



The Isolation Economy

May 2020

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Introduction

Coronavirus has altered how we live, where we go and what we do.

The adjustment, forced upon us by the health pandemic, could be fleeting or deeply embedded for months or years to come.

Adapting to this will be crucial for society to move on, but also for businesses to survive.

Even when the rules confining us to our homes are relaxed, individuals will want to know which companies are sensitive to their safety concerns, how these are accommodated, and what real value the firm's products and services offer.

Some obvious beneficiaries have emerged during lockdown, including entertainment streaming services and online video conferencing, amid a major shift in consumer spending and working habits.

A nascent 'Isolation Economy' has developed that has seen certain sectors flourish at the expense of others.

But rather than being a temporary phenomenon,

there is a chance this shift in consumer spending experienced under lockdown will become a permanent representation of our society, as the world is only able to escape the devastating grip exerted upon it by Covid-19 in piecemeal steps.

Will the companies that benefit from populations being largely confined to their homes continue to prosper? Will the work-from-home phenomenon rapidly thrust upon many of the world's workers become a post-virus norm? Will the hobbies we've had time to focus on be maintained once a version of normality is restored? Or will incomes be hit as unemployment rockets, dramatically curbing discretionary spending?

There are no clear answers yet.

Acknowledging that these questions, and many others, need to be explored could be vital for business as the global economy and the habits that drive it recalibrate.

In this report, we seek to highlight how spending has changed, the sectors that have benefitted and suffered, and consider the potential longevity of the trends established during lockdown.

The Isolation Economy

Consumer behaviour has never been as comprehensively and rapidly disrupted as it has under the coronavirus.

Everything from working, socialising, eating, shopping and exercising has abruptly changed, as health concerns dictate our movements and entirely reformulate our economy.

This unimaginable shift has impacted people and industries in significant ways.

While the enforced encampment in our homes has been a boon for some companies, others have seen their revenues decimated through the simultaneous demand and supply shock.

The concerns that had occupied some industries until just a few months ago have been wholeheartedly gazumped by Covid-19, which has up-ended life in 2020 at inconceivable speed,

ferocity and scale, while completely obscuring the path to recovery.

For other industries, however, the huge shift in consumer needs and spending habits have allowed their businesses to continue and in some instances, even thrive. The future recovery of the UK might even rely on how well these companies can cope with the increased demands they're seeing.

But whether it be boom or bust, the new expenditure and consumption habits that have been quickly adopted by individuals, present whole new challenges to business models.

And for those firms who have got through with only some change, they will also be looking at how they can adapt and step-up.

But how long these habits evolve for, and in what form, will dictate the development and persistence of the Isolation Economy.



A shift in desires

In the immediate aftermath of lockdown, extreme changes in consumer behaviour emerged.

With travel virtually extinguished, restaurants and bars forced to close, and group gatherings banned, the availability and demand for various goods and services altered overnight.

Data from our survey, conducted by the Centre for Business and Economic Research (Cebr), shows that under lockdown, more people have increased than decreased their spending on four main categories:

Conversely, the shift in how we live our lives, coupled in many cases with reduced incomes or job losses, has seen more people cut spending on tobacco, socialising, education, fitness and take-aways than increase it.



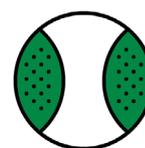
Groceries



Entertainment



Alcohol



Hobbies and crafts

Net balance (share of people who say their spending has increased less share of people who say their spending has decreased)

All UK adults

30%

Groceries

-7%

Tobacco

6%

Alcohol

-7%

Socialising

5%

Entertainment

-7%

Education

1%

Hobbies and
Crafts

-14%

Fitness

-27%

Take-aways

This matches search engine data, where terms related to holidays, eating out and football virtually disappeared in an instant, replaced by delivery services, tv subscriptions and 'how to' home improvements.¹

New priorities

5%

Amid the lockdown, the average UK adult has spent £104 a week on the four key categories of the Isolation Economy – a rise of 5 per cent compared to before the crisis.

£191 m

Scaling this increase up to a national level shows an additional £191 million per week is being spent by individuals with steady jobs or stable or improved self-employment income compared to normal.

10%

Those whose jobs and incomes have been unaffected have been a significant catalyst. Their spending on these four areas has hit £107 a week under lockdown, a rise of 10 per cent before restrictions were imposed.

£247 m

For all UK adults, the rise in weekly spending on Isolation Economy industries is an estimated £247 million – equivalent to £12.9 billion per year.



Downward pressure

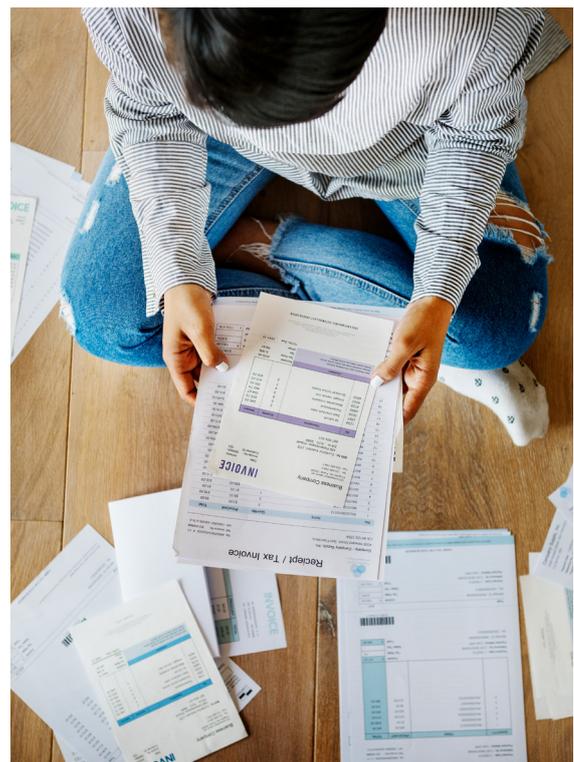
Although the Isolation Economy sectors have prospered, there's a very real concern about wider consumer spending.

As a nation, it has fallen by almost a third (31 per cent) due to Covid-19.

Our survey suggests this is equivalent to a £4.1bn drop in weekly spending or £215bn annually – a severe blow for the nation's businesses.

With HMRC announcing that 6.3 million workers had been furloughed up to May 3, a continued preference by the government for employees to work from home where possible for the new few weeks at least, and staggered arrival times for those in critical roles, there's a very real prospect of the Isolation Economy becoming more entrenched.²

If uncertainty about future employment persists, furloughed workers might continue to cut spending on things like eating out or going to the gym or cinema in favour of essential groceries and low-cost home entertainment services.



A clearer view

Although the four main categories saw a net increase in the number of people spending money on them, the picture is more complicated.

Only groceries witnessed a rise in real terms in the average amount spent by all adults in our survey – up 9 per cent.

Every age group – 18-34, 35-54, and 55 and over - racked up larger bills at the checkout, while those whose jobs have remained stable are spending 14 per cent more on average. But so-called panic buying could have inflated the numbers in the short-term.

Elsewhere, entertainment saw the smallest fall in expenditure, down 4 per cent. Millennials (18-34) cushioned the blow, spending on average 1 per cent more, while the older generation (55+) slashed outgoings here by 10 per cent.

Spending on alcohol by millennials has fallen during lockdown, potentially because the sectors worst hit by the restrictions are heavily occupied by younger workers.³ The middle (35-54) cohort has upped spending by 1 per cent but the older group has cut it by 10 per cent.

And with hobbies and crafts, millennial spending has only fallen marginally (-0.3 per cent) but has dropped a larger 2.5 per cent among middle and older respondents.

14%

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have remained
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Timing is everything

Even though average spending on some of the four main Isolation Economy sectors has fallen, the amount of time spent on them is key.

2.5 hrs

With many workers furloughed and children not at school, time spent watching TV and playing video games has risen by nearly two-and-a-half hours per week.

2 hrs

Digital technology has also been harnessed to replace the face-to-face socialising no longer possible under lockdown.

Adults are spending an average of 2 hours a week extra using services such as WhatsApp, Skype and Zoom to connect with friends and relatives.

1 hr

And the bread-baking boom is likely to have contributed to the extra hour being spent per week on hobbies and crafts.⁴

Again, the generational differences are important in understanding the Isolation Economy.

Millennials (18-34 year olds) are spending 5 per cent more time on the four key categories than before the crisis, whereas 35-54 year olds are devoting 10 per cent more time to them.

However, the shift is greater in magnitude for younger people in some areas. For instance, millennials are spending 3 hours 20 minutes more on entertainment compared to just under 3 hours for 35-54 year olds.

Similarly, nearly 3 hours extra are being devoted to digital socialising by millennials compared to 2 hours for 35-54 year olds.

Tough going

The time and money spent on the main Isolation Economy sectors is proving damaging to other industries.

The share of people surveyed that reported a decrease in spending on take-aways and fitness-related activities exceeded those reporting an increase in such spending by 27 percentage points and 14 percentage points, respectively.

Similarly, the share of people reporting a decrease in spending on tobacco, socialising and education was 7 percentage points higher than those reporting an increase for those categories.

Although it is difficult to say with any certainty, other factors could be impacting the numbers.

A reduction in spending on take-aways might be because large numbers of restaurants were not set up for delivery, or have a limited delivery capability, rather than a lack of demand.

And lower spending on fitness has largely been forced upon people due to gyms and leisure centres being closed.

Many exercise-related businesses are implementing reduced lockdown fees as a way to dissuade members from cancelling altogether, and with our survey showing adults are spending roughly 20 minutes more on fitness and wellbeing during lockdown, there could be a recovery in spending when restrictions lift.

27%

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Stick or twist

Once infection rates are on a definitive downward trajectory and government-mandated curbs on movement are loosened, how consumers behave will have a major effect on the Isolation Economy.

Our survey suggests the majority of people plan to maintain at least some of the habits they have cultivated while spending more time at home.

More than two thirds of people (69 per cent) said they will continue cooking more meals at home, while 57 per cent said they would maintain some or all of their newfound hobbies.

Elsewhere, 56 per cent of respondents expect to stay in touch with friends and family that they cannot see in person via video calls.

Support for maintaining home workout routines is slightly weaker (46 per cent) while less than a fifth (18 per cent) of those surveyed expect to order more takeaway meals after lockdown.

The degree to which these goals are adhered to will have fundamental importance to the longevity of the Isolation Economy.



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Here to stay? What next? Where from here?

Lockdown has forced people to do much more at home.

This extends from working to socialising and hobbies.

How closely our behaviour after lockdown resembles it pre-coronavirus will be a crucial factor in the sustainability of the Isolation Economy.

Many companies may have had to invest in

technology to allow them to operate efficiently with staff at home.

Bringing everyone back to the office could make that capital expenditure worthless, something firms will be keen to mitigate, and workers might exert a strong preference to remain at home to avoid infection.

This could favour digitally-savvy companies and impede those whose first experiences with remote working was forced upon them by lockdown.⁵

Social norms

Outside work, new-found DIY, baking and gardening skills could persist as trepidation about returning to pubs, restaurants, cafes and cinemas lingers.

If social distancing remains a requirement for months to come, it's difficult to see how some business can operate profitably.

Take a restaurant. How can a waiter serve diners while keeping two metres away, who can people eat out with, and how many covers can a restaurant safely accommodate?

Large gatherings at cultural events, music festivals and major sporting spectacles might be dodged

even if people are allowed to go. This could have ramifications for food and drink brands, advertisers and broadcasters to name a few.

The disruption to national supply chains could also bolster demand for locally-produced goods.

Our survey revealed that 60 per cent of respondents planned to buy more products in local stores once lockdown ends, no doubt a result of the fact more than four fifths (82 per cent) of those asked said coronavirus had highlighted to them how important a stable supply of locally produced food and goods is.

A further 58 per cent of respondents said they would also be willing to spend more for products made in Britain rather than overseas.

60%

Respondents plan to buy more local products once lockdown ends with 58% willing to spend more for products made in Britain rather than overseas.

5. https://info.boardofinnovation.com/hubfs/01.%20TOOLS%20DOWNLOADS/board-of-innovation-low-touch-economy.pdf?utm_campaign=low%20touch%20economy&utm_medium=email&_hsmt=85605569&_hsenc=p2ANqtz-GXLIFNk-0bAK5sk9zEgNK_b2JOE_hWmAhDktYNbEkokLfOxR1uiQesuAP0a_jP9IQ9fWDM&utm_content=85605569&utm_source=hs_automation

Going nowhere

The trend for local could extend into travel as the busy airports needed to take foreign trips are shunned.

Such holidays would allow people to remain isolated in their cars to their destination, reducing contact with others.

But who will win the accommodation battle?

Will major brand hotel chains prosper through their ability to spend more on cleaning? Or might potential guests perceive there to be a lower risk of infection at smaller, independent hotels that have

lower numbers of people through their doors in absolute terms?

And what for the sharing economy?⁶ Will holidaymakers be prepared to rent a privately owned property from an online website if they cannot be sure of who has stayed there before and how well it has been cleaned?

To survive, hospitality businesses may have to show potential customers how they can ensure a safe and hygienic stay, perhaps by increasing the frequency with which public areas are cleaned, making hand sanitiser readily available, or implementing new training for housekeeping staff.⁷

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Services drag

It is common for the manufacturing sector to push economies into recession but the coronavirus crisis is different.⁸

So far, many more factories remain open than businesses within the services sector.

With service industries being far more labour-intensive, it's likely a larger proportion of people will

become unemployed than in previous recessions. This will be a major driver of the Isolation Economy.

As incomes become squeezed, it's likely discretionary spending will fall.

Even if a gym offers online exercise classes or a local pub starts takeaways, such indulgences may well be unaffordable for larger numbers of people.



A new direction

An employment crisis could be beneficial for education and training services though.

Already during the crisis, demand for educational apps, including languages learning platforms, have proved exceptionally popular.

People often consider changing careers but relatively few take the leap. This unexpected and dramatic interruption to their lives could prompt many to enter a new profession.

Companies specialising in online healthcare, counselling, consultancy, tutoring and advice may be able to grow, while the social status of delivery drivers and care workers – who have become highly invaluable during lockdown – could encourage more to those professions.

The common denominator behind any business that will win throughout the Isolation Economy's existence and beyond though, is innovation.

Research has shown the most innovative companies spend even more on research and development during a recession, while investing in new growth options as opposed to just cutting costs has been shown to be beneficial.⁹

Such bravery will be needed to survive through the Isolation Economy and potentially thrive in a post-coronavirus world.





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