

Industry Top Trends Update

Retail and Restaurants

The road to recovery starts with a spending spree

What's changed?

Consumers are eager to make up for lost time shopping and dining out. With COVID-19 largely behind them, consumers are making plans to travel, dine out, and socialize. With the change in behavior comes a change in spending trends.

Consumers are shifting spending to goods and services that reflect pent-up demand for activities outside the home. During the pandemic, consumers focused on upgrades to their homes, and home-based activities such as cooking and hobbies. The relaxation of social distancing calls for celebratory dinners and refreshed wardrobes.

They have cash and intend to spend it. Households are financially healthy. Accumulated savings from foregone experiences during the pandemic and generous government support will continue to bolster spending. Rising consumer confidence levels reflect consumers' intention to continue to spend.

How is the recovery taking shape?

Restaurants have rebounded faster than we expected. Many dine-in restaurants reported demand returning to pre-pandemic levels in the second quarter. Casual diners compensated for lost dine-in revenue with off-premise offerings, and protected margins by simplifying menus. Full recovery is within reach. Quick-service restaurants fared relatively well during the pandemic due to their takeout and drive-thru operations.

Apparel is coming back with a vengeance. For many apparel retailers, the shock of the pandemic was too much—more than one-third of retail defaults were in specialty apparel or department stores. The survivors are now benefitting from “revenge spending” as consumers seek a sense of normalcy, but credit metrics for many issuers will not be restored until next year.

Prospects for grocery, home improvement, and other sectors that benefitted from nesting are uncertain. Issuers in these subsectors have had a banner year giving them cushion to absorb a slowdown without hurting credit quality. The strong housing market and hybrid work model are likely to provide support through 2021, but consumers may switch spending back to experiences faster than expected.

What are the key risks around the baseline?

A resurgence of the virus or new variants could cause localized disruption. We believe another broad-based shutdown is highly unlikely and that consumers would use their social distancing skills while continuing to shop. However, issuers with geographic concentration in hotspots could face a choppy recovery.

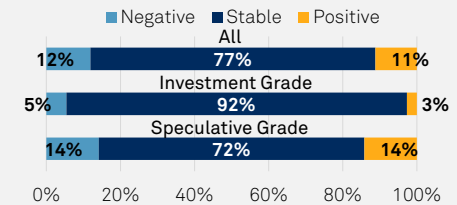
Extended supply chain constraints could dampen recovery and eat into margins. Labor shortages and shipping capacity limitations have popped up in restaurant and retail supply chains, causing inflation and stock-outs. We expect these to ease in the third quarter. However, if they worsen and extend into the holiday season, the impact could be meaningful.

Evolving business models present operational risks. The pandemic turbocharged the shift to e-commerce and introduced new ways of shopping to many consumers. Retailers need to invest in omnichannel platforms in the face of these changes.

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Outlook Distribution



Ratings Statistics (YTD)

	IG	SG	All
Ratings	37	106	143
Downgrades	0	1	1
Upgrades	2	26	28

Ratings data as of end-June 2021

COVID-19 Heat Map

Estimated Recovery To 2019 Credit Metrics		
Retail Essential	No decline	
Restaurants	1H 2021	
Retail - Non-essential	2022	
Potential Neg. Long-Term Industry Disruption		
Retail Essential	--	
Restaurants	Yes	
Retail - Non-essential	Yes	
2020 v. 2019		
Revenue Decline	EBITDA Decline	Incremental Borrowings
Retail Essential		
No decline	No decline	No increase
Restaurants		
5% to 10%	10% to 15%	10% to 25%
Retail - Non-essential		
15% to 25%	40% to 60%	10% to 25%
2021 Estimates vs. 2019		
Revenue Decline	EBITDA Decline	
Retail Essential		
≥2019	≥2019	
Restaurants		
≥2019	≥2019	
Retail - Non-essential		
0% to 10%	0% to 10%	