The 202X Recession: Economic Insights Report for Brands

Lessons Learned From the Great Recession

How does the COVID-19 recession compare to the Great Recession, the financial crisis that lasted from December 2007 until June 2009, and what lessons can brand manufacturers learn from it to adapt their current responses?

This report will look at the economic impact of COVID-19, outline its similarities with the Great Recession, and break down the lessons that can be applied to move forward successfully.

Section 1: COVID-19 Impact on Consumers 3

Current Economic Outlook 3
The Contagion of the Great Recession 3
Employment Uncertainties Expand 4
Consumer Confidence Falls But Improvement Expected 5
Personal Consumption Habits Have Changed 5
Retail Spending Increases 6
A Probable Drop in Demand 6

Section 2: How Consumer Behavior Evolved During the Great Recession 7

Trends and Themes to Understand the Current Crisis 7
Value, Price Sensitivity, and Simplicity 7
Decision-Making and Loyalty 8
Product Demand and Category Growth 10

Section 3: Lessons Learned From the Great Recession . . 11

5 Lessons From the Great Recession 11
What's Different This Time? Shifting Demand for CPGs 12
Lessons for the Recovery 13

Section 4: Predictions for the 'Next Normal' 15

Impact of Working From Home 15
Health & Wellness 16
Ecommerce and Digital Retail 16

SECTION 1

COVID-19 Impact on Consumers

Current Economic Outlook

The initial phase of the pandemic was dominated by health-induced economic shocks and uncertainty, causing dramatic falls in output and consumer spending — gross domestic product (GDP) fell by **32.9%** in the second quarter. Alongside this was an unprecedented rise in unemployment driven by mandatory business closures, stay-at-home orders, and individuals choosing to limit social contact.

As the pandemic has progressed, businesses and consumers have adapted to this "new normal" by avoiding high-risk activities, implementing social-distancing measures, working from home, and wearing masks in public. These all impact consumer behavior and consumer demand, which will likely be sustained until there is a vaccine or a cure.

While there appears to be some progress, there is still a huge amount of uncertainty over the long-term efficacy of potential vaccines and real challenges in scaling up production and distribution. It seems prudent then to assume that some form of health-induced disruption will persist for at least 12 to 18 months.

The Contagion of the Great Recession

In addition to the health-induced effects, there are economic consequences that are potentially longer-lasting. Here the analogy of the Great Recession is insightful.

The Great Recession began as a financial crisis in 2007. However, it wasn't until the fall of 2008 that the impact of tighter credit and declining consumer confidence began to impact the real economy. Unemployment reached a peak of 10% in October 2009.

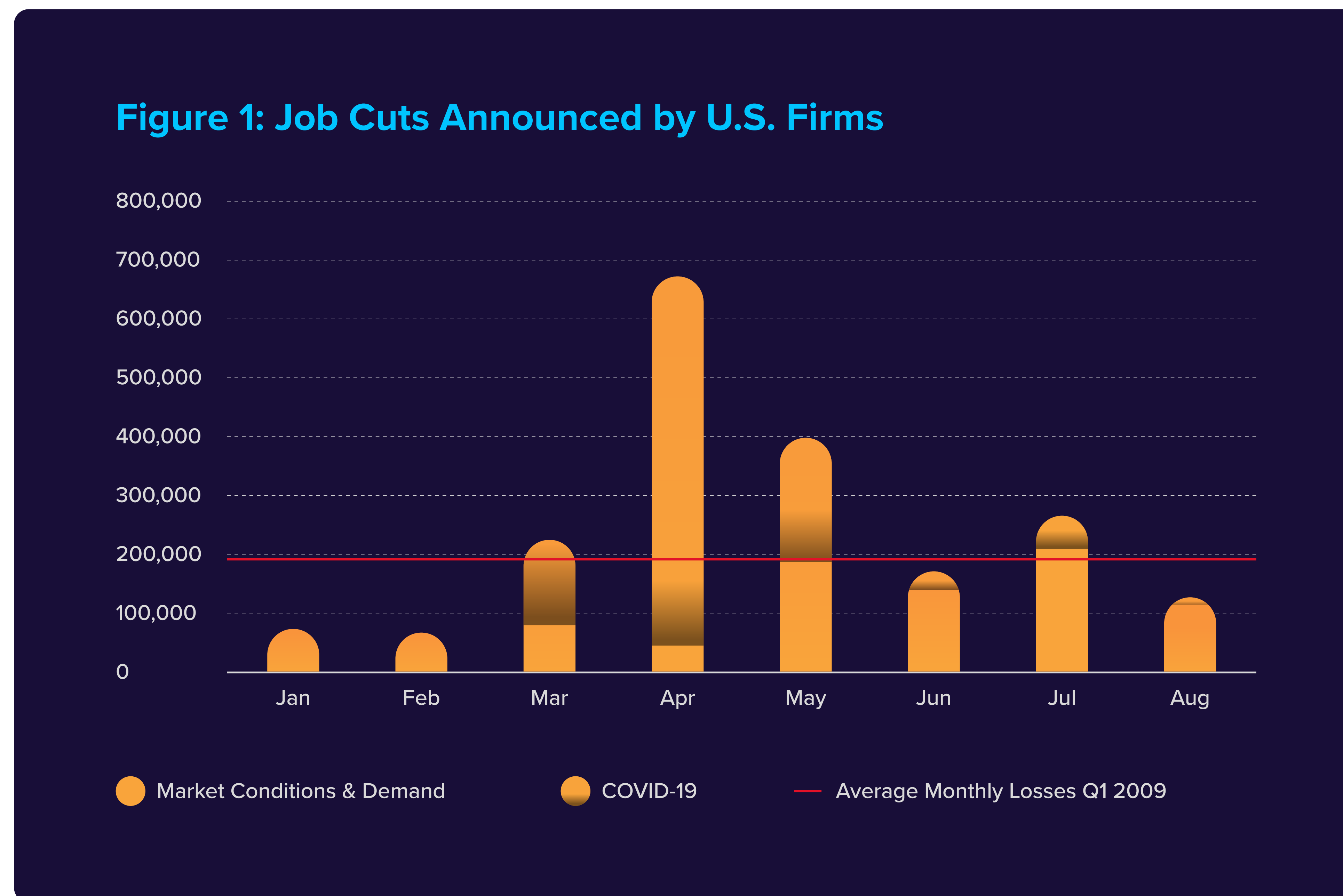
This is due to the idea of contagion — a shock that occurs in one part of the economy can spread to other sectors as the effects of rising unemployment and a pessimistic economic outlook impact consumer behavior and the investment decisions of firms.

This is not an immediate effect as it takes time for firms to adapt to market conditions — it was just over a year between the failure of Lehman Brothers in September 2008 and peak unemployment.

Employment Uncertainties Expand

The immediate economic impact of COVID-19 was **concentrated in industries that require people to gather in-person** with the retail, leisure, and hospitality sectors losing over **9.7 million jobs** in April.

Over **42% of these jobs have now recovered** — July saw the leisure and hospitality sector **add almost 600,000 jobs**, and there were jobs created in growth industries such as ecommerce, warehousing, and distribution. However, despite some of the pandemic-induced losses subsiding the economic outlook looks grim.



The official unemployment rate in July was 10.2% — rising to 13.3% if workers who have **dropped out of the labor force** since the start of the pandemic are included — that is 22.8 million people out of work. Recent data suggests that the impact of the pandemic on demand is spreading into the wider economy. There have been growing numbers of job losses in **transportation, apparel, and aerospace industries**.

While the proportion citing COVID-19 has fallen since the start of the pandemic, the number citing market conditions or a lack of demand has increased significantly in recent months.

Excluding the jobs lost as a result of COVID-19 — the number of jobs cuts in July are about 6% higher than Q1 2009, the worst period of the Great Recession. The percentage of unemployed workers on temporary lay-off declined from **79.4% in April to 45.9% in August**, while the percentage of permanent job losses increased.

This change was mirrored in the expectations of unemployed workers, as under 50% now expect to return to their previous job. Permanent job losses cannot be immediately replaced and will create a drag on the economy even after the health-induced effects have subsided.

Consumer Confidence Falls But Improvement Expected

Consumer confidence has been **falling since the start of the pandemic** but is yet to reach the levels of pessimism seen in 2008 and 2009 (see Figure 2). Polling of consumer sentiment by the **University of Michigan** found that 90% of consumers viewed the current economic conditions negatively.

Although, around 50% expected the condition to improve by the end of the year. When consumer confidence is low, consumers tend to postpone purchase decisions and reduce spending on discretionary items.

Figure 2: Consumer Confidence Index

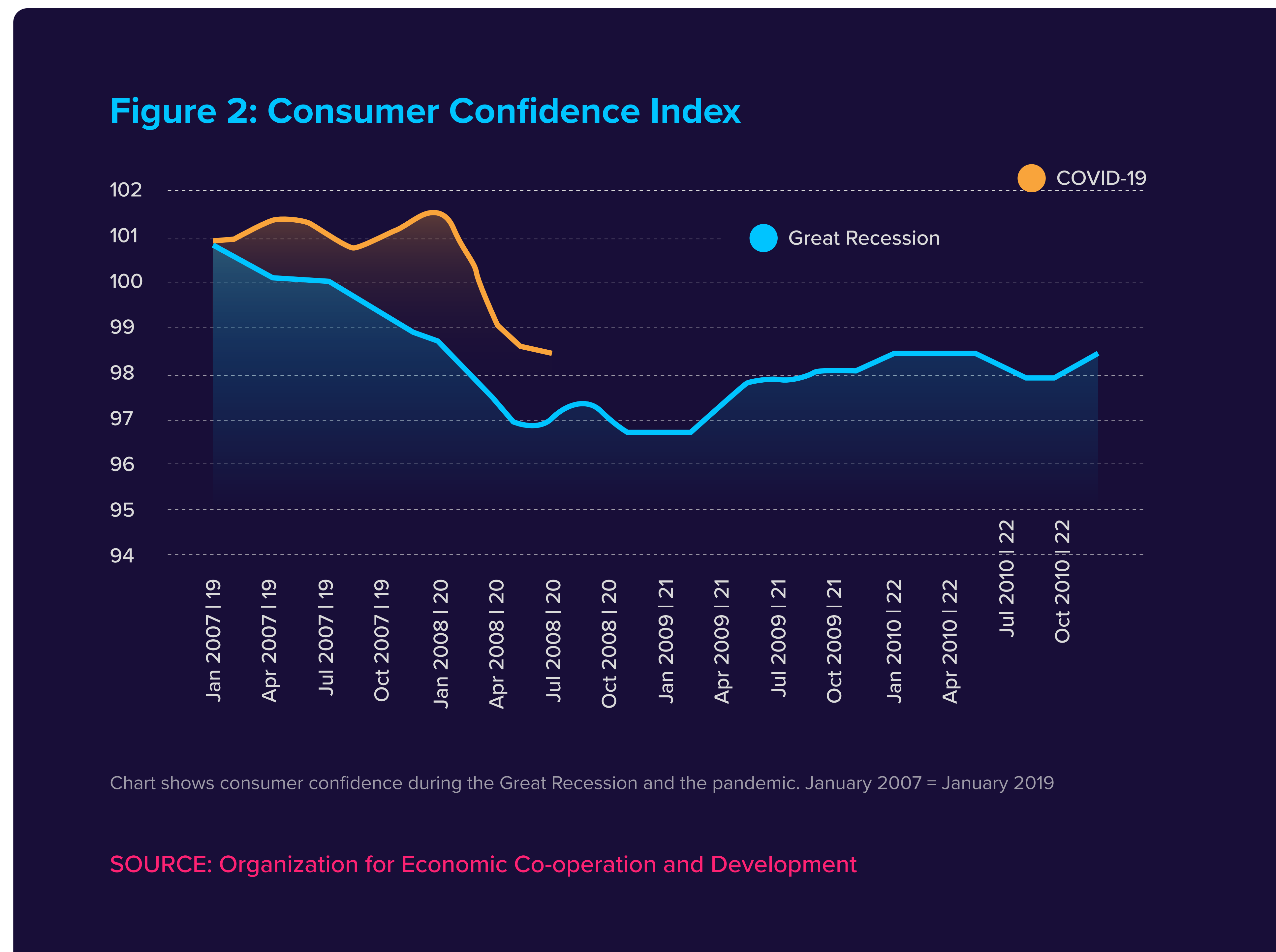


Chart shows consumer confidence during the Great Recession and the pandemic. January 2007 = January 2019

SOURCE: Organization for Economic Co-operation and Development

The fact that consumers expect the economy to improve over the next few months is potentially a positive sign, however. Given the current levels of unemployment and demand, it perhaps is unsurprising that improvement is expected.

Even in the best-case scenario, the fact that many jobs will not be viable until the pandemic if under control means that we are looking at a significant recession.

Personal Consumption Habits Have Changed

The pandemic led to the first fall in the personal **consumption of goods and services** since 2010. The Great Recession saw per-capita personal consumption fall 3.7% between the peak in early 2007 to the trough in mid-2009. Sales of durable goods were particularly hard hit – down 15.6%. Non-durable goods, which tend to be less elastic, fell by 4.8%. In contrast, consumption of services held up reasonably well, only falling 1.4%.

These figures are broadly in line with what economic theory would suggest: Individuals and households put off or cancel big-ticket purchases, such as cars, appliances, or luxury items, instead concentrating spending on everyday essentials.

The pattern of consumption during COVID-19 looks very different. The second quarter saw consumption fall by much more — over 11% year-over-year. Looking at the breakdown, we also see that this was largely driven by a reduction in spending on services, which fell more than 15%.

Consumption of goods declined, but by comparatively little — durable goods were down 1.9%, non-durables by 2.5%. This is perhaps unsurprising given the ongoing health risks associated with consuming services — data from OpenTable, a restaurant booking site, shows that bookings in August were 50% down compared to previous years.

For brands manufacturers, this represents a welcome short-term tailwind. The fall in spending on services, as a direct result of the pandemic, is providing individuals and households with breathing space in their budgets, allowing additional spending on goods, especially those related to the home.

But consumers and households are becoming more cautious, the value of **credit card debt has fallen** by almost 14% since the start of the year, and savings rates have more than doubled, as the average household saved almost a fifth of their **disposable income** in July.

Retail Spending Increases

Retail spending in May fell by 15.1% year-over-year, while the most severe contraction during the Great Recession was a fall of 13% in Q1 2019. However, this was extremely short-lived. By July, retail spending was 5% above 2019 levels.

The second quarter saw the share of ecommerce sales grow rapidly — online sales grew by 32%. The pandemic has effectively accelerated pre-existing trends by 3–5 years. It is now more important than ever that brands invest in their online presence, marketing, and logistics infrastructure.

A Probable Drop in Demand

The first phase saw unprecedented falls in GDP and employment, but these were, to some extent, artificial and unrepresentative of the economy's foundations. However, the U.S. economy is now moving into the second phase of the pandemic, which will likely last until there is a vaccine or a cure, a prospect that seems at least 12–18 months away.

In this second phase, we will have to adapt to a new normal — many of the service sector jobs in travel, hospitality, or retail lost since April will no longer be viable, but neither will jobs in ancillary industries, such as sub-contractors for the aerospace industry or restaurant-supply firms.

The unemployment rate will continue to fall as some of employees return to work or find employment in other industries but it is likely that we will see persistent, long-term unemployment — 6.5 million people will be out of work for more than 6 months, according to an **analysis** by Harvard and the Federal Reserve.

A drop in demand comparable with the Great Recession seems probable.

SECTION 2

How Consumer Behavior Evolved During the Great Recession

Trends and Themes to Understand the Current Crisis

Section 1 looked at how consumers have been impacted by the pandemic. However, this macro lens masks significant differences in spending habits and behavior between consumer groups. Section 2 will examine how consumer behavior evolved during the Great Recession and how it impacted category growth and spending habits.

For the purposes of this report, we segment the consumer market into two broad categories: individuals that are relatively insulated from the economic impact of the pandemic and those that are more exposed.

Those in the insulated group tend to have higher education levels, work in professional occupations, be older, and have higher incomes. The **unemployment rate** for those over 25 with a bachelor's degree or higher stands at 6.7 percent, while more than one in 10 workers with a high school diploma is out of work.

The top 20% of households by income make up more than **35% of spending** on consumer products. So, sentiment and behavior within this group have a disproportionate impact on the retail sector. The Great Recession had a significant and lasting impact on consumer behavior. This section analyzes some of the key themes and trends which can help us understand the current crisis.

Value, Price Sensitivity, and Simplicity

During the Great Recession, consumers responded to tighter household budgets with increasing price sensitivity. A majority of consumers **reported a willingness to sacrifice convenience for price**. Sixty-five percent of consumers reported using coupons, and private-label products captured market share from national brands.

While price became an increasingly important factor across all consumer groups, perhaps more important was the idea of value. Value is intangible, as it sits at the intersection of price, brand, quality, and convenience. But it helps to explain why certain brands prospered during the recession and others lost market share.

Taking the **example of the consumer-packaged goods** (CPG) sector, private-label goods grew revenue by almost 20% by offering a “good-enough” alternative at a lower price. However, the top national brands in each category also increased revenue by 4.8% and were able to do this while raising prices by projecting their premium image and value.

The brands that did poorly were the mid-range brands that lost market share to cheaper alternatives.

As is the case today, the impact of the Great Recession was not evenly distributed. For many consumers with secure jobs, low debt, and stable incomes, the recession’s actual impact was low. However, these consumers also became increasingly sensitive to price and value.

One explanation is the idea of **discretionary thrift**. Despite not having significant budgetary constraints, higher-income households chose to cut back on excess consumption and were less likely to purchase premium or ostentatiously expensive products.

This cutting back stemmed was because consumers are influenced by social narratives — not just the number of dollars in their pockets. In times of recession, in which the dominant media narrative is a story of economic crisis, financial hardship, and unemployment, these messages are internalized sub-consciously influencing consumer behavior.

Spending had to be justified, making the job of marketing then — and to a greater or lesser degree, today — to alleviate the guilt of those insulated from the impact of the recession and encourage them to spend.

A **survey of U.S. consumers** in August suggests that many consumers are exhibiting the same forms of behavior, with 40% becoming more mindful of where they spend their money and a third switching to less-expensive products to save money.

A related Great Recession-era trend was a move towards greater simplicity, a reaction against the period’s uncertainty and insecurity. This can be seen clearly in the dominant **fashion and design aesthetics** — muted colors, normcore, minimalism, and industrial-chic, all of which contrasted with the boldness of the early to mid-2000s.

Many **successful luxury brands**, such as LVMH and PPR, pared-back their range to focus on their core products and customers. Mass-market retailers and CPG firms, such as Costco, Walgreens, and P&G, optimized their product offering to simplify the consumer experience.

A recent study by McKinsey found that **60% of consumers were most interested in the core set of product features** at a reasonable price rather than spending more to get the latest technology, optional extras, or new styles.

Decision-Making and Loyalty

Making **decisions is tiring**, which causes consumers to form habits. Most of the time, the majority of **buying behavior is habitual**. Despite the efforts of marketing campaigns and promotions, it can be challenging to get consumers to switch between brands and try new products.

But this behavior changes during recessions. As people become more price-sensitive and value-conscious, they are more likely to re-evaluate their purchasing decisions.

A **study of national food brands** in 2008 found that, on average, a third of previously loyal customers defected to another brand or private-label product, and a further 20% reduced their loyalty. Results ranged from a 9% fall in loyalty towards General Mills' Green Giant frozen boxed vegetables to a 59% fall from P&G's Crest toothpaste.

Similar patterns can be observed today. Since the start of the crisis, **77% of consumers** have tried a new shopping behavior (see Figure 3), including choosing different brands or trying new retailers and websites, with between 70% and 80% intending to continue the new behavior post-pandemic.

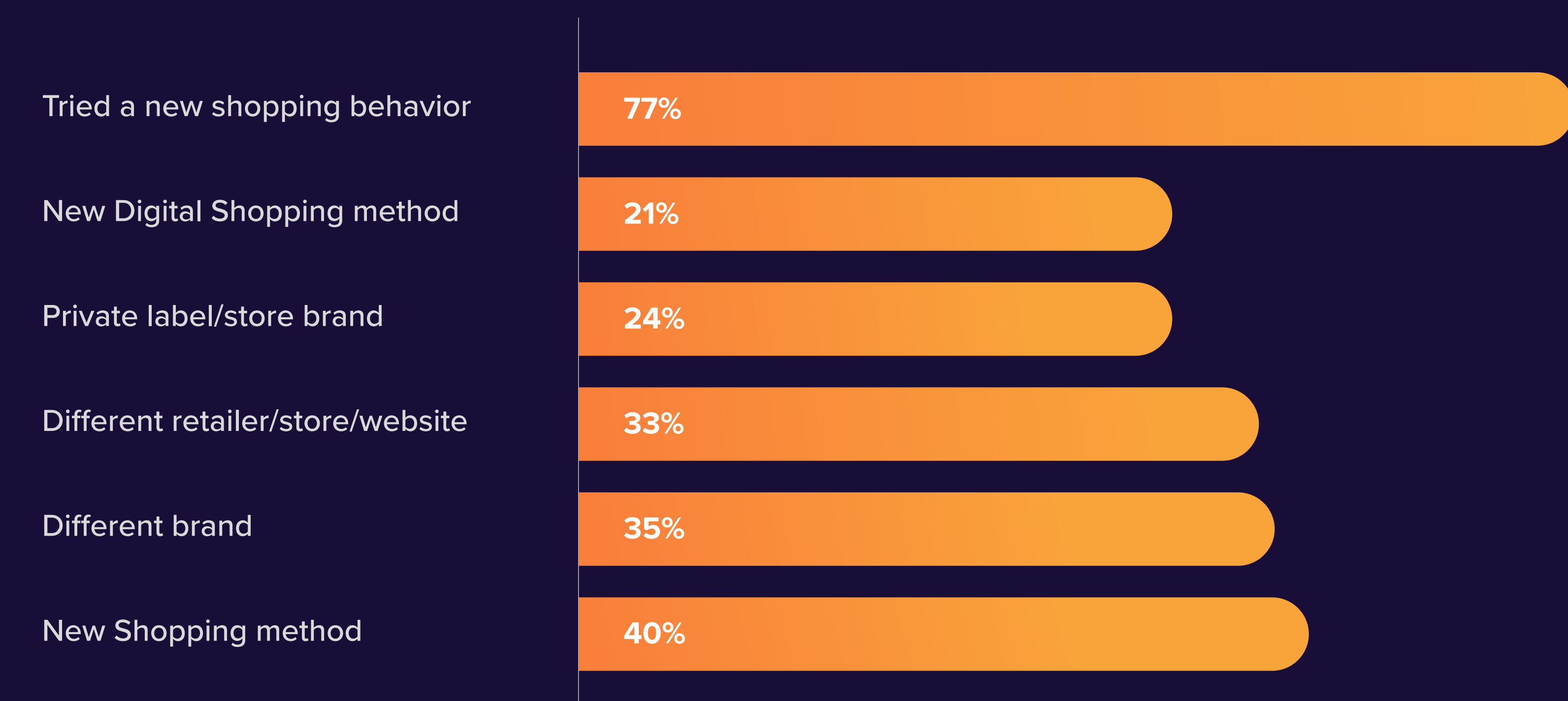
One of the key lessons from the Great Recession is the importance of marketing, which allows brands to both defend existing customers and capitalize on the fact that potential new consumers are re-evaluating their purchases.

Reckitt Benckiser, a manufacturer of CPGs, which increased its spending on marketing by 25% during the recession, saw sales increase 8% and profits rise by 14% at a time when its main competitors, P&G and Unilever, were seeing profits fall.

A study of the hotel industry found that those that invested heavily in marketing during the recession were rewarded with significantly higher occupancy rates and profitability during the recovery from the crisis.

Another option is to expand the **use of promotions**, which may be a better long-term strategy than merely cutting prices, which risks damaging a brand's perceived value.

Promotions can be an effective way of both retaining **price-sensitive but loyal customers**, who wait for promotions to make purchases, and attracting new customers.



Product Demand and Category Growth

The largest falls in retail spending during the Great Recession were in big-ticket, discretionary items — sales of electronics and appliances fell 16% year-over-year. **Around the world**, consumers reduced spending on home furnishings, cars, and luxury items, such as watches and handbags (see Figure 4). Clothing and footwear also saw sales tumble by 10%.

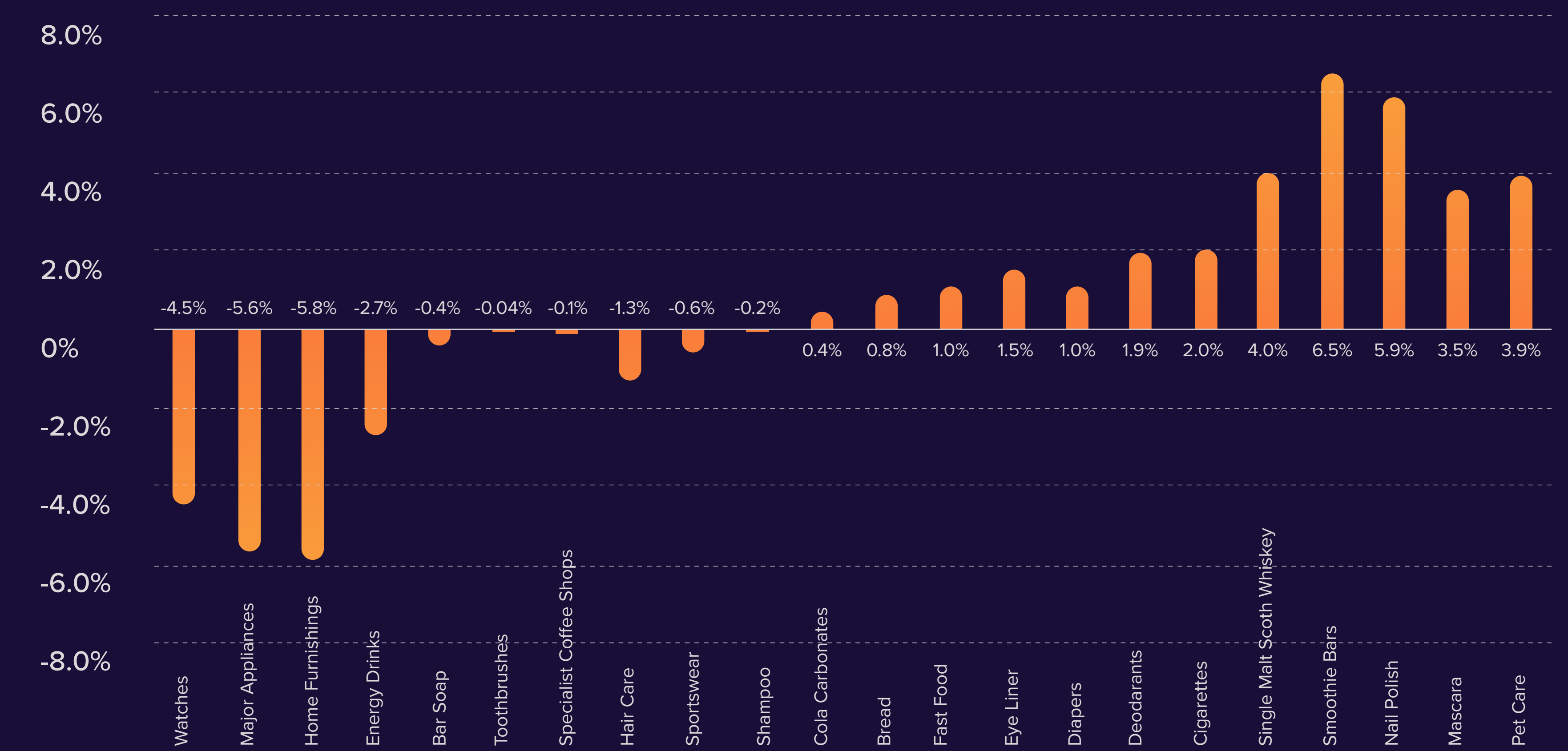
However, not all categories declined. Everyday at-home essentials fared reasonably well: Food and beverage products saw only modest falls before returning to growth. Health and personal care products, such as eyeliner and deodorant, actually experienced modest growth over the period.

The categories that saw **substantial growth** were the so-called "affordable luxuries," such as single-malt whiskeys, fragrances, and nail polish. The explanation is relatively simple: Consumers have a natural desire for hedonistic consumption. In other words, we treat ourselves to the things that make life worth living while avoiding or minimizing the guilt associated with excessive consumption during an economic downturn.

A related behavior is **cross-category indulgence**, which is where consumers substitute spending in a more expensive product category for a premium product in a cheaper category. For example, during the Great Recession, spending on dining outside the home fell considerably.

However, sales of Certified Angus beef, a premium beef product, grew significantly. The insight for managers of premium brands, especially those related to at-home consumption, is that emphasizing the quality and premium nature of a product and a brand's leadership position is likely to be a winning strategy.

Figure 4: Product Category Growth During the Great Recession in Major Developed Economies



Total category growth among developed markets during 2008/2009

SOURCE: Euromonitor

SECTION 3

Lessons Learned from the Great Recession

Section 3 will analyze the lessons we can learn from the Great Recession and apply them to the current crisis. Many of the consumer behaviors seen during the Great Recession are evident today.

5 Lessons From the Great Recession

1. All consumers cut back on spending, even those without budgetary constraints. Marketing and branding should identify core consumer groups and give them “permission” to purchase by alleviating guilt and demonstrating value.

2. Mid-market brands face a difficult period, as price-competition with private-label goods and cheaper alternatives are likely to intensify.

3. Premium brands can capitalize on the hedonistic impulses of high-income, economically insulated consumers by enhancing their premium, indulgent image.

4. Brand loyalty and market share are up for grabs. While the overall size of the market may decline, brands that can demonstrate value have the opportunity to capture market share as consumer habits break down, and spending choices are being reconsidered.

5. Now is not the time to cut marketing budgets. Brands that continued to spend during the Great Recession outperformed those that cut back.

What's Different This Time? Shifting Demand for CPGs

While there are important lessons that can be learned from the past, there are also significant differences due to the nature of this crisis. An example of this can be seen in how spending on CPGs has evolved.

IRI, a market research company, tracks **spending on categories of CPGs**. This data shows that spending on home consumption products has increased significantly — demand was up 10% between June and August compared to a year earlier. This is unsurprising given that people are spending more time at home as a result of the pandemic.

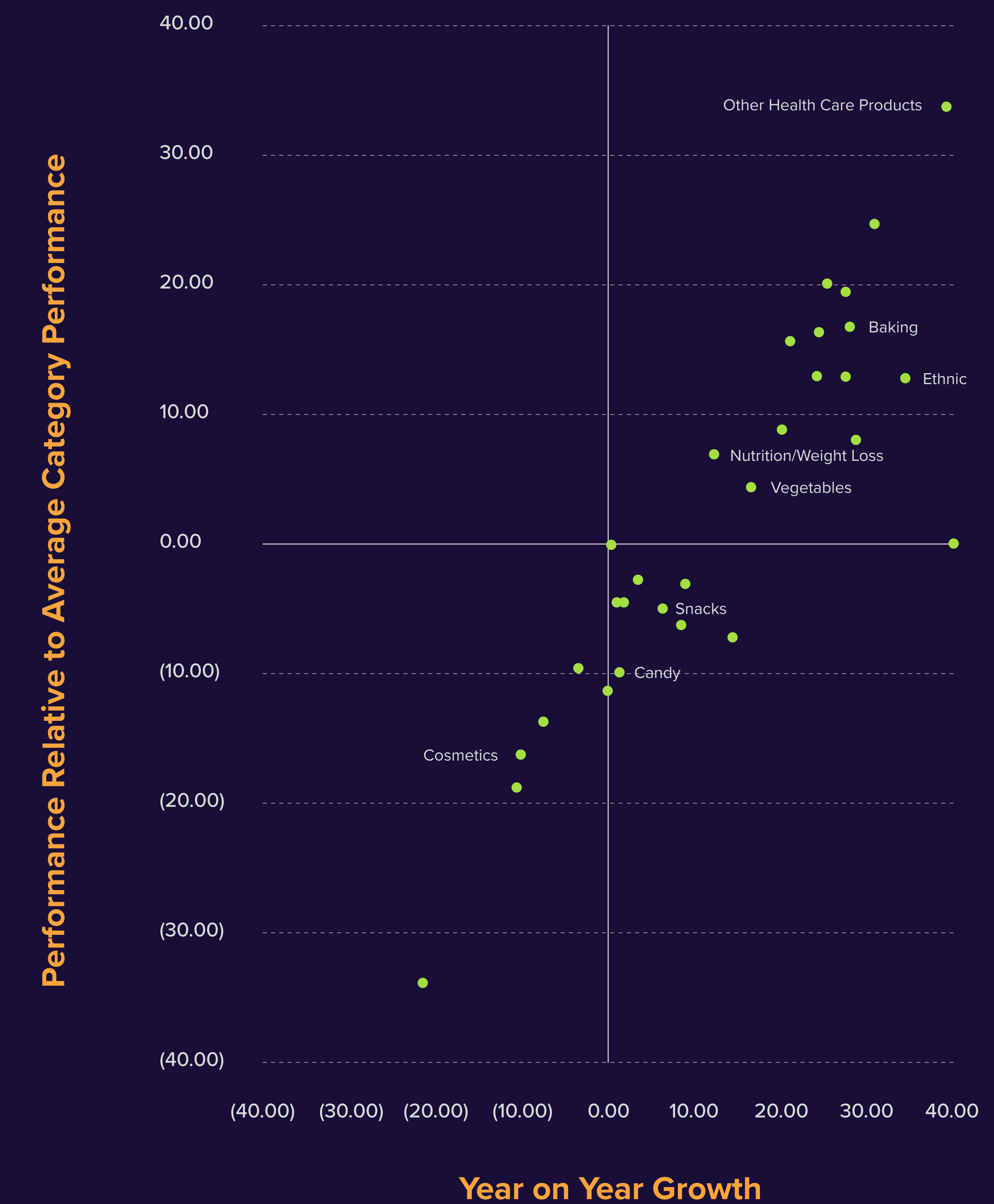
During the Great Recession, sales of "sin" products, such as alcohol, tobacco, and candy, all increased. In contrast, today we see sales of fresh foods and health-related products increasing relative to the baseline category growth, while unhealthy products perform relatively poorly.

Sales of snacks, cookies, and candy are underperforming the edible category as a whole by between 7.4% and 12.3%. Nutrition and weight loss products, however, are outperforming the category average by 6.8% (see Figure 5).

The trend toward healthier lifestyles can be seen in what people are searching for online. Google **searches** (see Figure 6.1) for healthy food and drinks have been about 10% to 20% above average for the past three months. Interestingly, at the start of the pandemic, searches fell by 30% — likely reflecting the fear and uncertainty of those early days. Searches for exercise have also increased significantly — 30% above the baseline for this time of year.

Anchoring effects, a concept in behavioral science and psychology, provide some insight into this phenomenon. Since the start of the pandemic, consumers have been repeatedly exposed to messages about the virus, illness, and health.

Figure 5: Year-Over-Year Growth vs. Performance Relative to Category for CPGs



SOURCE: IRI

These messages create a cognitive bias within consumers, which leads them to both think about and value health more highly than they otherwise would.

Another growing trend is cooking at home: Sales of baking products, fresh and frozen meat, and vegetables all out-performed the edible category as a whole. Seafood sales are up 40% year-over-year.

Google search data (see Figure 6.2) backs this up. April saw recipe searches increase by 120% compared to the baseline average. While interest has since subsided, searches are still around 30% higher than we would expect for the time of year.

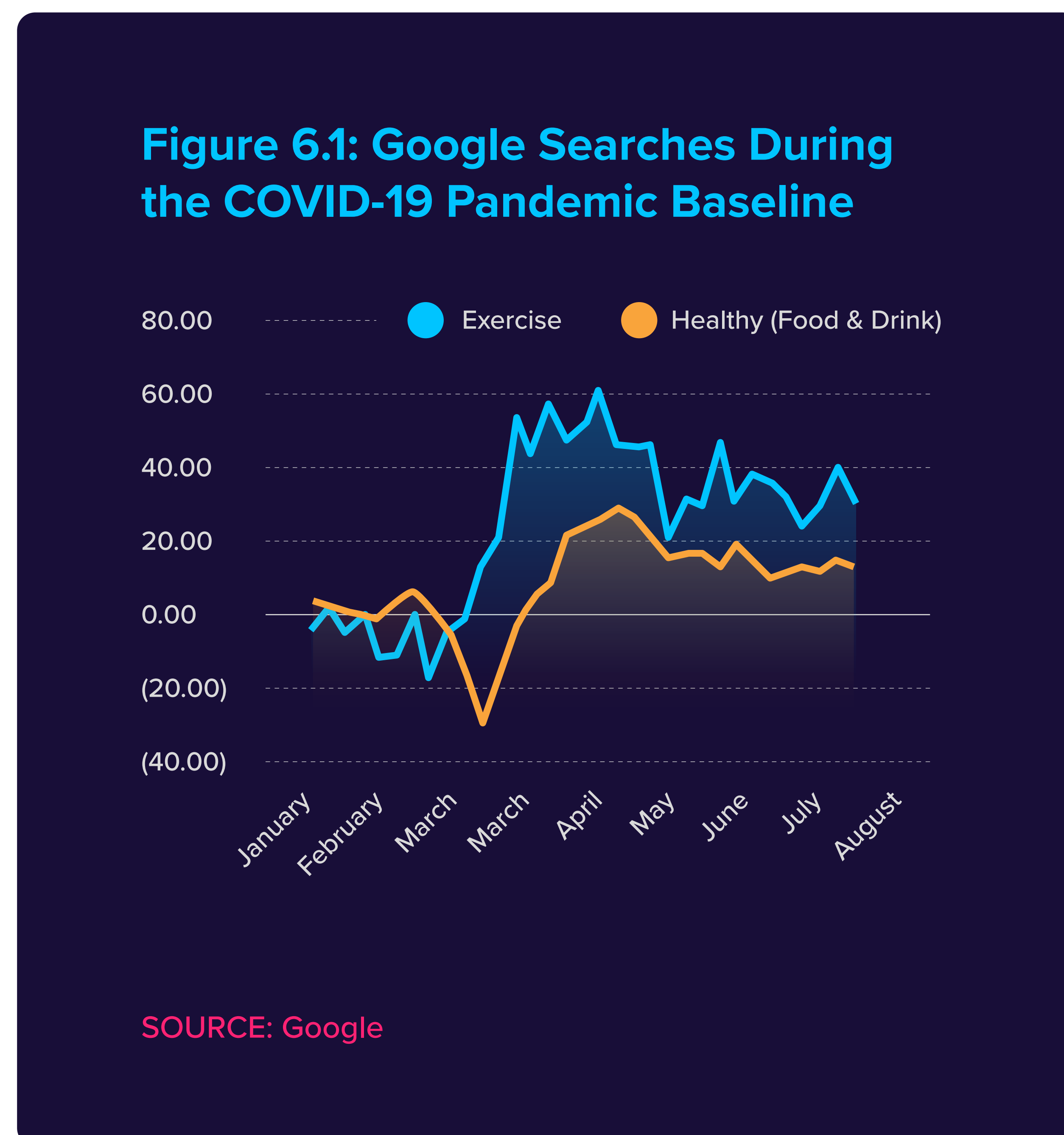


Figure 6.1: Google Searches During the COVID-19 Pandemic Baseline

SOURCE: Google

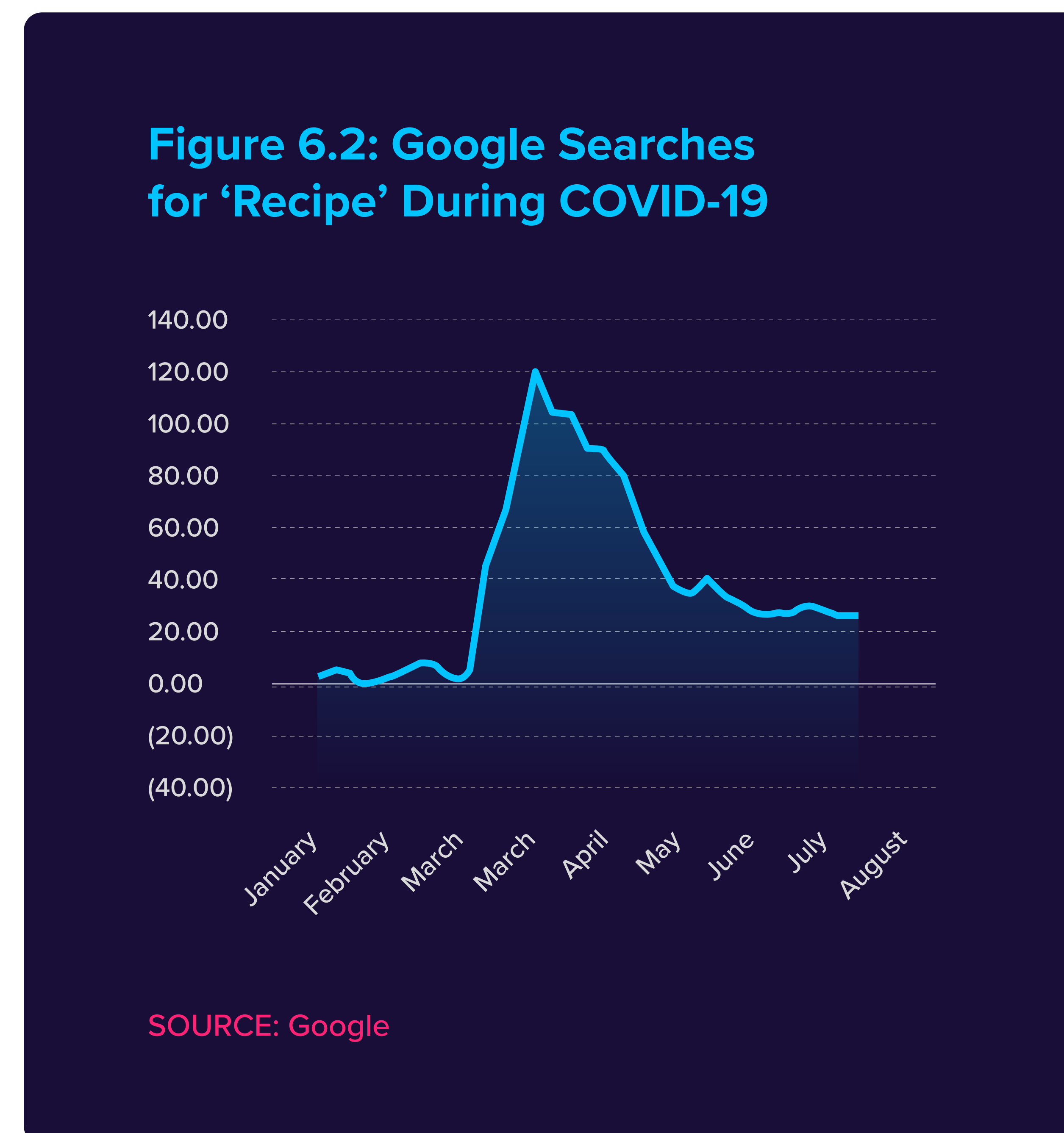


Figure 6.2: Google Searches for 'Recipe' During COVID-19

SOURCE: Google

These trends clearly represent a significant opportunity for brands to connect with consumers who are increasingly conscious of health, wellness, and exercise. However, it is essential to remember that consumers in this period are both more aware and better able to research and evaluate marketing claims than ever before.

One of the foundational lessons from the Great Recession is that gimmicks do not work in downturns. The brands that succeed are those that align their brand with the value their product delivers for consumers.

Lessons for the Recovery

COVID-19 will not last forever. Eventually, there will be a vaccine, or, at least, advances in therapeutic treatment that will significantly reduce the mortality rate. There **appear** to be several promising vaccine candidates, and the pharmaceutical companies are working on building up production capacity. However, the timelines are unknowable at this stage.

Given the challenges of scaling up complex manufacturing and distribution processes, the best estimates seem to be that an effective vaccine will become available at some point in 2021. This reality means the health-induced aspect of this economic crisis will be relevant for another 12 to 18 months.

Even then, there will not be an immediate return to normalcy. The economy, which is just a helpful way of talking about the collective actions and decisions of individuals, firms, and government, takes time to adjust. There will be aspects of consumer behavior that undergo permanent changes.

One lesson from the Great Recession is that recovery will be uneven. **The economic recovery**, measured in terms of the value of consumer spending and frequency of shopping trips, began in earnest in 2011 for the households in the top 20% of the income scale.

However, the bottom 80% continued to spend less. Unemployment rates didn't return to 2007 levels until 2016. The **slowest growth** in spending was among middle-class households (40th to 80th percentiles).

This stilted growth partly explains why frugality and price-sensitivity continued to be important themes throughout the 2010s. Many consumers, having changed their shopping habits during the recession, did not immediately switch back once the economy began to improve.

For example, sales of private-label goods increased significantly during the recession, but they then managed to maintain (and often even expanded) their market share over the subsequent decade. In 2011, Nielsen found that the quality of **private-label brands was perceived to be "as good as" national brands** by 65% of consumers, and 38 % thought some were of higher quality

This change in perception permanently reduced consumers' **willingness-to-pay** from premium brands.

What does this mean for brands? For premium brands that primarily target more affluent consumers and successfully maintain their perceived value relative to cheaper alternatives, the recovery is likely to be fairly rapid once the economy starts to show signs of improvement.

Many of these consumers will have seen their household finances improve over the period and may be more willing to spend on luxury products and indulgences once the economic narrative becomes more positive.

For more mass-market, second, or third-tier brands, the recovery is likely to be slower due to a combination of income effects. Those who have lost jobs will continue to have constrained budgets for a period of time and long-term changes in willingness-to-pay.

The continuation of more generous unemployment support and further stimulus checks will play an important role in ensuring the budgets of low- and middle-income Americans are strong enough to support a rapid recovery.

Many of the start-ups and brands founded in the Great Recession found ways to reinvent products and services at a lower cost. In the tech sector, Uber and Airbnb developed business models that reduced the cost of taxis and hotels for consumers.

Groupon, founded in the fall of 2008, provided deals for goods and services at local businesses. In the CPG segment, several direct-to-consumer (D2C) brands were founded in the early stages of the recovery. For example, Dollar Shave Club, set up in 2012, challenged the high cost of razors with a low-cost subscription model.

SECTION 4

Predictions for the 'Next Normal'

Section 4 will attempt to predict some of the long-term changes to consumer habits and behaviors that might emerge from the pandemic. While making predictions is a dangerous game, multiple trends are likely to continue post-pandemic. This is particularly true where COVID-19 has accelerated pre-existing trends, in areas such as remote working, ecommerce, and health and wellness.

Impact of Working From Home

One of the key trends that is likely to persist into the post-pandemic world is working from home. A **survey** by PWC found that 83% of office workers want to work from home at least one day per week, and a majority of employers expect this to become the norm post-pandemic.

Those that can work from home tend to be older, better educated, and have higher incomes. An **analysis** by the U.S. Bureau of Labour Statistics found that approximately two-thirds of those with a Bachelor's degree can work from home, rising to 86% of those working in management, business, and financial occupations — and **around half** were doing so in July. This compares to under a quarter of workers without a college degree.

Increased working from home, among generally more affluent workers, has two important implications for brands and manufacturers:

1. It will change the relative demand for consumer products, increasing demand for household items, at-home lunch products, office supplies.
2. It significantly reduces the friction associated with ecommerce.

A **survey of global consumers** by KPMG found that — excluding wanting to touch or try the product — shipping issues were the primary reasons for not shopping online. If a substantial proportion of consumers are at home for significant periods, then the hassle of waiting for deliveries reduces the barriers to purchase.

Enhanced delivery options were the second most crucial factor in choosing where to buy online. This is particularly true for food and beverage products, where freshness and shelf-life are a concern. Furthermore, the blurring of work-life boundaries opens up more opportunities to connect with consumers: Around **half of U.S. adults** have been using social media more since the start of the pandemic.

Health and Wellness

Health, wellness, and self-care were booming themes before the pandemic, spanning a whole variety of CPG categories. In 2018, IRI estimated the market would grow by $450 billion over the next few years. Given the increase in interest during the pandemic, it is likely that we will see this trend accelerate, especially if consumers who have tried products for the first time find that they deliver value.

Ecommerce and Digital Retail

Almost overnight, COVID-19 massively increased the size of the ecommerce market: The total dollar **value of online retail spending** increased by 25% between January and May 2020.

Even as lockdowns were eased, the value of online spending remained resilient. August saw non-store retail sales up 22% from the beginning of the year. The share retail spending taking place online has increased to 50% from 14.9% of total retail spending in August 2019 to 22.3% in August 2020.

While these are transformative shifts and will undoubtedly reshape the retail landscape, they are merely continuing pre-pandemic trends. It seems highly likely that much of this spending will permanently shift online. Consumers are in the process of forming new digital shopping habits, which will embed over the next few months.

Brands that can provide consumers with seamless digital retail experiences now will be a strong position to capture market share in the post-pandemic world.

Digital Shelf Institute

The Digital Shelf Institute (DSI) is a community dedicated to developing and sharing the best actionable insights and strategies for brand manufacturers to win on the digital shelf.