

Update II

The E-Commerce Market After Corona

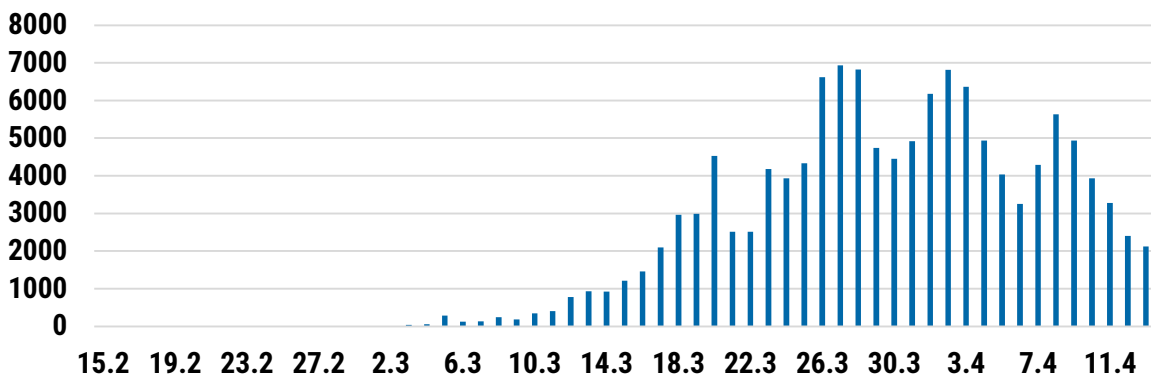
Development of COVID-19 during the Easter holidays in Germany – is there finally a sight of hope for the economy?

The magic boundary: Easter! We have indicated in our first published analysis that the period over Easter will be decisive for the stabilization pace of the German and European markets.

Key message: if the peak of new infections was reached by Easter, then there is a good chance that the impact of the pandemic on our domestic economy will resemble a V-shaped curve. Just to remind: a V-shaped curve is characterized by a rapid, sharp decline of the economy but also by an equally rapid recovery and stabilization. Although the government's strategy will most likely mean that the economic status quo will be reached slower than in China, a complete and timely recovery is still realistic.

The current numbers:

Number of Daily New Cases in Germany



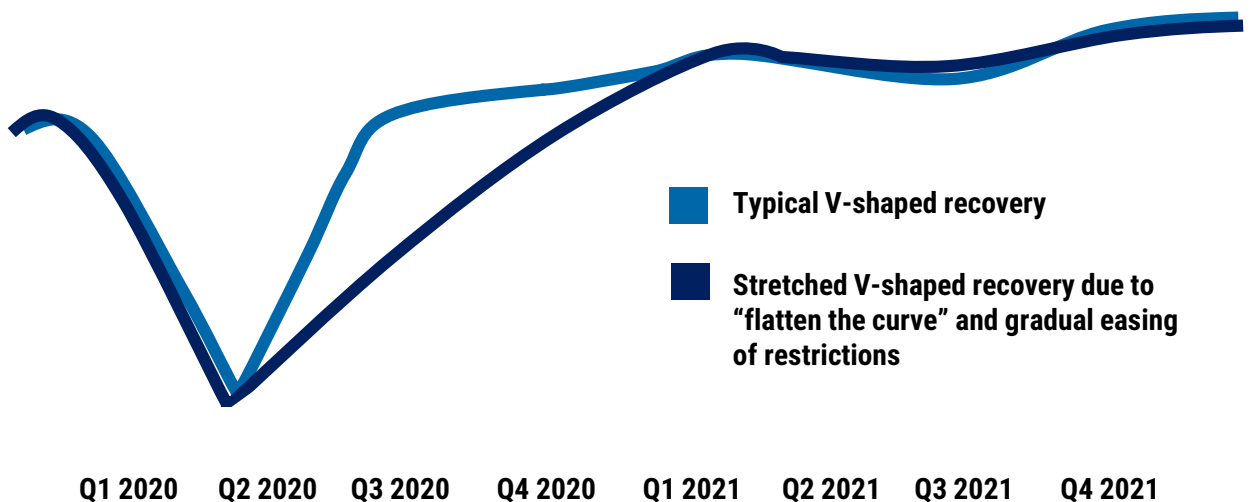
Source: Worldometer (2020): COVID-19 Coronavirus, Daily New Cases

It is obvious that despite wonderful summer days in the past two weeks that tempted the people to spend time outdoor and thus, having physical contact with others, we observe a significant decline in the number of new infections.

Nevertheless, the decline, as was assumed based on the government's measures to "flatten the curve", is much slower than in China. We have witnessed that in China the time period between the peak of new infections and the stabilization of the e-commerce market, accompanied by a significant drop in new infections below 50, was about 1.5 months. Meanwhile, the economy in the country started recovering again. And in Germany? Let's take a look at the most important key data for assessing the situation:

1 What strategies does Germany pursue?

- Germany aims not to overload the capacity of the healthcare system; the consequence: lower peaks but also slower decline in infections.
- The debate regarding easing social distancing rules continues, is 20.04.2020 still realistic? **The decision will be made today!** General tenor: slow recovery of the German economy; gradual easing of current restriction, instead of "a quick fix solution".



Arvato Research

2 What does the current development mean in numbers?

- **Economic collapse:** possible between **2.8%** (Council of Experts in the Government) and **4.2%** (joint forecast of economic institutes).
- **Unemployment rate:** peak in 2020 presumed at **5.9%** (cf.: 3.1% in 10/2020).
- **Disposable income:** will decrease by **0.9%** on average in 2020.

**What is in favor of an optimistic scenario?
Germany's favorable financial situation to cushion the short-term negative consequences for companies and private households.**

Deputy Director of the ifo Center Timo Wollmershäuser

German economy is expected to start recovering in the 3rd and 4th quarters of 2020, accompanied by an increase in employment and income.

Spring reports of the leading economic institutes 2020

Source: Handelsblatt (2020): <https://www.handelsblatt.com/dpa/konjunktur/wirtschaft-handel-und-finanzen-wirtschaftsforscher-deutschland-kann-rezession-verkraefen/25726078.html?ticket=ST-4707389-52AWUoAcVZE2YQBwUNXm-ap6>

3 And in e-commerce?

- Recovery forecasts - depending on the product group - can be better than the average (there are of course industries that are hit much harder, such as the auto suppliers, catering and the stationary retailers).
- The e-commerce market was hit with a YoY decline of 20%, but this is mainly to the complete crash in the travel industry.
- What to expect: A fairly rapid stabilization is expected in e-commerce sectors such as beauty, premium fashion, sporting goods and clothing (Q2) and a slower recovery pace for the high street fashion sector and the "Jewellery & Watches" segments (Q3).
- The fact is: smaller expenditures are made again faster by consumers, whereas larger purchases will probably be postponed to next year; as understandably consumers will probably be more cautious with their spending this year (15% savings rate versus 11% in 2019).

4 What are the conditions for these positive developments?

- The pandemic must weaken at the current rate and not become slower than what we are currently observing
- If it does, a surge in the economy would trigger another wave of infections
- According to the Ifo, every additional week of the shutdown means an additional decline in GDP growth of (by at least 0.7 percentage points) → prolonged shutdowns are not economically viable

"The politics dominated by civil servants and lawyers tend to view the economy as a large, static agency that can be closed for a while and, if necessary, subsequently helped with money. In reality, however, the economy is like a living organism that simply dies if its cycle does not circulate."

Wolfram Weimer, publisher

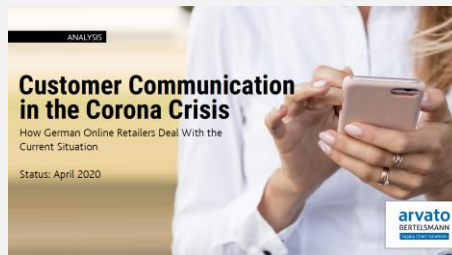
Source: The European (2020): <https://www.theeuropean.de/wolfram-weimer/kernschmelze-der-wirtschaft-droht/>

What remains to be seen: is the possible influence of the Easter holidays. Whether the majority of the population has complied with the legal requirements or not, will be seen 9-15 days after Easter.

The right course now seems to have been set. But how quickly the economy recovers depends on at what point politicians and business leaders are willing to ease the lockdown: lifting the ban will obviously result in economic growth (a decision is supposed to be made today). However, an extension of the shutdown would hit the entire economy as well as the e-commerce industry disproportionately. Meaning: An extension of 2 weeks does not automatically lead to a recovery delayed by 2 weeks, but it requires a significantly longer stabilization phase. Reason: A longer shutdown puts even more companies at risk of insolvency, the unemployment rate increases and consumer spending will decline even further.

Forecast: Although a quick recovery of the economy seems realistic at the moment (while the V-scenario will have a different course than in China), radical measures by brands and retailers, especially the multichannel players, are crucial. It is very important to review as to what extent a reorganization of the retail stores or perhaps an optimization of offline businesses is necessary. More importantly, how a stronger focus on the online channel can be successfully implemented in the long run, or should companies think twice now about their older channel structures that are vulnerable to a crisis.

More Analysis from our eCommerce Competence Center arva.to/ecc



Questions? Get in contact with us!

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