
Our recommendations on the timing of the scheme (August – October) is based on seasonal retail spending data and takes into consideration the importance of gaining momentum and supporting confidence in the build to the Christmas sales period.

However, the roll-out of the scheme is complex and on a significantly larger scale than the Jersey scheme. Clarity of messaging, a frictionless distribution of vouchers and high take-up of the scheme will be paramount.

We believe that prioritising the effective launch of the scheme should take precedence over our recommendations of timing to maximise its effectiveness.

Department for the Economy

RetailEconomics



Northern Ireland High Street Scheme

This paper sets out considerations for the introduction of a stimulus scheme whereby every person in Northern Ireland aged 18 and over will be eligible to apply for a pre-paid voucher card worth £100 to spend in their local high street across a broad range of consumer spending categories.

About Retail Economics

Retail Economics is an independent economics research consultancy focusing exclusively on the UK retail and consumer industry. Our subscription service empowers you with a deeper understanding of the key economic drivers supporting the UK retail industry, providing a competitive edge needed to make critical business and investment decisions.

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