# Retail
## Sector Report

2021

**A major transformation to fight the effects of the pandemic**

**DOSSIER:**
**The role played by retail in Spain's economy, resilience and outlook**

**The changes in retail real estate investment due to the impact of COVID-19**

**e-commerce: years of progress in just a few months**

CaixaBank Research


**SECTOR REPORT**
**Retail 2021**

The *Sector Report* is a publication produced by CaixaBank Research

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# Summary 2021



**«The challenge of the retail business is the human condition»**

HOWARD SCHULTZ, CHAIRMAN EMERITUS, STARBUCKS

# Retail

## 4 SIGNS OF RETAIL HEALTH

WE ANALYSE THE RELATIVE WEIGHT AND OUTLOOK FOR THE RETAIL BUSINESS IN SPAIN, THE ONLINE PUSH AND MARKET FOR COMMERCIAL PREMISES

Spain's retail sector represents **4.2% of GVA**

This is a **particularly labour-intensive sector**: 1,738 million workers in 2018

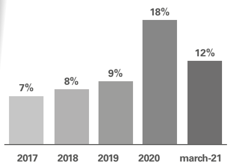
### FACTORS BEHIND GROWTH

**Vaccination** campaign and removal of restrictions

Recovery in **tourism**

Large amount **of savings** accumulated by households in 2020

**Share of e-commerce in total retail turnover**




### WINNERS *VS.* LOSERS

**Shopping centres** accounted for most of the real estate investment in 2020 (€1.1 billion).

—

Real estate investment in **supermarkets** broke records in 2020 (€600 billion; 30% of the total).

—

**Commercial premises** were the property most affected by restrictions to people's mobility and the drop in tourism.

### THE ROLE PLAYED BY RETAIL IN SPAIN'S ECONOMY

Its business fabric is essentially made up of companies without salaried workers and micro-SMEs. Moreover, the sector is **very much present throughout the country**

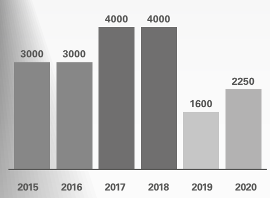
### CONSUMPTION OUTLOOK

For 2021, the outlook for retail is one of recovery. According to our forecasts, consumption will grow by 6.6% in 2021

### E-COMMERCE

Online sales have grown considerably across businesses of different types and sizes

### REAL ESTATE INVESTMENT IN THE RETAIL SECTOR




RETAIL - KEY POINTS

CONSUMPTION 2021

THE E-ECOMMERCE PUSH

RETAIL REAL ESTATE

Executive summary

# A major transformation to fight the effects of the pandemic

The retail trade is one of the Spanish economy's main service sectors. An atomised sector, it is particularly labour-intensive with a widespread presence throughout the country.

After the outbreak of the pandemic in 2020, the sector as a whole has shown itself to be much more resilient than other services, posting a much smaller reduction in activity than the slump observed in the Spanish economy as a whole. Part of this commendable resilience comes from retail's extraordinary ability to adapt to online sales channels, speeding up a trend that had already been taking hold for years and which we quantify in this report based on internal CaixaBank data.

Our analysis reveals, however, that performance has differed depending on the size of the business and the different branches that make up the sector. While food and electronics retailers have weathered the pandemic quite successfully, small shops, sales of textile goods and outlets located in shopping centres have faced a more complex situation. In addition, differences in the impact of COVID-19 have led to disparate performance across retail properties. Among other trends, the last article in this report looks at the dynamics of real estate investment in the sector, where large investments in supermarkets and the logistics channel are in sharp contrast to the more limited appeal of face-to-face retail stores.

In 2021, the outlook for retail is one of recovery thanks to progress in the vaccination campaign, which will enable a gradual but rapid lifting of restrictions in Q2 2021 on mobility, including international. In addition, the large amount of savings accumulated by households during the pandemic will play a key role in consumption's recovery, as we expect part of these savings will be used to meet the pent-up and unmet demand generated by the restrictions enforced over the past year. Just as last year the fall in consumption was greater than the fall in GDP, this year we expect consumption to be one of the main drivers of the recovery.

# Retail

Sector Report
2021

SITUATION AND OUTLOOK

# Resilience Handbook

Retail has a relatively larger weight in the Spanish economy than in other European countries, giving it a cohesive, social and territorial role which, during the pandemic, has shown an admirable capacity to adapt and also resilience. The sector now expects the pent-up demand and savings by households to translate into a rapid recovery in consumption after the restrictions have been lifted.

COMPANY STRUCTURE

# The role played by retail in Spain's economy

The retail sector plays a very important role in an eminently service-based economy such as Spain's, with a larger share compared to other European economies in terms of activity, jobs and number of firms. It is an atomised sector with a considerable number of SMEs and micro-SMEs and is particularly labour-intensive. Moreover, its presence is widespread throughout the length and breadth of our country. All this gives it a certain cohesive role, both from a social and territorial point of view, within the Spanish economy.

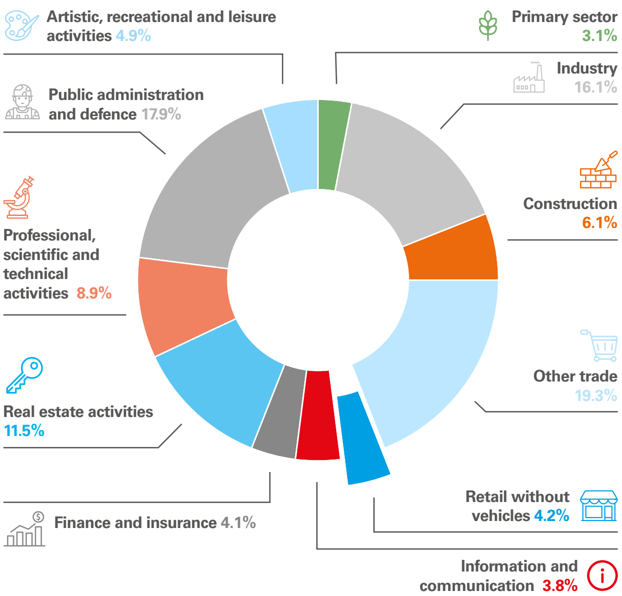
## The sector's importance for the Spanish economy

**Retail accounts for 4.2% of GVA,**[1] making it an extremely important sector for the Spanish economy and one that has been growing strongly in recent years (+3.2% per year on average between 2014 and 2018). Moreover, its importance is slightly greater than in other European economies with a similar economic structure (3.9% in Germany and France and 3.5% in Italy) and also compared to the EU average (3.9%).

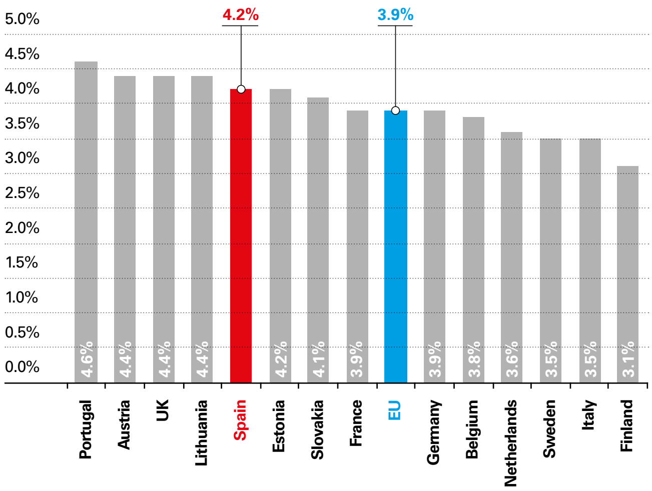
1 **Latest figure available from 2018.**

## Relative importance of the retail sector

**Breakdown of Spanish GVA by sector**
% of GVA




**Share of the retail sector in European economies**
% of GVA




**Note:** Data from 2018.
**Source:** CaixaBank Research, based on data from the National Statistics Institute and Eurostat.

**This is a particularly labour-intensive sector:** in Spain it employed 1.7 million people in 2018; i.e. 9% of the total number of employees, more than double its contribution to GVA. Once again, the proportion of people employed in retail out of the total number of employees in the country is higher than that of the region's major economies (between 8.7% and 8.1% in the case of Germany, France and Italy) and is also above the EU average (8.4%). It is also a sector that generates opportunities for female entrepreneurship: more than 50% of the firms incorporated in the sector are led by women.

However, its job opportunities have gradually decreased in recent years, due to the progressive penetration of e-commerce and the lasting effects of the recession; since 2008, retail has accounted for 5% of the jobs lost in Spain, twice as many as the economy as a whole over the same period.

**Spain's retail trade is an atomised sector.** It was made up of almost 436,000 firms at the end of 2020, around **13% of the Spanish business fabric.** Each company in the sector has 1.3 establishments on average, representing just over 550,300 establishments. These figures have been falling steadily in recent years: since 2010, the number of retail firms has fallen cumulatively by 14% and the number of establishments by 11%. This suggests that the financial crisis of 2008 caused more business concentration in the sector than the closure or disappearance of physical premises.

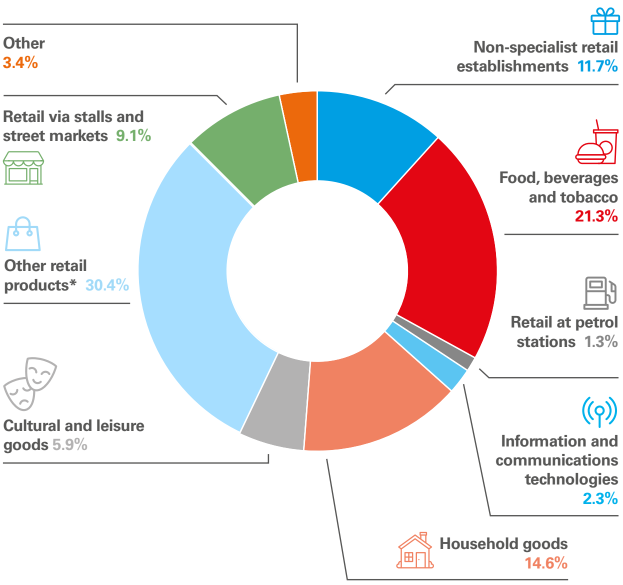
# Retail

In this respect, **the sector's size in terms of companies is moving towards the European average** (around 14% of Europe's business fabric) and the most similar countries to Spain (13% in Germany, 15% in France and 16% in Italy).The annual data available for 2020 do not show any particular destruction of Spain's retail business. despite the impact of the health crisis due to COVID-19.There is no doubt that the aid put in place to alleviate the impact of the mobility restrictions (in the form of guaranteed lines of credit, rebates on tax and the rental of premises, as well as furlough measures) have helped to minimise the drain on a sector hit hard by the restrictions (especially the subsectors of textiles and fashion and hospitality).

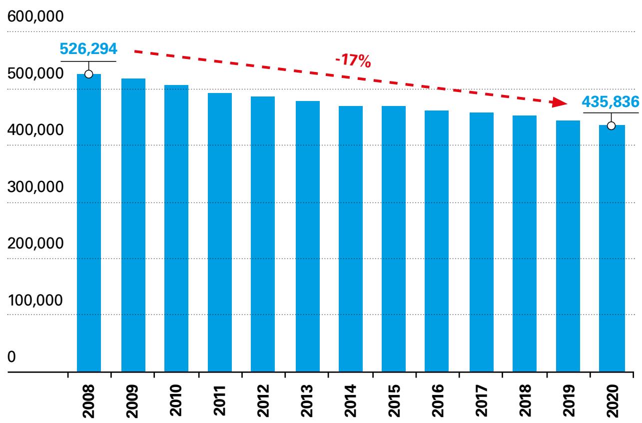
It should be noted that Spanish retail **is dominated by food, beverage and tobacco establishments** (21% of the total companies in the sector), followed by household goods stores (15%, including clothing, furniture and electrical goods, among others) and finally by non-specialist establishments (12%).

## Business fabric by retail subsector

**Number of firms in the retail sector**
% of total retail firms




**Number of firms in the retail sector**
Companies




**Source:** CaixaBank Research, based on data from the National Statistics Institute. (*) Includes clothing, footwear and leather products, pharmaceutical, medical and orthopaedic products, cosmetic products, flowers, plants, seeds, fertilisers, pets and pet food, watches and jewellery and second-hand goods.

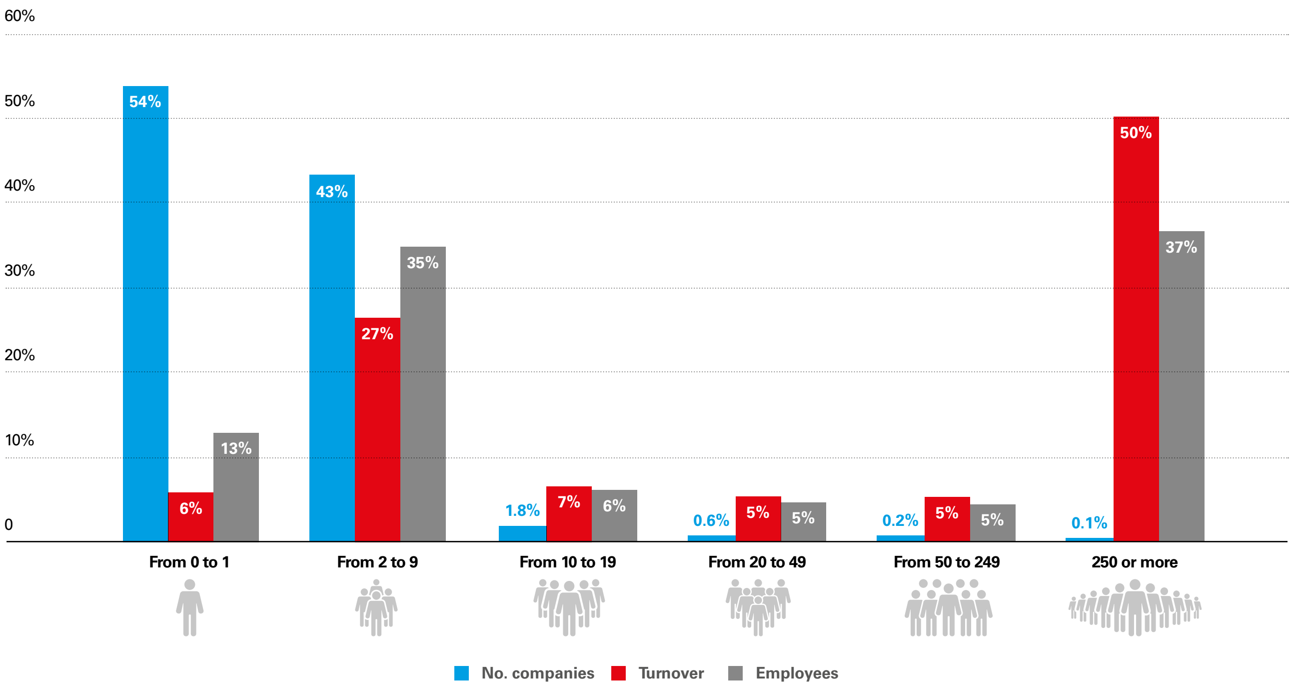
**Spain's retail trade is an atomised sector. It was made up of almost 436,000 firms at the end of 2020, around 13% of the Spanish business fabric**


In terms of the number of employees, **the retail sector's business fabric is essentially made up of companies without salaried workers and micro-SMEs.** According to the annual Company Structure Statistics produced by Spain's National Statistics Institute, half the firms in the sector do not employ salaried staff; while 48% of the total have a workforce of between 1 and 10 people on their payroll. However, it should be noted that, in terms of turnover, the large companies in the sector (250 employees or more) account for the biggest share of turnover in the retail sector as a whole (35% of the total). In recent years, with the number of companies progressively falling, the largest drops have been concentrated among companies with fewer than 20 workers, while the number of firms with more than 1,000 workers has increased by 10% since 2008.

## A sector dominated by micro-SMEs

### Key figures by number of employees

% of total



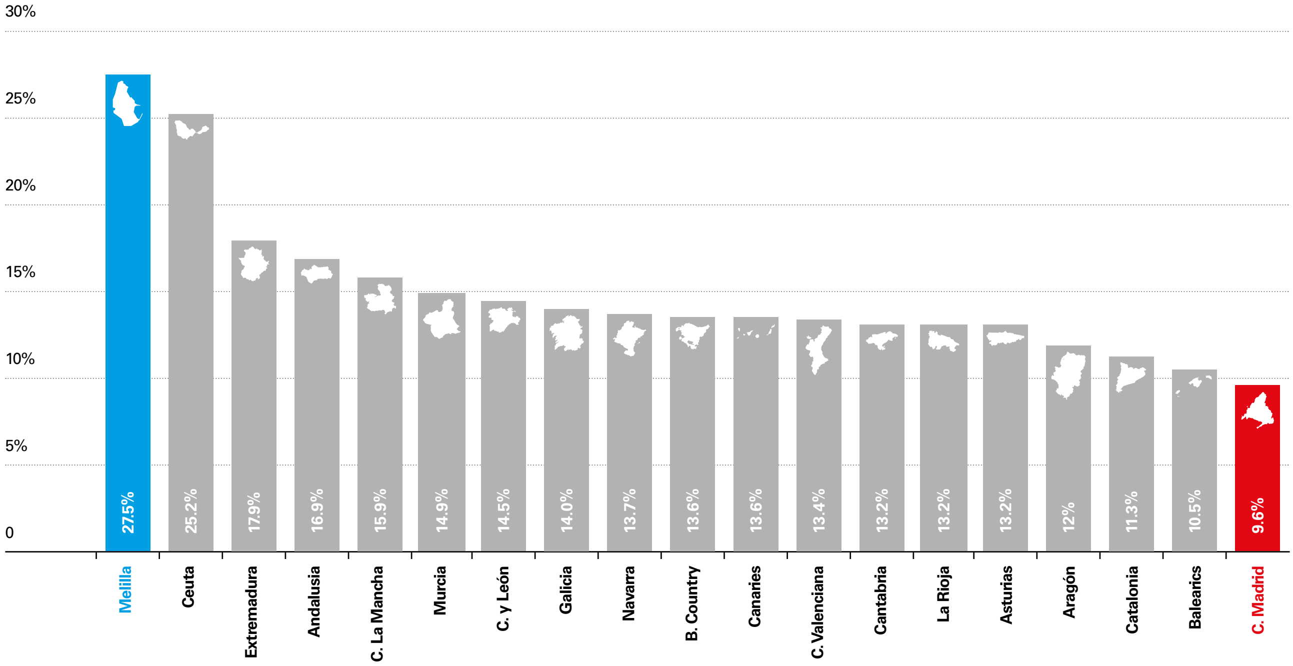

**Source:** CaixaBank Research, based on data from the National Statistics Institute. Data from 2018.

# Retail

## A sector present throughout the country

**Importance of the retail sector by autonomous region**

Share of retail firms in the region's business fabric




**Source:** CaixaBank Research, based on data from the National Statistics Institute. Data from 2018.

**Andalusia is the region with the largest number of establishments (18% of the total), while Madrid accounts for most of the sector's national turnover (26%) and Catalonia has the largest number of employees (18% of the total)**

**The retail sector is very much present throughout Spain.** A regional comparison shows that three autonomous regions stand out from the rest: Andalusia, Catalonia and Madrid. **Andalusia** is the region with the largest number of establishments (18% of the total), while **Madrid** accounts for most of the sector's national turnover (26%) and **Catalonia** has the largest number of employees (18% of the total).

However, the situation changes significantly if we take into account the sector's relevance in each region, measured by the share of retail firms in each area's business fabric. It can be seen that the presence of retail trade across regions is relatively homogeneous, so it could be said that it is widespread throughout the country. In this case, the sector is relatively more important in **Extremadura** (18% of its business fabric), **Andalusia** (17%) and **Castilla-La Mancha** (16%), as well as Ceuta and Melilla (over 25%). On the other hand, Madrid (9.6% of the region's business fabric), the Balearic Islands (11%) and Catalonia (11.3%) would be the regions where retail is less relevant as a business.

ECONOMIC SITUATION

# Retail withstands and adapts

Due to the pandemic, the current situation of the Spanish economy is very complex. The case of retail is no exception, although it is proving to be remarkably resilient in the face of all the restrictions on opening hours and capacity adopted in order to curb the pandemic. As revealed by the sector's demand and employment indicators, retail trade is now close to, but below, its pre-COVID level. Despite this, an analysis of CaixaBank's internal data shows very different figures for large and small companies, as well as for the different branches of activity, confirming that the sector has yet to recover completely.

## Demand and employment

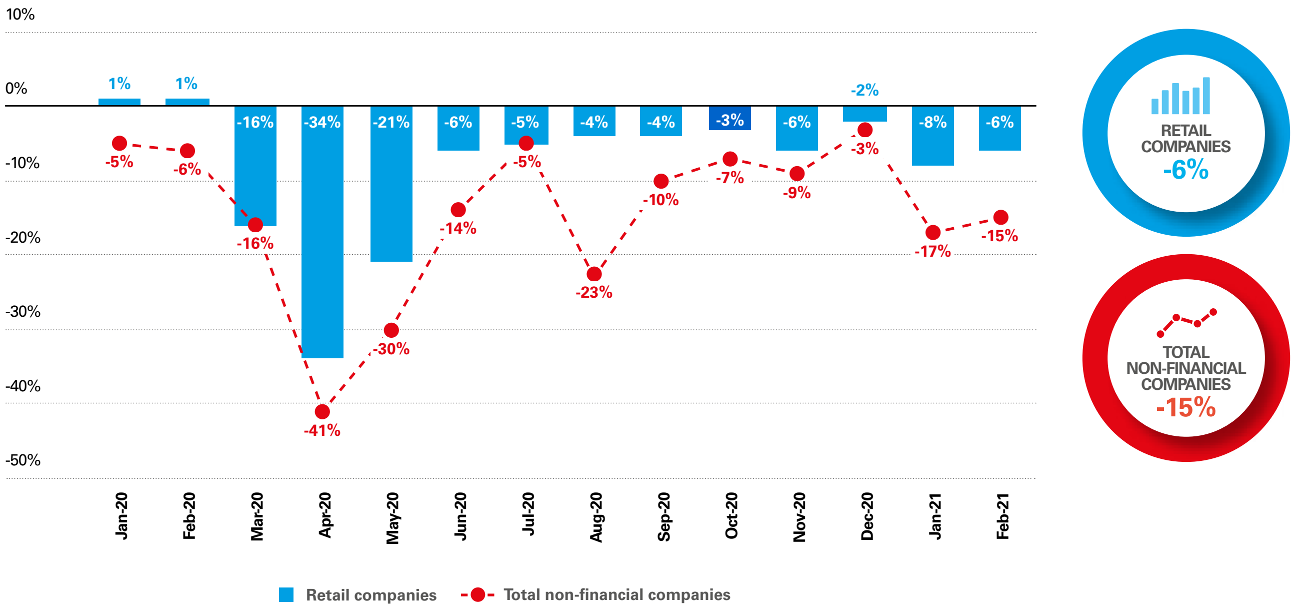
The traditional economic indicators suggest that retail is still far from its pre-COVID levels of business. Activity in the sector recovered strongly after a difficult period during the worst months of the pandemic, when people were under a strict lockdown and turnover fell sharply. According to the most recent figures from the National Statistics Institute's turnover indicator, the turnover of retail companies was 6% below pre-crisis levels in February 2021.[2] This is a considerable decline although it is noticeably smaller than the drop in the general turnover index (all industrial and non-financial service companies) which, in February 2021, fell by 18% compared with its pre-COVID level.

**2 Our baseline (pre-crisis, pre-COVID) is the 2019 average turnover of the indicator adjusted for seasonal and calendar effects.**

# Retail

**Turnover in the retail business and economy as a whole**

Variation compared to the baseline*



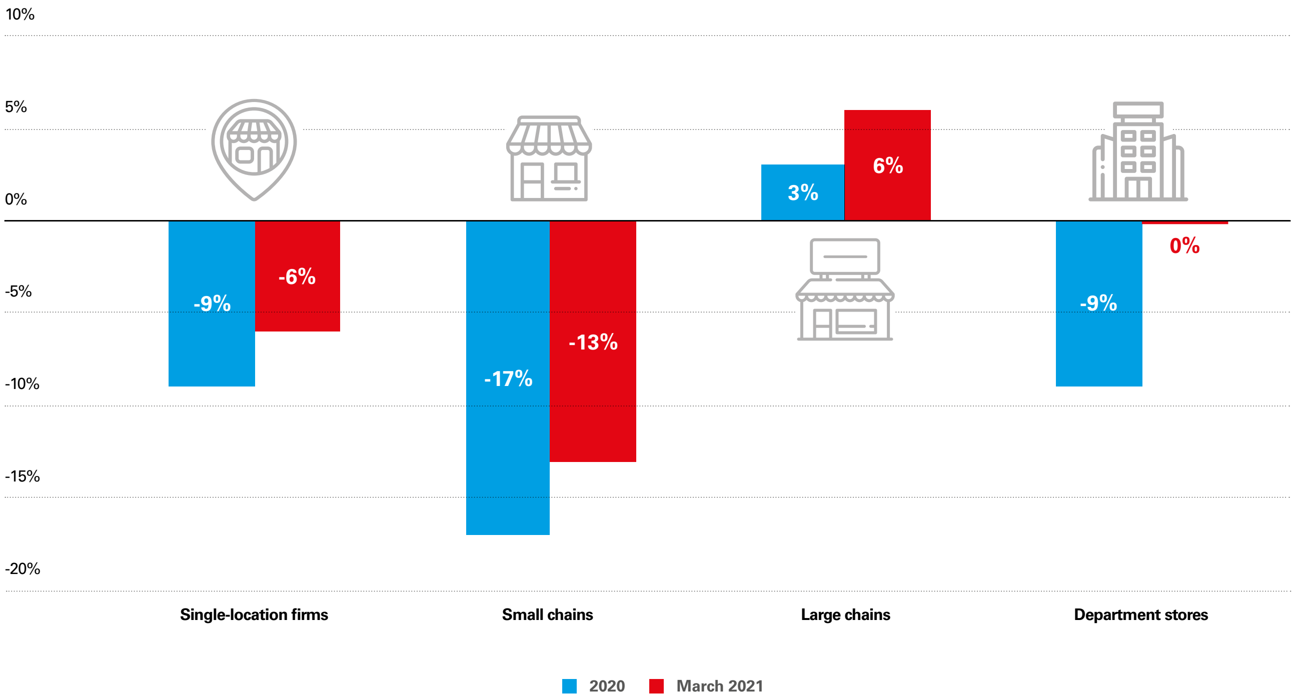

**Notes:** Data adjusted for seasonal and calendar effects.
(*)The baseline used is the average turnover for 2019.
**Source:** CaixaBank Research, based on data from the National Statistics Institute.

Despite these figures for the sector's average, there are differences between turnover between large and small retailers. As can be seen in the chart below, according to data from the retail trade index, large chains and supermarkets (large stores in both cases) have regained their pre-COVID-19 level of sales. On the other hand, the situation of small chains is more delicate and their business is still 13% below the 2019 average. This difference is relevant because, as we have seen above, although the bulk of the turnover generated by retail is concentrated in large companies in the sector, small retailers are very much present throughout the country (98% of the companies and 48% of the jobs). Consequently, liquidity measures and other measures to make labour costs more flexible (furlough schemes) as well as direct aid to companies have been and continue to be essential for a significant part of the retail sector to overcome the current crisis.

> **According to data from the retail trade index, large chains and department stores have regained their pre-COVID-19 level of sales. The situation of small chains is more delicate, whose business is still 13% below the 2019 average**

## Retail sales index by company size

Variation compared to the baseline*




**Notes:** Sales at constant prices. Data adjusted for seasonal and calendar effects.
(*)The baseline used is the average turnover for 2019.
**Source:** CaixaBank Research, based on data from the National Statistics Institute.

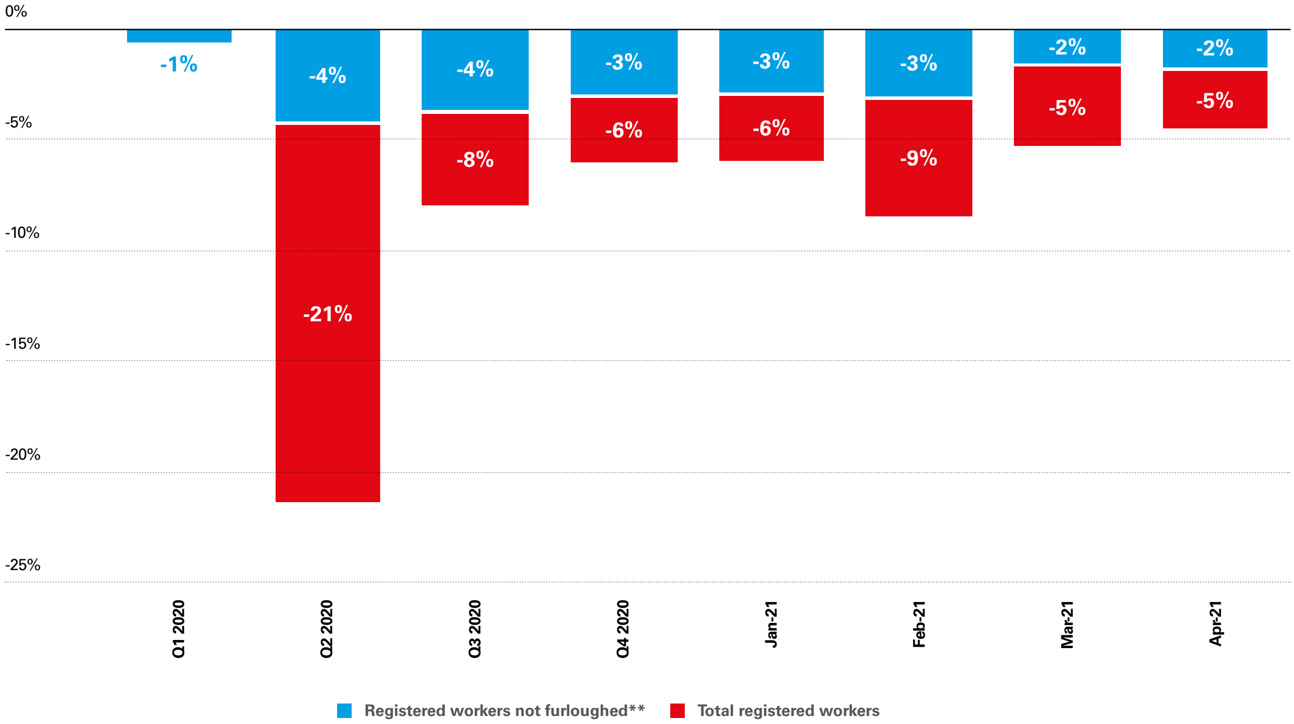
As far as the labour market is concerned, the sector is still feeling the impact of the pandemic. In April 2021, the number of retail workers registered with Social Security was 3% lower than in April 2019. Another perspective that helps us to gauge the sector's labour market is the number of workers who have been furloughed. In April, 2.8% of the sector's employees had been affected (51,941 workers), a number that has remained relatively small since August 2020. Although the sector is currently only using furloughs to a limited extent, their usefulness is beyond doubt. It is worth noting that, since the start of the COVID-19 crisis, the fall in total employees has always been around 4% while, as can be seen in the chart below, if we discount furloughed workers, the year-on-year falls in employment reached 21% in Q2 2020 (strict lockdown) and 9% in February (third wave of COVID-19).

**In April, 2.8% of the sector's employees registered with Social Security were furloughed (51,941), a number that has remained relatively small since August 2020. Although the sector is currently only using furloughs to a limited extent, their usefulness is beyond doubt**

# Retail

## Retail workers registered with Social Security

Year-on-year change




**Notes:** (*) Variation with respect to the level in March and April 2019, adjusted for the growth in employment in February 2020. This adjustment has been made to avoid comparison with the anomalous records from the period of strict lockdown. (**) Registered workers not partially or totally furloughed.
**Source:** CaixaBank Research, based on data from the Ministry of Labour and Social Economy and the Ministry of Inclusion, Social Security and Migration.

## Big data indicators to track the sector

Having looked at the official statistics, we now turn to CaixaBank's own internal indicators for a more up-to-date and detailed view of the retail situation. Specifically, we have used data on payments made with CaixaBank cards and payments recorded via CaixaBank POS terminals to produce a consumption indicator with a weekly frequency.[3,4]

The first thing highlighted by our consumption indicator is the huge difference between food stores and the rest of the retail trade. The former have benefited from an increase in demand during the pandemic thanks to the replacement of on-trade with home consumption, significantly boosting supermarket sales. As can be seen in the chart below, food consumption is still posting strong growth of 24% compared to the baseline level.[5] In contrast, the rest of retail has suffered more from the consequences of the health crisis (with consumption falling by 80% year-on-year during the first COVID wave). Once the first wave was over, however, consumption of non-essential products has recovered strongly, except during the second and third waves of COVID-19, when restrictions on shops resumed for several weeks. Currently, non-food retail consumption is 1% below the baseline level.

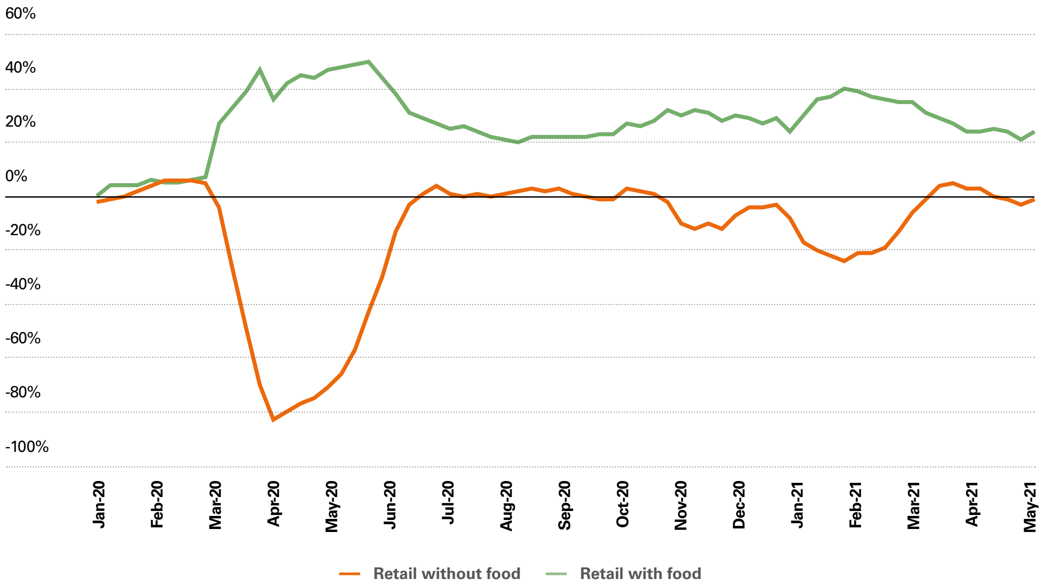
**3 The increased use of cards for payment during the pandemic means that our consumption indicator based on card payments is biased upwards.**

**4 See the consumption tracker at: [https://www.caixabankresearch.com/en/publications/monitor-consumo](https://www.caixabankresearch.com/en/publications/monitor-consumo)**

**5 The baseline level for January 2020-February 2021 is the one that produces a year-on-year change (January 2019-February 2020). From March 2021 onwards, the baseline level is from the same period of 2019 adjusted upwards by the year-on-year growth observed in February 2020.**

## CaixaBank Consumption Indicator[1]

Variation compared to the baseline (%)[2]

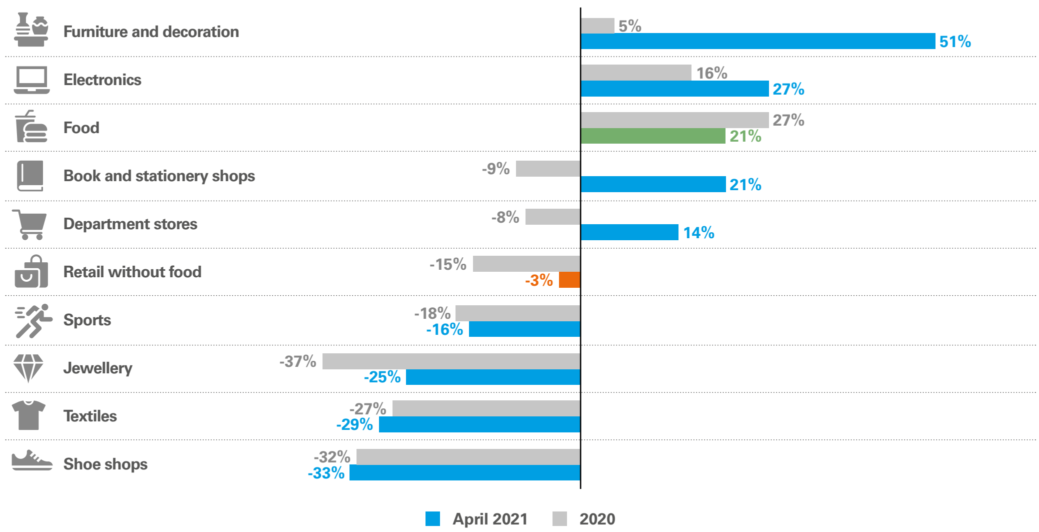



**Notes:** (1) The indicator includes spending using cards issued by CaixaBank, spending by non-Caixa customers via CaixaBank POS terminals and withdrawals from CaixaBank ATMs. (2) The year-on-year change is calculated between January 2020 and February 2021. As from March 2021, each month is compared to the same period in 2019, adjusted upwards by the historical trend.
**Source:** CaixaBank Research, based on internal data.

If we dig a little deeper and break consumption down into the different branches of activity, great discrepancies can be observed. As can be seen in the chart below, consumption in some retail categories such as textiles and footwear, as well as in jewellery and sporting goods, decreased sharply in April, in line with what was observed in 2020 as a whole. At the other end of the scale is consumption of electronic products and furniture, posting even higher growth than the aforementioned figures for food.

## CaixaBank consumption indicator by branch of activity[1]

Annual change 2020 and variation compared to the baseline April 2021[2]




**Notes:** (1) The indicator includes spending using cards issued by CaixaBank, spending by non-Caixa customers via CaixaBank POS terminals and withdrawals from CaixaBank ATMs. (2) The baseline is the April 2019 consumption level adjusted upwards by the historical trend.
**Source:** CaixaBank Research, based on internal data.

# Retail

Once again, these data confirm that it is important not to analyse the sector from a global perspective as it is highly heterogeneous. In this respect, CaixaBank's internal data have great potential to explore these discrepancies and corroborate the disparate situations across different types of consumption.

## Financial situation of the retail sector

Having analysed in detail the situation of retail demand, it is now time to look at the financial difficulties that companies in the sector may be experiencing as a result of the slump in activity in 2020 and the first half of 2021.

According to data from the Bank of Spain,[6] corporate debt in the retail sector grew by 11% in 2020. This is a very notable increase but it is in line with the pattern followed by the debt of all non-financial corporations (up 7% year-on-year). In greater detail, it is worth noting that almost all the increase in the sector's debt was recorded in Q2 2020 (growing by 11.4% quarter-on-quarter), coinciding with the period of the biggest drop in revenue (falling by 20% year-on-year), which led to a significant need for liquidity, alleviated via debt. Most probably, the role of ICO credits was fundamental during this period to facilitate access to the liquidity required by firms encountering difficulties.

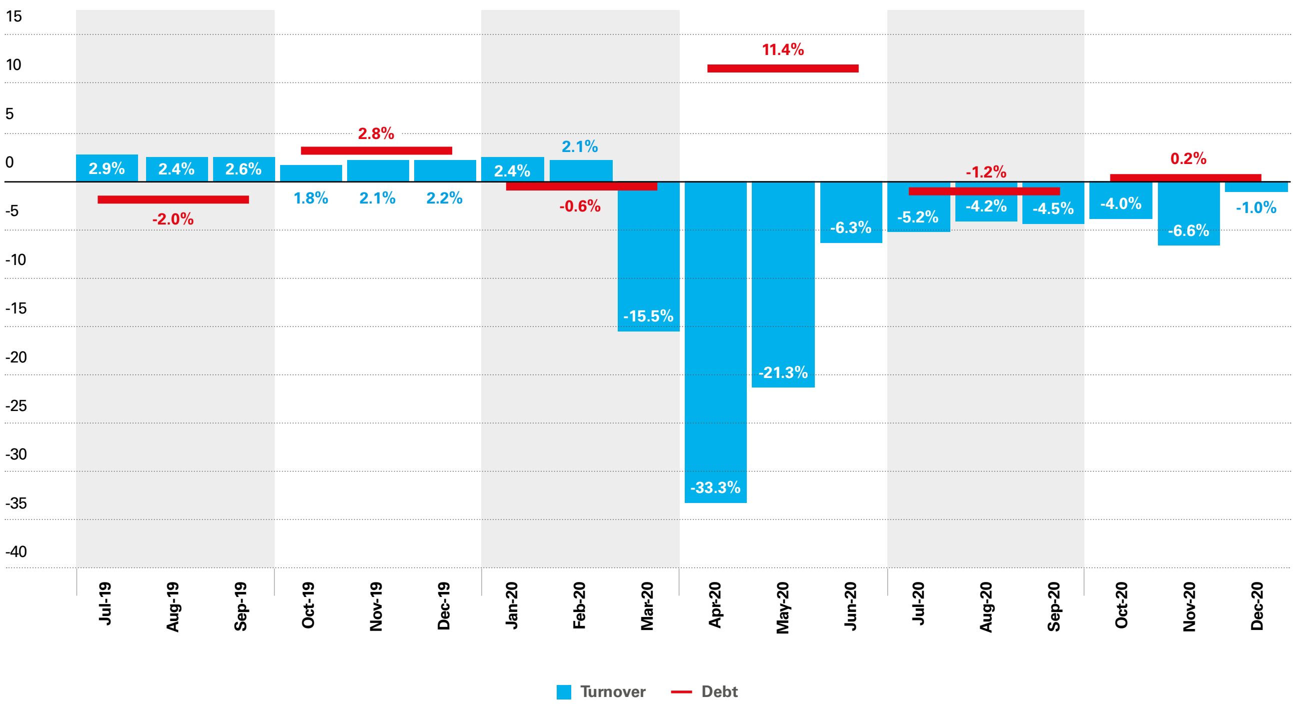
As can be seen in the graph below, once the period of strict lockdown was over, the drop in retail turnover was 5% year-on-year. Despite this fall, the sector's debt has remained virtually flat, suggesting that, on average, retail firms had no major additional liquidity requirements.[7]

6 See Blanco, R., Mayordomo, S., Menéndez, Á. and Mulino, M. (2020). «El impacto de la crisis del Covid-19 sobre la situación financiera de las empresas no financieras en 2020: evidencia basada en la central de balances». Boletín Económico, (4/2020), 1-23.

7 As we have seen, there are great divergences within the sector, so it is likely that there are also differences in financial stress across the different types of business in the retail sector.

### Turnover and debt of retail companies

% year-on-year change (turnover) and quarter-on-quarter change (debt)




**Source:** CaixaBank Research, based on data from the National Statistics Institute.

In this respect, the data on non-performing loans are also relatively positive for the sector. At the end of 2020, the volume of non-performing loans for retail companies fell by 8%. As can be seen in the table below, the sector's financial situation is in line with that of the Spanish economy's non-financial corporations as a whole. This relatively stable financial situation was not the norm in 2020. If we look at the financial indicators of a sector that has been harder hit by the health crisis, such as hospitality, there is a stark contrast with the situation of retail trade.

## Sector-based financial indicators for 2020

| | Total companies | Retail | Hospitality |
|---|---|---|---|
| Change in turnover | -16% | -16% | -46% |
| Liquidity ratio(1) | 16% | 15% | 17% |
| Debt ratio(2) | 29% | 30% | 36% |
| Change in debt | 7% | 11% | 30% |
| Change in NPL | -1% | -8% | 22% |
| NPL ratio | 5% | 7% | 5% |

**Notes:** : (1) Liquidity ratio: Cash and cash equivalents as share of total assets.
(2) Debt ratio: Financing by credit institutions and other external financing as share of total assets.
**Source:** CaixaBank Research, based on data from the Bank of Spain (EBAE survey).

In conclusion, the data suggest that the level of income currently generated by the sector, despite being lower than before COVID-19 appeared, seems to be sufficient to meet its cost structure and maintain its activity.

# Retail

## CONSUMPTION OUTLOOK

# Pent-up demand during the health crisis and the outlook for consumption

The severe restrictions imposed to contain the spread of COVID-19 have resulted in an unprecedented drop in consumption and thereby a record rise in household savings. A large part of these new savings has been involuntary, caused by the impossibility of maintaining the usual level of consumption. According to our estimates, the lifting of restrictions that started in May will encourage part of these involuntary savings to be spent on consumption, this being one of the keys to a rapid recovery of consumption in 2021.

### The role played by pent-up demand

One of the most striking aspects of the current crisis resulting from the COVID-19 pandemic has been the extraordinary upturn in the savings rate of Spanish households, reaching an all-time high in 2020 (14.8% of gross disposable income). In previous crises, the bulk of the increase in household savings was for precautionary reasons, a consequence of the high uncertainty that usually accompanies a recessionary period and a perceived deterioration in the future financial situation.

However, the particular features of this health crisis have forced households to accumulate savings in addition to saving as a precautionary measure. The reason is that families whose income has remained similar to its pre-pandemic level have found it impossible to maintain their usual level of consumption, especially regarding certain goods or services. According to data from the Bank of Spain's Survey of Business Activity (EBAE), the restrictions imposed to contain the spread of COVID-19 have meant that retail sales fell by 16% in 2020, hospitality sales by 46% and leisure and cultural activities by around 26%. These falls in consumption reveal a large pent-up demand,[8] which seems to be the result of the involuntary savings accumulated by households. Quantifying this pent-up demand via the observed increase in savings and analysing the role this will play after the mobility restrictions are lifted will be key to gauging the trend in consumption per se in 2021.

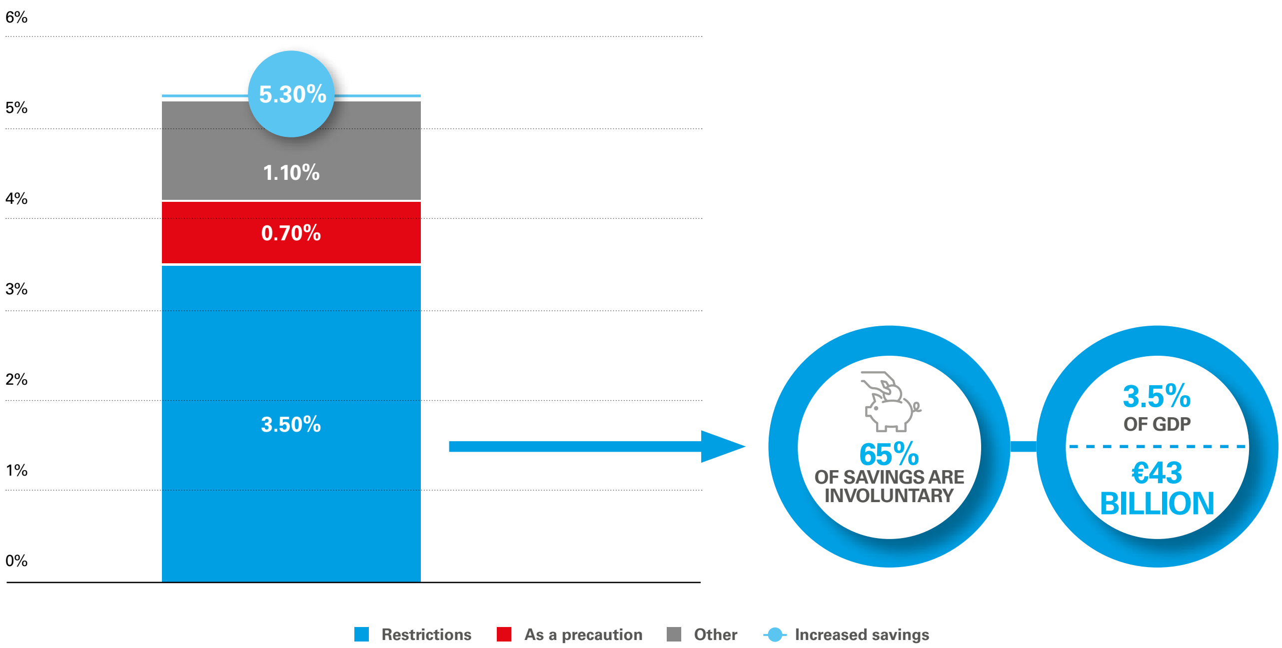
**8** The concept of pent-up demand refers to the part of unmet consumption that has the potential to be postponed until mobility restrictions are removed.

## Consumption forecasts

According to a study by the Bank of Spain, households accumulated about 65 billion euros more in savings than in 2019, equivalent to 5.3% of GDP in 2019. As can be seen in the chart below, it is estimated that only 0.7 points of this accumulation of savings were the result of precautionary savings due to uncertainty and the expectation of an economic crisis. On the other hand, the contribution of involuntary savings was much higher, estimated at around 3.5 points of GDP. In other words, 66% of the savings were accumulated by force. This large accumulation of involuntary savings indicates, in turn, the existence of a large pent-up demand.

### Factors contributing to the increase in savings in 2020

% of GDP in 2019




**Source:** Bank of Spain.

# Retail

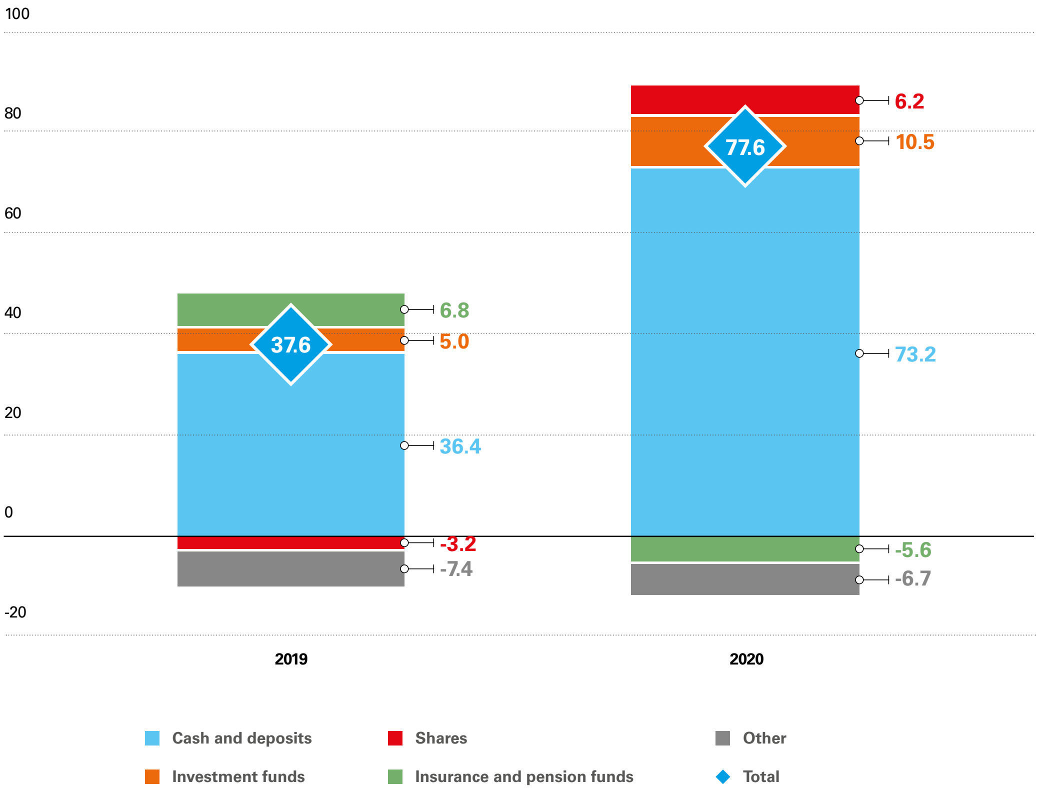
**Households accumulated a large amount of savings in 2020, 65% of which were caused by the restrictions and therefore involuntary. Most of this increase is in the form of cash and deposits**

Moreover, according to data available from the Bank of Spain, most of this increase in household savings is in the form of cash and deposits. While the relative weight of shares and investment funds increased last year, rising from 5% of the total net acquisition of financial assets in 2019 to 22% in 2020, cash and deposits continued to be the most popular financial savings instrument (94% of the total). These figures suggest that much of the savings accumulated by households in 2020 remains in highly liquid assets. Consequently, there is greater potential for households to lower their savings rate once the mobility restrictions are lifted.[9]

9 The extraordinary accumulation of savings in cash and deposits will discourage precautionary savings in 2021 and thereby provide an incentive for a larger proportion of household disposable income to be used for consumption.

**Savings instruments: net acquisition of financial assets by households**

Billion euros




**Source:** CaixaBank Research, based on data from the Bank of Spain.


In this respect, once the health crisis is resolved, with the expected vaccination and immunisation of most of the population by the summer, along with a recovery in international tourist arrivals (according to our forecasts, tourism will pick up to 55% of its 2019 level), much of the savings accumulated in the past year and a half of the pandemic should serve as a stimulus for the economy as a whole in the coming quarters. The upturn will also be stronger as both the labour market and household disposable income begin to recover.

However, it is important to note that not all the savings accumulated due to the restrictions will directly lead to increased consumption once the restrictions are lifted. We expect the household savings rate to remain relatively high during 2021 as uncertainty and social distancing, albeit much more moderate than at present, continue to play their part. Moreover, it should be noted that a large proportion of the accumulated savings is concentrated among the higher income households that have been less affected by the current crisis,[10] and it is precisely these income brackets that have a lower propensity to consume; i.e. when the restrictions are lifted and we begin to recover our pre-pandemic consumption habits, the households with greater purchasing power could be the ones that increase their level of consumption the least, in spite of having accumulated the most savings. On the other hand, it should also be remembered that a significant part of these savings come from the fact that a variety of services that cannot be postponed temporarily, such as tourism and leisure activities, have stopped being consumed, so these may not have generated a large pent-up demand.

10 **The inequality tracker developed by CaixaBank Research shows in detail the differences in the impact of the health crisis by income level (https://inequality-tracker.caixabankresearch.com).**

> **Not all the savings accumulated due to restrictions will directly lead to an increase in consumption. We expect the household savings rate to remain relatively high during 2021 as a result of uncertainty and social distancing**

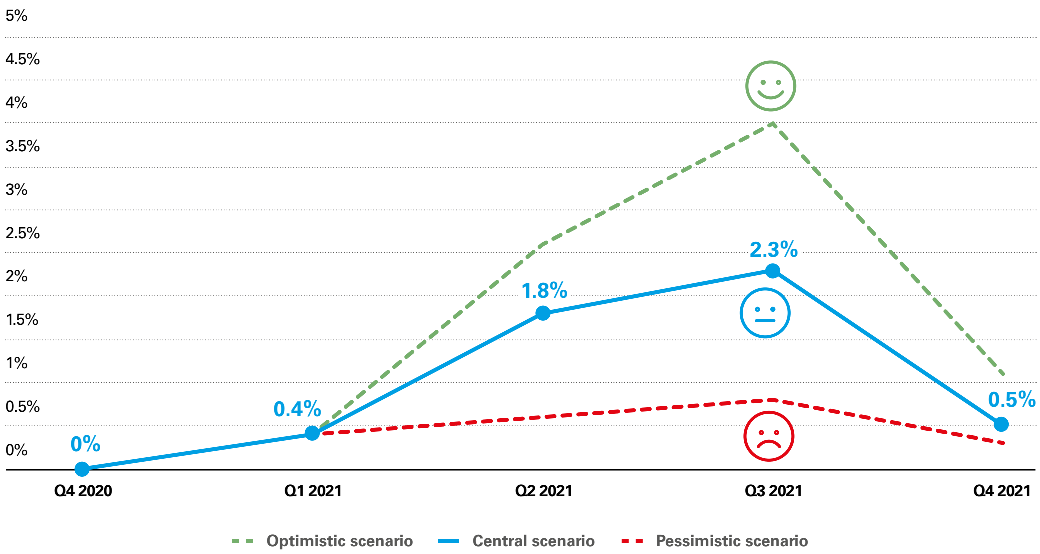
# Retail

To gauge how quickly and how far consumption will recover, we have analysed the sensitivity of consumption and the savings rate to uncertainty and mobility restrictions, enabling us to produce different scenarios. Specifically, we have drawn up a central scenario for consumption, in line with CaixaBank Research's central forecast scenario which assumes a gradual lifting of restrictions from May onwards; an optimistic scenario, in which we assume that restrictions will be lifted faster and almost entirely gone by the beginning of Q3; and a pessimistic scenario, in which we assume the level of restrictions in Q1 is maintained throughout 2021. As we can see in the chart below, these different assumptions regarding the lifting of restrictions have a considerable effect on the consumption forecasts.

According to the results obtained for the central scenario, the household savings rate would moderate to 12.6% in 2021 (14.8% in 2020), resulting in 6.6% growth in consumption over the year as a whole. As can be seen, this is a relatively conservative scenario given the small moderation in the savings rate predicted (in 2019 , the savings rate was 6.3%). However, due to the great uncertainty that still exists regarding restrictions in the short term, we believe this is the most likely scenario. In the optimistic scenario, which we believe is not very likely, the savings rate would fall to 10.9% and consumption would grow by 8.7%. Finally, the pessimistic scenario, in which restrictions are maintained for longer (of residual probability), the savings rate would barely decrease (13.8%) and consumption would grow significantly less (5.2%). The large differences between the optimistic and pessimistic scenarios show how important it is for restrictions to be eased in order to contain involuntary household savings and encourage consumption.

## Consumption forecasts by different scenarios for lifting restrictions

Quarter-on-quarter change




**Nota:** The central scenario assumes a phasing out of restrictions from May 2021. The pessimistic scenario assumes the March 2021 restrictions are not maintained while the optimistic scenario assumes restrictions will be lifted quickly as from May 2021.
**Source:** CaixaBank Research.

**The relatively strong performance of retail sales during 2020 indicates that levels of pent-up demand in the sector are somewhat lower than for other goods and services less consumed during the pandemic**

In conclusion, household consumption forecasts for 2021 are very positive. Among other factors, this is thanks to the lifting of retail restrictions as a result of the population becoming vaccinated, the recovery in domestic and international tourism, and also the role played by pent-up demand. In this respect, retail will be one of the sectors benefitting most directly from the recovery in consumption. Nevertheless, the relatively strong performance of retail sales observed in 2020 indicates that levels of pent-up demand in the sector are somewhat lower than for other goods and services less consumed during the pandemic. In any case, 2021 looks set to be a year of strong recovery in consumption and this is good news for the sector, which will see the improvement in its activity accelerate strongly during the second half of the year.

e-commerce

# e-commerce: several year's progress made in just a few months

The pandemic has inevitably brought about major changes in our consumption habits. Faced with the impossibility of going to a store in person, online shopping channels have gained a lot of share in 2020. According to an analysis of CaixaBank's internal data, this growth has not only been significant but also widespread among companies of different sizes and sectors, and has encouraged many of them to use e-commerce as a sales channel for the very first time.

## The huge growth in e-commerce after the outbreak of the pandemic

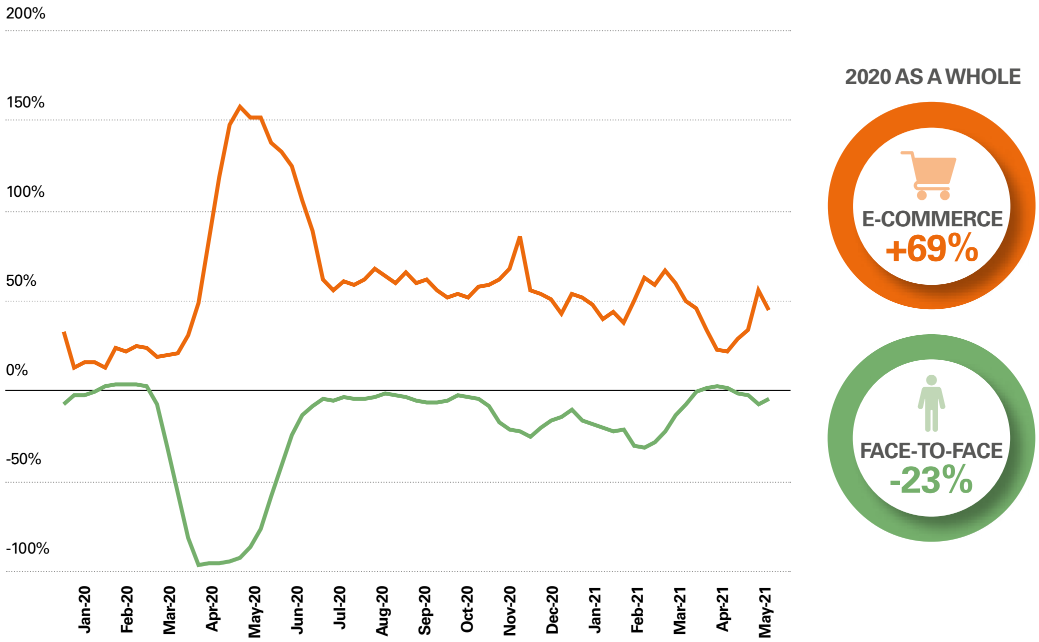
The harsh mobility restrictions imposed to combat the spread of COVID-19 have undoubtedly dealt a severe blow to the Spanish economy but they have also speeded up some of the changes we had already been observing. One of the changes seeing the greatest growth, and also which we have been monitoring the most, is the adoption of e-commerce by retailers. Given the mobility restrictions and social distancing, online sales are providing a boost for the retail sector that has helped to avoid an even more complex economic situation during the pandemic.

To analyse the progress of online sales, we have used the consumption indicator compiled from CaixaBank's internal data, evaluating the trend in retail without the trade in essential goods, which perform very differently to the rest of retail trade.[11] As can be seen in the chart below, e-commerce sales have performed very well since the start of the pandemic. Between the months of April and May 2020, when mobility was restricted the most, e-commerce spending achieved triple-digit growth, reaching spending volumes only surpassed in the week of Black Friday in recent years.This growth rate moderated as restrictions were eased and people could once again make face-to-face purchases. Nevertheless, the growth rates have consistently remained above 50% compared to 2019, except at very specific moments.

**11 We have excluded food and pharmacy sales from the analysis since the effect of the restrictions on the consumption of these types of goods was the opposite of that observed for trade in non-essential goods during the early part of the pandemic.**

**CaixaBank retail consumption indicator[1]**

Variation compared to the baseline (%)[2]




**Notes:** A 4-week moving average has been applied to the data. (1)The indicator includes spending with cards issued by CaixaBank and CaixaBank POS spending using other cards at retail outlets, not including trade in essential goods. (2)The year-on-year change is calculated between January 2020 and February 2021. From March 2021 onwards, each month's data is compared with the same period in 2019, adjusted upwards by the historical trend.
**Source:** CaixaBank Research, based on internal data.

The trend described for e-commerce is in clear contrast to the performance of face-to-face sales which, as can be seen from the chart, fell sharply during the first state of emergency and, to a lesser extent, during the second and third waves of COVID-19 in November 2020 and February 2021, respectively. In 2020 as a whole, face-to-face retail spending fell by 23% compared to 2019, while e-commerce grew by 69% year-on-year. As a result, the growth in online sales cushioned the impact on the sector's turnover, down by 15%.

## Democratic growth in internet sales

One question that should be asked is what type of commerce has been able to benefit from this growth in online sales. Switching to selling online or expanding existing e-commerce channels entails significant investment in digitisation, representing a barrier for smaller businesses, especially those having to adopt this channel for the very first time. Nevertheless, according to an analysis of CaixaBank's internal data, the growth in e-commerce has been widespread, observed in both large and small companies, as well as in companies with e-commerce experience and also new entrants.

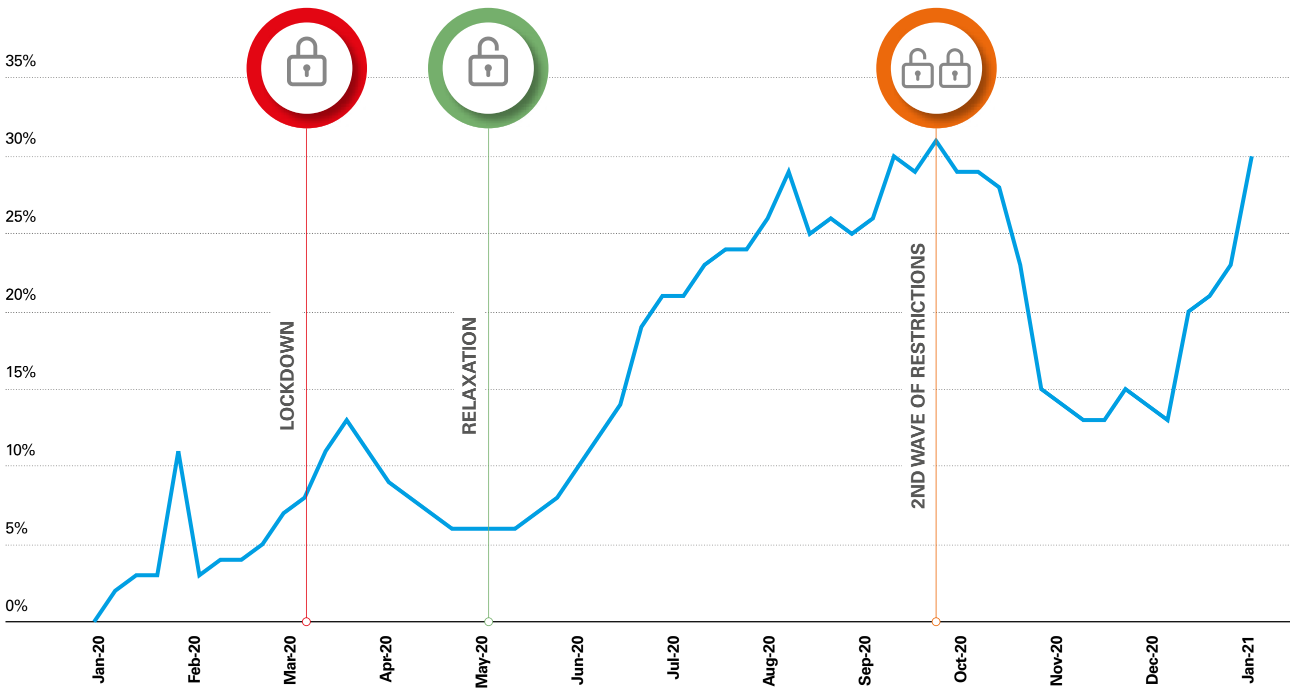
> **According to an analysis of CaixaBank's internal data, the growth in e-commerce has been widespread, observed in both large and small companies, as well as in experienced companies and new entrants**

# Retail

As the following chart shows, as of May 2020 the contribution made by new entrants to the growth in e-commerce sales increased steadily, reaching 30% of the total. However, after the second state of emergency was announced on 25 October 2020, this upward trend ended. This is probably because, in events such as Black Friday and the Christmas season, the most consolidated e-commerce retailers once again captured the bulk of online sales. However, the contribution made to e-commerce growth by new entrants was very high in 2020 as a whole, revealing that this shift to internet sales has also occurred in stores that were not previously online.

**Contribution to retail e-commerce growth by new entrants**

Share of total e-commerce growth (%)




**Note:** The relative weight in the growth of e-commerce of those businesses that did not invoice online sales in 2019 but did so in 2020 has been calculated. The data shown are a 4-week moving average.
**Source:** CaixaBank Research, based on internal data.

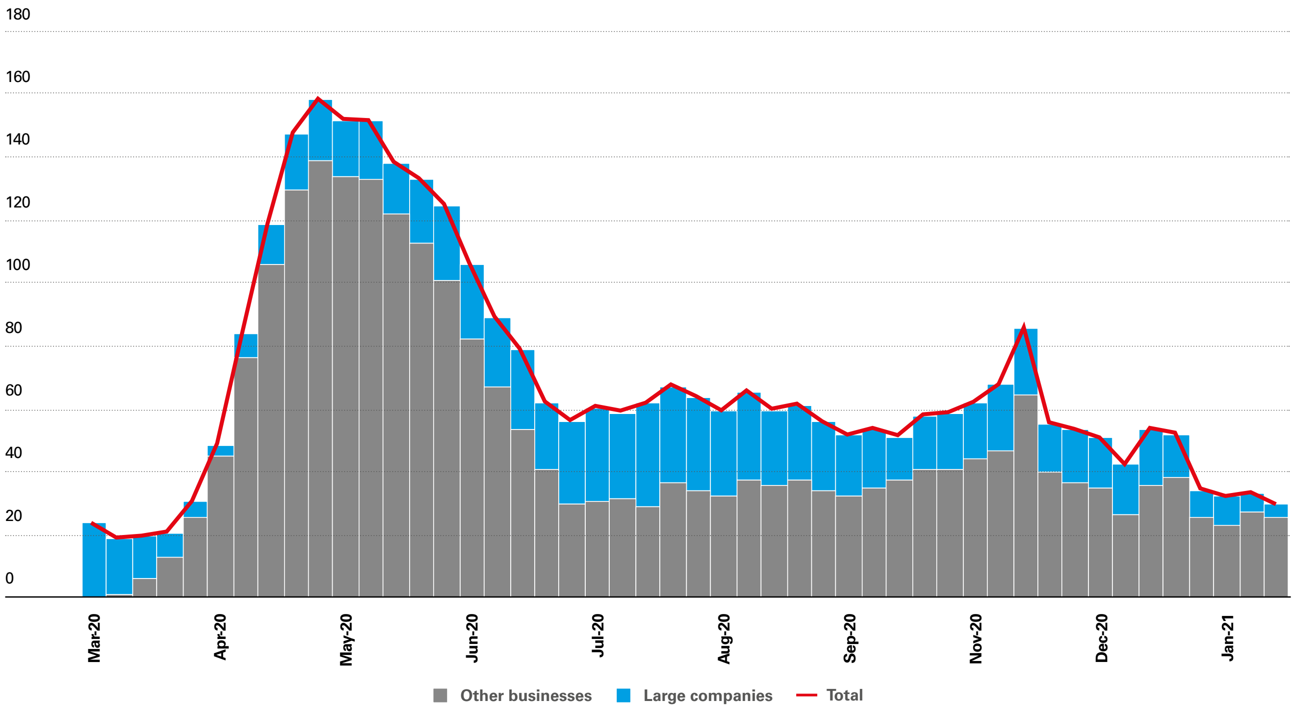
If we look at the dynamics of e-commerce by company size, we can observe two different stages. First, during the months of the first state of emergency, large companies made up the bulk of e-commerce growth. Small businesses found it more difficult to react immediately and many had to wait until they were able to open in person in order to start adapting to e-commerce sales.

**During the months of the first state of emergency, large companies made up the bulk of e-commerce growth. Small businesses have taken longer to react**

From the end of June, coinciding with the end of the state of emergency, the dynamics of e-commerce began to change in favour of smaller businesses. Specifically, from that moment on, the possibility of opening their doors made it easier for many small businesses to adapt to the online sales channel. As a result, in July and August online sales by smaller companies generated about half the sector's total growth in e-commerce.

## CaixaBank retail e-commerce indicator[1]

Contribution to year-on-year change (pp)




**Notes:** As a whole, large companies accounted for more than 55% of the e-commerce market in 2019. The data shown are a 4-week moving average. (1) The indicator includes e-commerce payments with cards issued by CaixaBank and e-commerce payments at CaixaBank POS terminals using other cards at retail outlets, without including trade in essential goods.
**Source:** CaixaBank Research, based on internal data.

# Retail

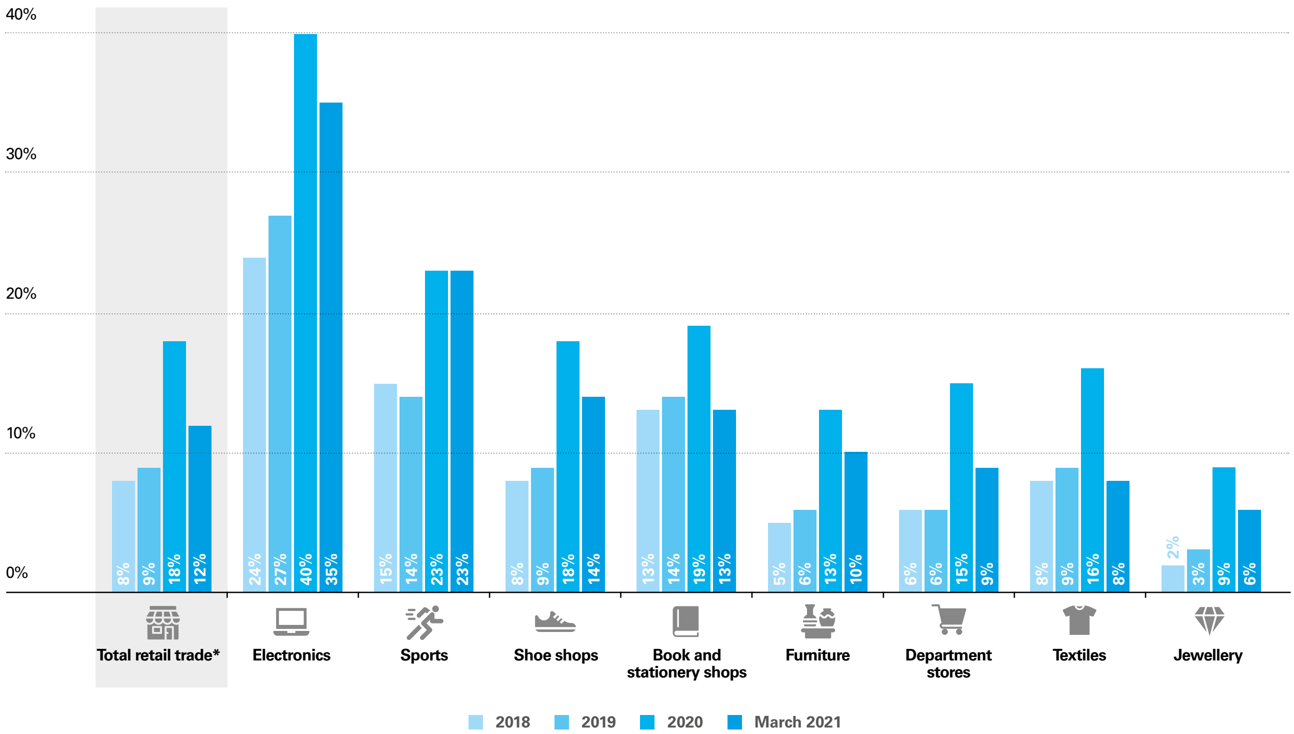
## Structural change

Internal CaixaBank data also suggest that the increase in online sales is not concentrated within a few types of trade; in fact quite the opposite. All retail categories have posted appreciable growth during 2020, although we expect to see e-commerce growth moderating in favour of greater on-site spending following the lifting of restrictions.

It is therefore interesting to estimate to what extent the growth in e-commerce is here to stay. To this end, the chart below shows the trend in the share of online purchases as a percentage of total purchases in the different branches of retail activity. As can be seen, the share of e-commerce picked up strongly in 2020 in all branches. However, if we compare the trend of recent years with the record of March 2021, a month with notable restrictions but not particularly hard on retail trade, we can see there are some branches of activity (bookshops and stationers, as well as textiles) where the share of face-to-face consumption has returned to normal. On the other hand, for the rest of the branches of activity, part of the extraordinary gains made in 2020 was still visible in March 2021, to some extent suggesting a possible change in consumption patterns.

### Share of e-commerce in total sales

% of total turnover




**Note:** (*) Excludes trade in essential goods.
**Source:** CaixaBank Research, based on internal data.

**It is too early to judge how much of this change will be structural and how much will dissipate once we get over the health crisis. Face-to-face consumption is sure to remain one of the main supports for retail trade**

In conclusion, e-commerce has grown considerably after the emergence of COVID-19. This growth, moreover, has been «democratic» since both large and small companies (although the latter took a little longer) have taken advantage of the boost provided by the mobility restrictions to online consumption. It has also been a very steep learning curve, so that new entrants to e-commerce were behind much of the growth in 2020.

However, it is too early to judge how much of this change will be structural and how much will dissipate once we get over the health crisis. Face-to-face consumption is sure to remain one of the main supports for retail trade. Nevertheless, it is difficult to see a future for retail without the sector committing clearly and strongly to digitising its sales channels, enabling many small businesses to access a much larger and more diversified market and consumers to access a market with a much wider range on offer.

Commercial Real State

# Changes in retail real estate investment resulting from the impact of COVID-19

The outbreak of the pandemic has changed the scenario for investment in retail-related property. On the one hand, severe mobility restrictions and social distancing measures have lowered prices and rents for commercial premises, reducing investor interest. On the other hand, COVID-19 has brought about a change in the habits of Spanish consumers that has benefited supermarkets, where investment reached record highs in 2020, and has accelerated the penetration of online commerce in the retail sector, boosting investment in the logistics required to support this sales channel.

## Structure of commercial real estate investment in Spain

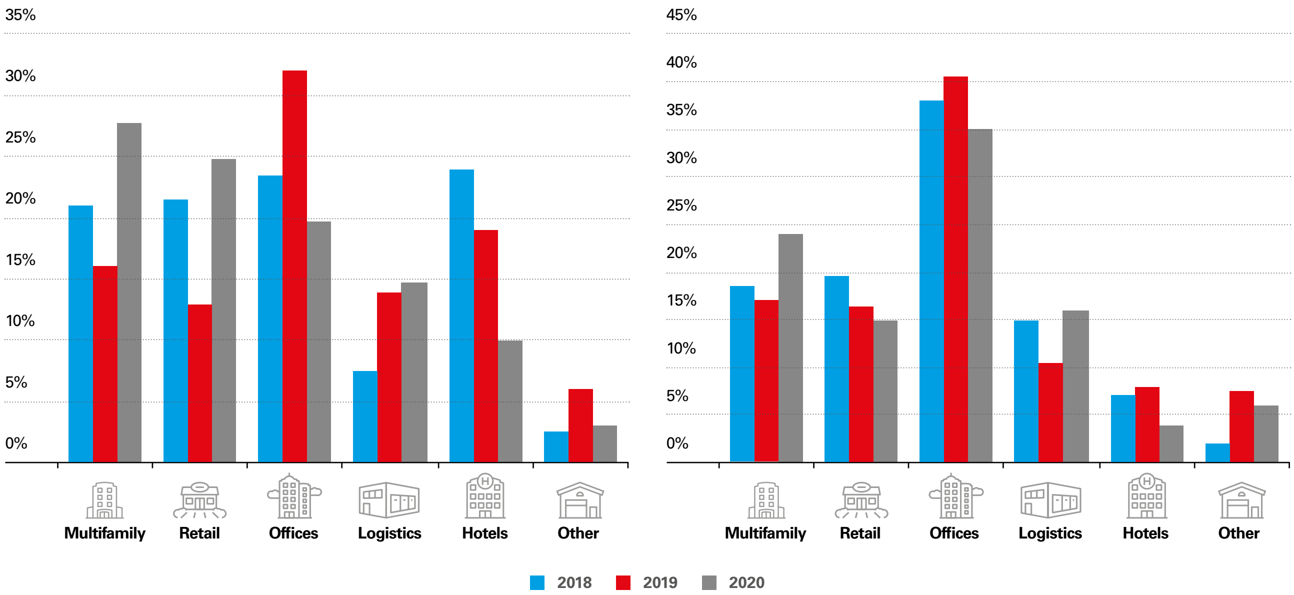
Over the last five years, commercial real estate investment has averaged around 3 billion euros per year in the Spanish retail sector. In 2019, before the arrival of the pandemic, office investment had by far the largest share in the commercial real estate sector (accounting for more than 30% of the total). However, mobilty restrictions and the rise in working from home ended up reducing investment in this type of asset to below 20% of the total by 2020. Meanwhile, investment in retail real estate increased its share of the total, **accounting for nearly 25% of all commercial real estate investment in 2020**, behind only the multi-family (rented residential and student housing) and logistics categories. In this case, the pandemic has allowed the retail sector to absorb the reduced interest in office and hotel investment.

In the case of **Europe**, the drop in office investment has been smaller and, after the impact of the pandemic, continues to be, by far, the main commercial real estate investment (around 35% of the total) thanks to the recovery in the second half of the year in the region's major financial centres (Germany, the United Kingdom and Netherlands). On the other hand, the retail sector's share decreased compared to previous years, in this case harder hit by the restrictions. There is a common trend: the boom in the logistics sector (associated with the greater penetration of online commerce) and the decline in assets associated with accommodation and hotels, suffering from limited mobility internationally.

## The share of retail real estate investment in Spain has increased

**Breakdown of investment by sector in Spain**
% of total commercial real estate investment

**Breakdown of investment by sector in Europe**
% of total commercial real estate investment




**Source:** CaixaBank Research, based on data from CBRE Research.

## Impact of the pandemic on retail real estate investment

According to real estate consultancy firm JLL, **retail real estate investment increased by 40% in 2020 in the Spanish market, reaching 2.25 billion euros.** This is a surprising figure, given the backdrop of severe restrictions to face-to-face transactions, and it is possible that much of the increase is a correction effect following particularly low investment levels in 2019. If we compare this figure with the average from the previous three years, we can see a 30% drop in retail real estate investment in 2020.

**Shopping centres accounted for most of the real estate investment**, with a volume of around 1.1 billion euros, although 80% of this figure is due exclusively to two large operations (Intu Asturias and Puerto Venecia) which were negotiated and closed at the beginning of the year, before the outbreak of the pandemic. In other words, if we exclude these two operations, the level of investment would be the lowest since 2013; i.e. since the Spanish economy had recovered from the financial and sovereign debt crisis.

This was followed, in volume terms, **by supermarket investment** which posted an all-time high in 2020 with an investment of around €600 million, representing 30% of retail real estate investment, when between 2017 and 2019 it barely accounted for 5%-10% of the total. Its success is not surprising: it has been one of the sectors that has emerged the strongest from the health crisis thanks to its role as a supplier to the population.

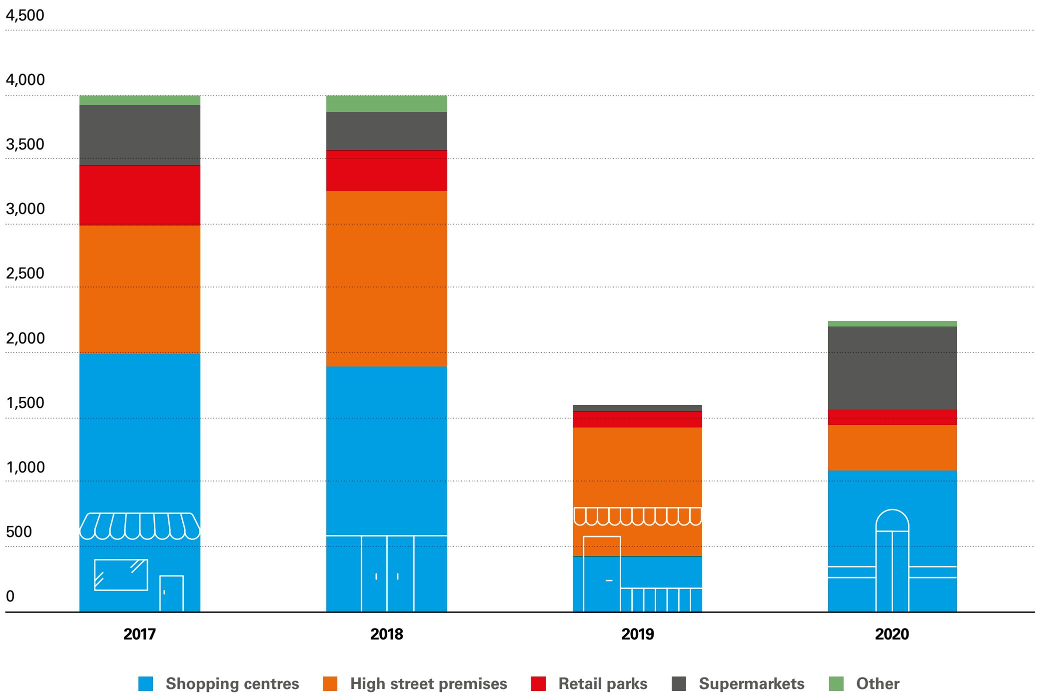
# Retail

On the other hand, **commercial premises, especially in the textile, leisure and restaurant sectors, were the most affected real estate assets**. Firstly, they have been hit particularly hard by the restrictions (on capacity, limited opening times and forced closures) and by lower levels of tourism (–77% in 2020). Secondly, the pandemic has speeded up the growth in e-commerce, resulting in an oversupply of commercial premises in the short term.

## Supermarkets and shopping centres led investment in 2020

### Real estate investment in the retail sector in Spain

Million euros




**Source:** CaixaBank Research, based on data from JLL Research.

**On the other hand, rents for real estate assets declined across the board throughout 2020 as a result of the pandemic.** The lack of buyers and the economic recession resulting from the health crisis have led to an increase in vacancy rates and the availability of premises, as well as triggering higher turnover rates among operators. Not only have small stores closed but the big brands have also taken the opportunity to reduce their bricks and mortar stores while boosting their online presence. As a result, according to JLL data from the end of 2020, prime rents on the high street (premises of 100 m² or more) fell by 16% year-on-year in Madrid and 18% in Barcelona.[12] Meanwhile, prime rents in shopping centres and retail parks in Spain also fell over the course of 2020, albeit to a lesser extent, posting declines of between 10% and 12.5% year-on-year.

12 **Prime rent refers to the most sought after and exclusive commercial locations.**

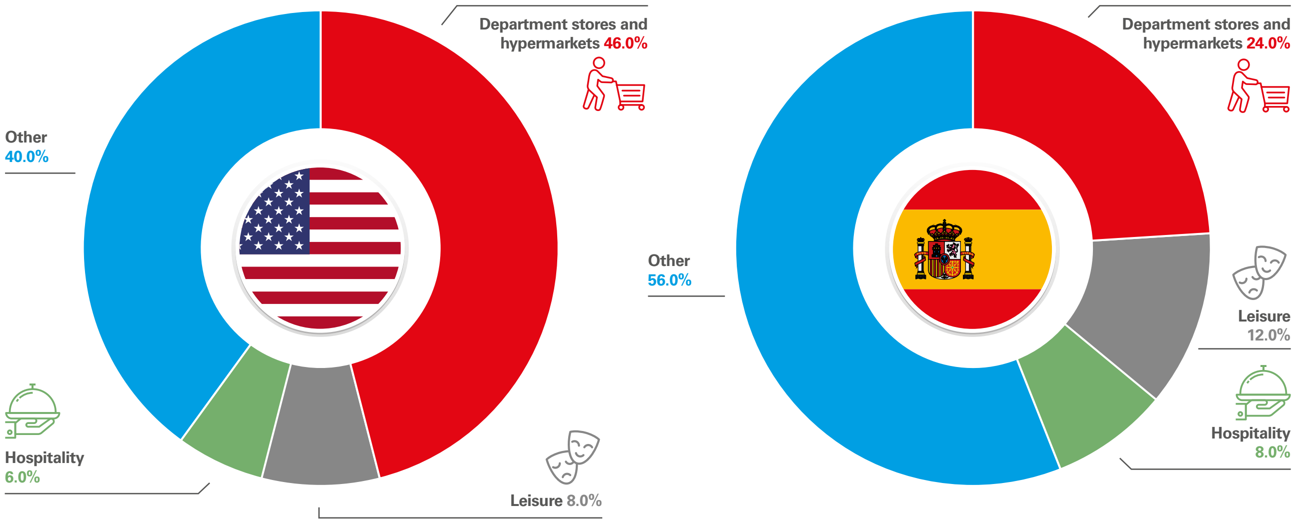
## Shopping centres in Spain, closely linked to leisure and restaurants

In Spain, **shopping centres** account for 1 out of every 4 purchases in the retail sector. The situation of this business model, especially at this time of sharp declines in the influx of visitors, is being widely debated due to the decline observed for several years in the US: shopping malls, which had become popular in the 1960s and 1970s and reached maturity in the 1990s, have gone from enjoying a 75% share of retail sales to accounting for less than 10% in 2019. Given that, between 2010 and 2019, retail sales grew at a rate of 4% per year and household confidence has remained high, it seems clear that the decline in this model in the US is probably due more to structural factors: the country's oversupply (retail density per inhabitant is five times higher than in Europe), a lack of investment in recent years, which has left the sector obsolete (more than a third of the centres were built before the 1980s), and the growing importance of e-commerce (the US is one of the countries with the highest penetration of online shopping) account for most of this decline.

**In the case of Spain, there is no evidence of problems of oversupply or obsolescence comparable to those in the US** and it doesn't look like this business model is going to follow the same path as in the American giant in the short term. Firstly, Spanish retailers have only just entered a mature phase and the country's density of shopping centres (0.34 $m^2$ per inhabitant) is far from that of the United States (2.35 $m^2$ per inhabitant). Secondly, Spanish shopping centres are much more modern, most of them being built in the 2000s, and their composition is more in line with new trends and consumer habits: more space is allocated to leisure and hospitality in contrast to the Anglo-Saxon model of more space for department stores and hypermarkets, which had acted as a driving force in the 1960s and 1970s but are now clearly in decline.

> **Unlike the US, Spanish shopping centres do not have problems of oversupply or obsolescence. Here the supply has just entered its maturity phase, is more modern and in line with new consumer trends**

### The composition of Spanish shopping centres is more modern




**Source:** CaixaBank Research, based on data from CBRE.

Finally, **the only factor that may pose a risk to this business model is the rise in online shopping**. E-commerce accounted for around 5.4% of retail sales in Spain in 2019 but the health crisis has speeded up changes in Spanish consumer habits.[13] According to estimates by the Centre for Retail Research, which offers internationally comparable data, this percentage will have shot up to around 10% by 2020. However, this e-commerce penetration is far from the figures in the US (around 20% of total sales), in the large European economies (26% in the UK, 20% in Germany and 14% in France) or even the EU average (16% estimated for 2020).

**The great advantage of Spanish shopping centres in the face of the rise in online shopping is, precisely, their greater focus on leisure and hospitality**, services and experiences which, to a large extent, cannot be obtained digitally. Paradoxically, what acts as a structural advantage in the medium and long term has become a liability during the pandemic because of the reduction in social interaction due to the fear of contagion. Shopping centres were the last to reopen their doors when restrictions were eased in 2020, with severe limits to capacity and, precisely, without being able to offer their leisure services in order to avoid crowds. Even so, visits to shopping centres have rebounded from the low levels in the first state of emergency: in April and May 2020, these had fallen by more than 80% year-on-year, improving in the second half of the year and, since the third wave of the virus, has remained at around 60%-70% of the pre-COVID level.

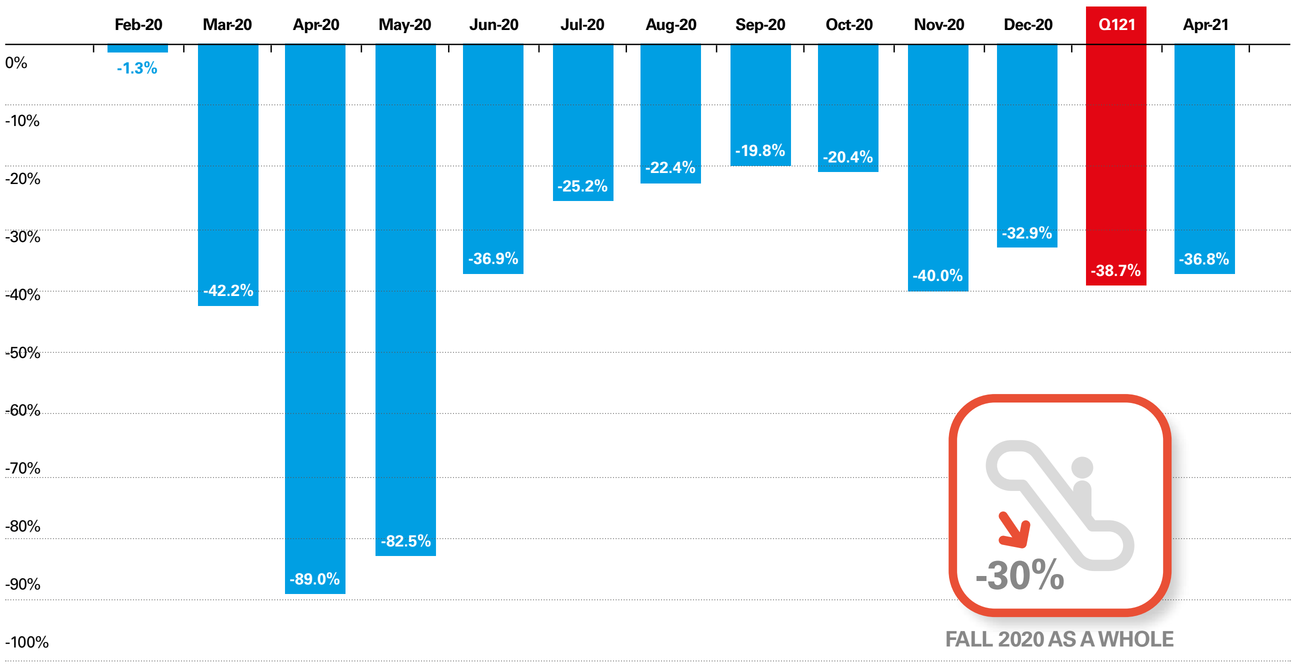
**Paradoxically, what acts as a structural advantage in the medium and long term for Spanish shopping centres (its focus on leisure and hospitality) has become a liability during the pandemic**

13 According to CaixaBank's internal data, the share of e-commerce in retail trade was 5.6% in 2019. In 2020, e-commerce came to represent 9.2% of the total turnover, although at the end of March 2021 this advance moderated to 6.5% of the total. For more details on e-commerce trends see the article «e-commerce: years of progress in just a few months» in this report.

## Visits to shopping centres fell by more than 30% in 2020

### Visits to shopping centres

Change compared to 2019 (%)




**Source:** CaixaBank Research, based on data from ShopperTrak.

In principle, all the evidence suggests that, once the social distancing measures are eased and people can return to interacting socially, when we have overcome the current health crisis, Spanish consumers will resume much of their pre-COVID leisure pursuits. In fact, **the survival of shopping centres in the medium and long term will depend on people returning to such social habits**, making it possible to offset the rise in online shopping. Pending the outcome of these forces working both for and against face-to-face retail activity, the Spanish Association of Shopping Centres (AECC) and the main real estate consultants still believe the gross leasable area (GLA) in shopping centres will continue to increase in Spain; currently the country has 567 shopping centres and around 16.4 million m² of area.

## The pandemic has boosted investment in supermarkets

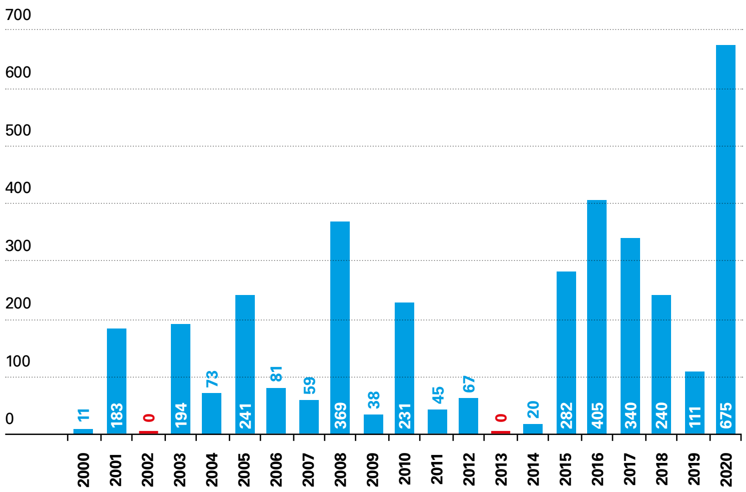
There is no doubt that the agrifood industry has been one of the sectors emerging stronger from the pandemic, so it comes as no surprise that its retail distribution channel has also been strengthened. In fact, **supermarkets have been the only retail branch that has become stronger during the health crisis.**

The health crisis has left us with consumers who eat more often at home, on a healthier, more sustainable diet, who prefer ready-to-cook food, are not so interested in the manufacturer's brand and pay more attention to the offers available (hard discount supermarkets have come out stronger), who would rather buy local products and brands and have lost their fear of buying fresh products online. As a result, three very clear trends can be deduced for the sector: (i) the importance of **proximity**, given the continuing restrictions on mobility; (ii) the preference for **healthier, more sustainable** products and behaviour due to changing habits and greater environmental awareness, and (iii) the rise in **e-commerce**, also in terms of food distribution, again due to people's restricted mobility. In this respect, supermarkets are the format that offers greater proximity and they have made a huge, in a short period of time, to include fresh, organic and gourmet products and to adapt to the new reality of online shopping.

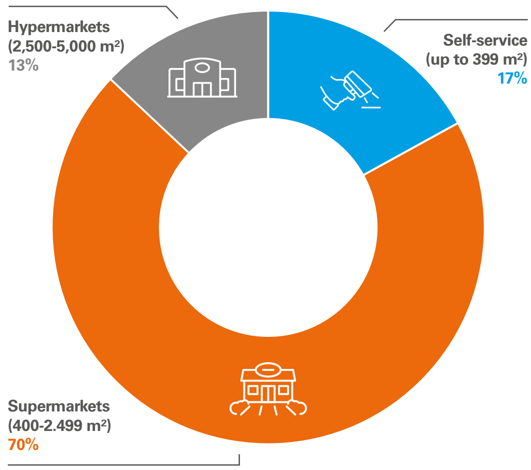
In this context, **2020 has been an unprecedented year in terms of investment in food retail space**, with a closing volume of around 650 million euros, more than double the average investment of the previous five years, according to data from the consultancy firm Savills (see the chart below). In the short term, investment in supermarkets remains an attractive option, thanks to (i) their role as distributors of staple products, with a continuous demand over time; (ii) they have proven to be particularly resilient to a crisis of these characteristics, and (iii) are perceived as a defensive, liquid produce with moderate risk.

## Record investment in food retail outlets

**Supermarket investment**
Million euros




**Distribution in different retail distribution formats**
% total area




**Source:** CaixaBank Research, based on data from Savills Newman Aguirre and Alimarket.

Once the current health crisis is over, **the medium to long-term outlook for supermarkets remains favourable**. Undoubtedly, the online channel will continue to gain market share, albeit more gradually than in 2020. Nevertheless, it is expected that physical stores (at least those that are easily accessible and with a good location) will remain irreplaceable for food distribution given the growing preference for fresh products: in fact, it is predicted that that physical retail outlets will attract 90% of Europe's food sales. Again, hybrid models will continue to be sought to be able to adapt more quickly to consumer preferences and, in this respect, supermarkets have proven to be flexible and agile in adjusting to changing circumstances.

## The birth of logistics associated with the retail channel

The forced drop in face-to-face sales experienced by the retail sector due to restrictions on people's mobility has been a clear catalyst for the development of e-commerce.[14] At the same time, the logistics market, until a few years ago the sector with the smallest presence in commercial real estate, has seen an unprecedented upturn, boosted by the urgent storage needs that arose throughout 2020, especially in the initial few weeks of the first state of emergency when it was even feared that certain essential products would be out of stock. On balance, this boom in e-commerce has given way to a certain symbiosis between retail and logistics.

In this respect, **medium-sized retail parks located in urban areas close to the city of reference have been unexpectedly favoured by this change in consumer habits**: they are in privileged locations for logistics (close to the centre, with good connections, large car parks, etc.) and can now benefit from their storage capacity or simply offer click&collect services. In other words, such types of retail facilities now stand out for their ability to be converted into logistic centres, optimise «last mile» distribution (warehousing, distribution and picking warehouses) and form part of the hybrid logistics-commercial model that seems to have emerged from the health crisis.

This change in trend can be seen in investment volumes in recent months. Historically, retail real estate investment has outweighed logistics investment but in recent years interest in logistics assets has picked up: according to data from the consultancy firm JLL, 120 transactions have been processed in logistics since 2018, compared to the 86 that were signed in the retail sector.

**(14) For more details on e-commerce trends see the article «e-commerce: years of progress in just a few months» in this report.**

# Retail


## What will happen once the health crisis is over?

Overall, **the outlook for the retail sector and therefore for retail commercial real estate investment is favourable**, as long as the recovery continues to consolidate. On the one hand, there is ample pent-up demand from the months of severe restrictions.[15] On the other hand, low interest rates and ample liquidity in the market will continue to boost the appeal of commercial real estate investment compared to other alternative investments.

In order to understand how the sector will develop in the medium and long term, **it is worth considering which trends are here to stay and which are merely one-off changes** associated with the consequences of the pandemic, and which therefore should ease or disappear as the health crisis passes.

First, **it seems clear that the lifting of restrictions associated with containing the pandemic and the return of tourists will result in a rebound in visits** to retail outlets, turning the situation around: this will revive investor interest, increase the rents of premises and their profitability. For 2021, forecasts for the high street point to increases in prime rents of 0.5% in Madrid and 1% in Barcelona, modest rates and below pre-pandemic levels, similar to those expected for the major European cities. In the medium and long term, average annual prime rents are expected to grow by around 2.5% in Madrid and Barcelona, placing them among the top 10 European cities in terms of expected rental growth. Be that as it may, recovery to pre-COVID rent levels is not expected before 2024. In the case of shopping centres, a 3% annual increase in prime rents is projected, both this year and in the next few years, so that pre-COVID levels would be regained in 2023-2024.

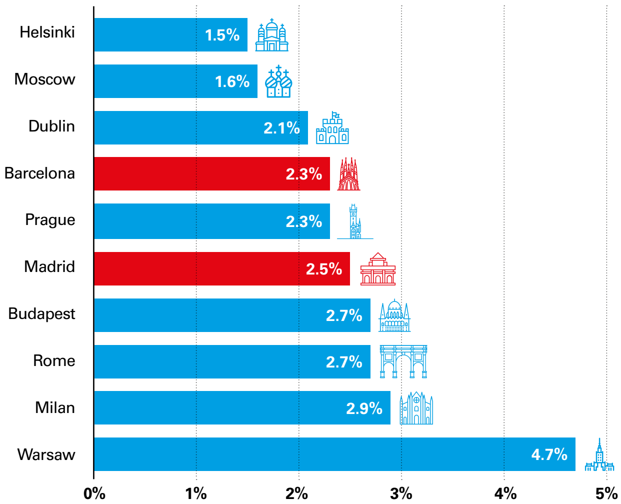
**(15) See the outlook section of the article «Pent-up demand during the health crisis and the outlook for consumption» in this report.**

> **Recovery to pre-COVID rent levels is not expected before 2024. In the case of shopping centres, an annual increase of 3% in prime rents is estimated and pre-COVID levels would be regained in 2023-2024**

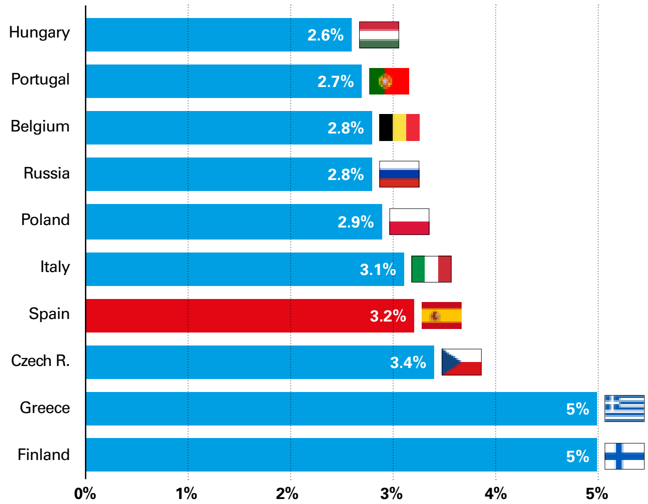
Another of the clearest aspects in the scenario is that **e-commerce will go on increasing its penetration in the retail sector over the coming months, albeit more gradually**, which will continue to force the sector to adapt to the new situation, especially in the case of commercial premises. Although the sector realises that face-to-face shopping will continue to be, by far, the largest source of revenue, stores will not be able to turn their backs on increasingly omni-channel consumers. The stores of the future will be an integrated combination of bricks and mortar and e-commerce, reducing the costs of online orders by acting as «last mile» distribution centres and click&collect spaces. This will require allocating some of their shop space to storage and the preparation of orders, as well as developing tools and technologies to enable inventory control.

## Projected average annual growth 2021-2024 for prime rentals

**Annual growth in high street premises**




**Annual growth in shopping centres**




**Source:** CaixaBank Research, based on data from JLL Research.

# CaixaBank Research

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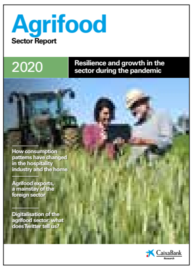


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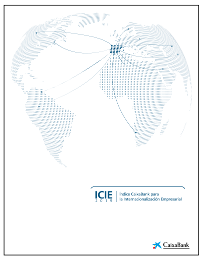


**CIBI 2019**
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