Every picture tells a story

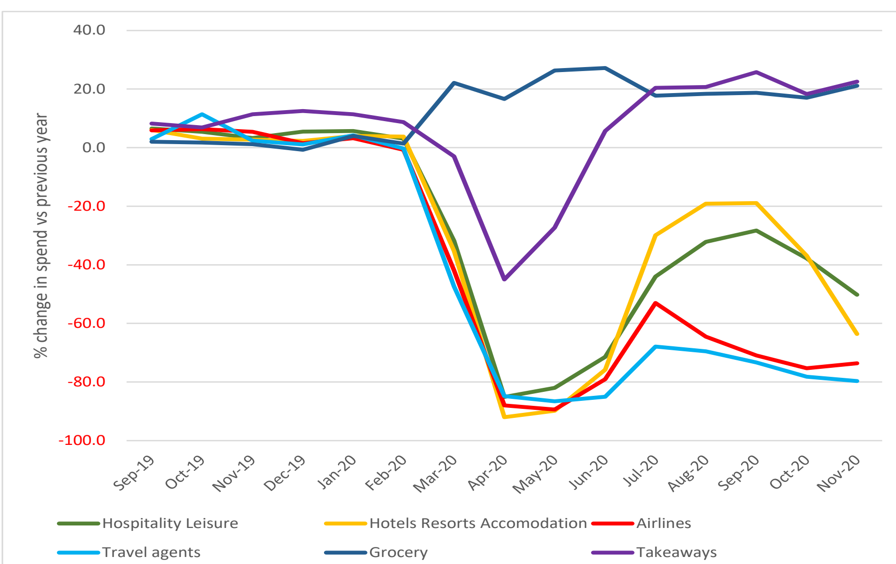
The latest figures on economic activity were released last week and unsurprisingly they showed that the rate of recovery in the UK had slowed. GDP in October was estimated to be 0.4% larger than in September and for the services sector, which accounts for some 80% of economic activity, it was just 0.2% higher than in the previous month. Whilst there were restrictions on activity across some parts of the UK in October, it was not until the 2nd November that there was the second national lockdown for England. Clearly the figures for November will be even worse, not least given the increase in the number of businesses that had "paused" or "temporarily ceased" trading.

A particularly interesting and more timely insight into trends, in at least some of the service sector, is provided by Barclaycard's monthly data on consumer spending which covers almost 50% of the credit and debit card transactions in the UK.

The latest data for November shows that consumer spending declined 1.9% despite strong growth in ecommerce sales overall, but particularly for grocery where they were up by some 97% over November 2019. Elsewhere, and reflecting the trend since July, not only were sales of takeaway meals materially higher (+22% in November) but the average size of the transaction has also increased.

Unsurprisingly the worst hit activities all relate to travel and hospitality and where the experience of the airlines can be read straight across to what their "cash in advance of carriage" balances might look like. As a sector it has only been travel agents that have performed worse in terms of the loss of consumer expenditure.

Chart 1 UK consumer spending trends

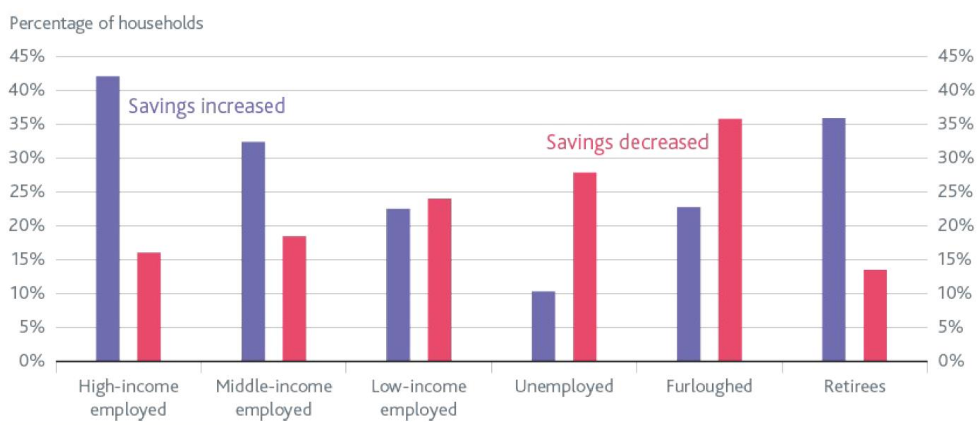


Source: CTAIRA from Barclaycard data

Looking ahead, and where we have also seen yet another short notice decision on the quarantine list and the removal of the Canaries from the travel corridor list, traveller uncertainty will remain with the inevitable consequences and where sales will be much closer to the date of departure with all of the resulting impacts. Beyond this what is likely to be the closure of EU destinations to most UK travellers as the UK is unlikely to be on the COVID-Safe countries list after January 1st 2021 is another dampener on future spending in the sector.

Much has been made about the potential of pent-up spending power resulting from more savings overall. Although the most recent data on household savings ratios show that by the end of Q2 this had increased to some 29%, compared with 6.8% in the corresponding quarter in 2019, it is important not only to be realistic about how this will have fallen back in Q3, as activities reopened, but also in respect of how the increase has been spread across various groups. On the basis of more recent data from the US[1], where the pattern in Q2 was broadly similar to that of the UK, the Q3 savings ratio fell back from a high of 33.7% in April to 13.6% in October which compares with 7.2% in October 2019; it is reasonable to expect a similar experience in the UK. In terms of the changes in saving behaviour across various household groups in the UK, the most recent Bank of England survey[2] is particularly revealing.

Chart 2 UK Savings behaviour



Source Bank of England

Indeed, as the authors of the report succinctly suggest, the extent to which the increase in savings might translate into expenditure over the next few months depends on which households have experienced an increase in savings and what they plan to do with it. In broad terms 28% of households have increased savings whereas some 20% have depleted their savings. Furthermore, the results of the survey suggested that only 10% of those who had increased their savings planned to spend the money where some 70% said they would leave the increase in their bank accounts – something that seems to be a not unexpected response in an uncertain environment.

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[1] Federal Reserve Bank of St. Louis 25th November 2020

[2] How has Covid Affected Household Savings 24th November 2020

Against this background it is perhaps reasonable to discount the view that there is significant pent up spending power. Consequently, attention should still focus on what was likely to be a modestly paced further recovery in UK economic activity before the widely anticipated dislocation from January 1st and the consequences of what is likely to be a substantial increase in unemployment into 2021. Taken together these factors will inevitably have a material bearing on the rate of recovery of UK origin airline traffic and where our current view remains that the short haul market is unlikely to recover to 2019 levels until perhaps 2024 and where for the long haul market this is likely to take even longer.

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