

Global Economic Insights

September 2020

Customer loyalty enables a faster recovery

Businesses with more loyal customers are adapting to the pandemic better and are well placed for the recovery, according to Visa's latest data. Leveraging anonymized global transaction data across millions of merchants accepting Visa cards, we found that merchants who had a greater share of sales coming from repeat customers prior to the pandemic recovered faster on average once the lock-downs were lifted. Businesses that depend on attracting new customers to maintain revenue growth are more exposed to the downturn.

This big data-driven measure of customer churn helps underscore that loyalty matters to the bottom line. Globally, businesses in the top quartile by customer loyalty were 9 percentage points more likely to remain open and experienced 17 percentage points higher sales transaction growth relative to their peers ranked in the bottom quartile through the end of August.

Repeat customers provide a solid basis for recovery

From Sydney to Johannesburg, consumers frequent a narrower set of businesses when shopping for groceries but a wider set when eating out or traveling. Customer loyalty, (measured by the share of sales generated by repeat customers) tends to be higher in everyday spend categories such as quick-service restaurants (QSR) and lower in more discretionary categories such as electronics retailers.

The degree to which businesses are able to maintain a sticky customer base can also vary widely within the same industry. Across 35 markets studied, for instance, Finnish consumers were most loyal to their grocers, while Vietnamese shoppers were the least. Differences in customer loyalty matter; other studies have found firms with more loyal customers have better revenue growth, and are more profitable.¹

Sources: Visa Business and Economic Insights, VisaNet, Baker, Baugh and Sammon NBER study.¹

This Issue

Repeat customers account for a greater share of sales in certain merchant categories

Brands can help boost customer retention and merchant performance

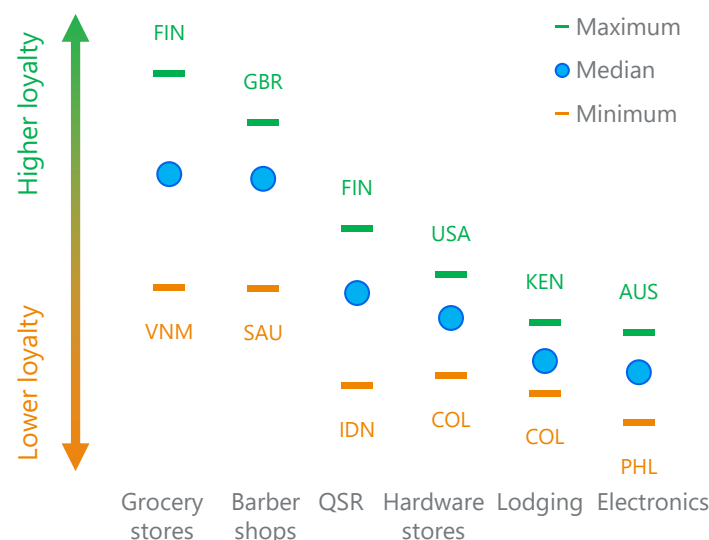
COVID-19 Economic Impact Index

Regional recovery updates

Cross-border travel

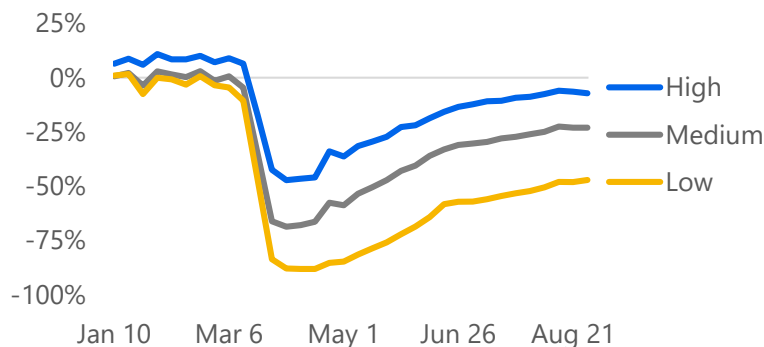
A resurgence of COVID-19 is putting pressure on businesses again

Repeat customers account for a greater share of sales for grocery than electronic stores



More loyal customers speed the recovery across merchant types

QSRs with more loyal customers have recovered faster (YoY card transaction growth by degree of loyalty)



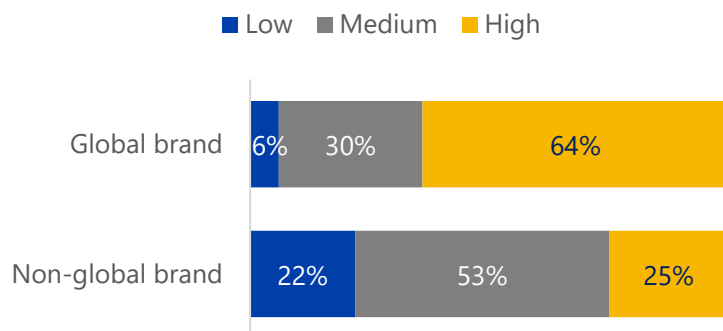
| Merchant category | Difference in transaction growth between firms with high and low customer loyalty scores (ppts) |
|--------------------|---|
| QSRs | 44 |
| Hardware stores | 12 |
| Barber shops | 8 |
| Electronics stores | 7 |
| Lodging | 5 |
| All | 17 |

During the current pandemic, the benefits of having a more loyal customer base have become readily apparent, especially in the food service industry. Quick services restaurants (QSRs) in the top quartile of customer loyalty (e.g. having the highest share of sales from repeat customers) outpaced those in the bottom quartile in terms of year-over-year (YoY) card transaction growth by as much as 44 percentage points.

QSRs are not the only category where higher customer loyalty leads to better revenue outcomes. Across all categories, merchants with high customer loyalty had a 17 percentage point advantage over those in the lowest tier of customer loyalty. Even in lodging—one of the worst-hit categories—firms with more loyal customers recovered about 5 percentage points faster. The wider gap in QSRs as opposed to other merchant categories could be linked to the additional challenges faced by restaurants due to public health mandates and more people working from home.

Power of brands – the case of restaurants

Restaurants by brand and customer loyalty²
(Percent of total still operational in August 2020)



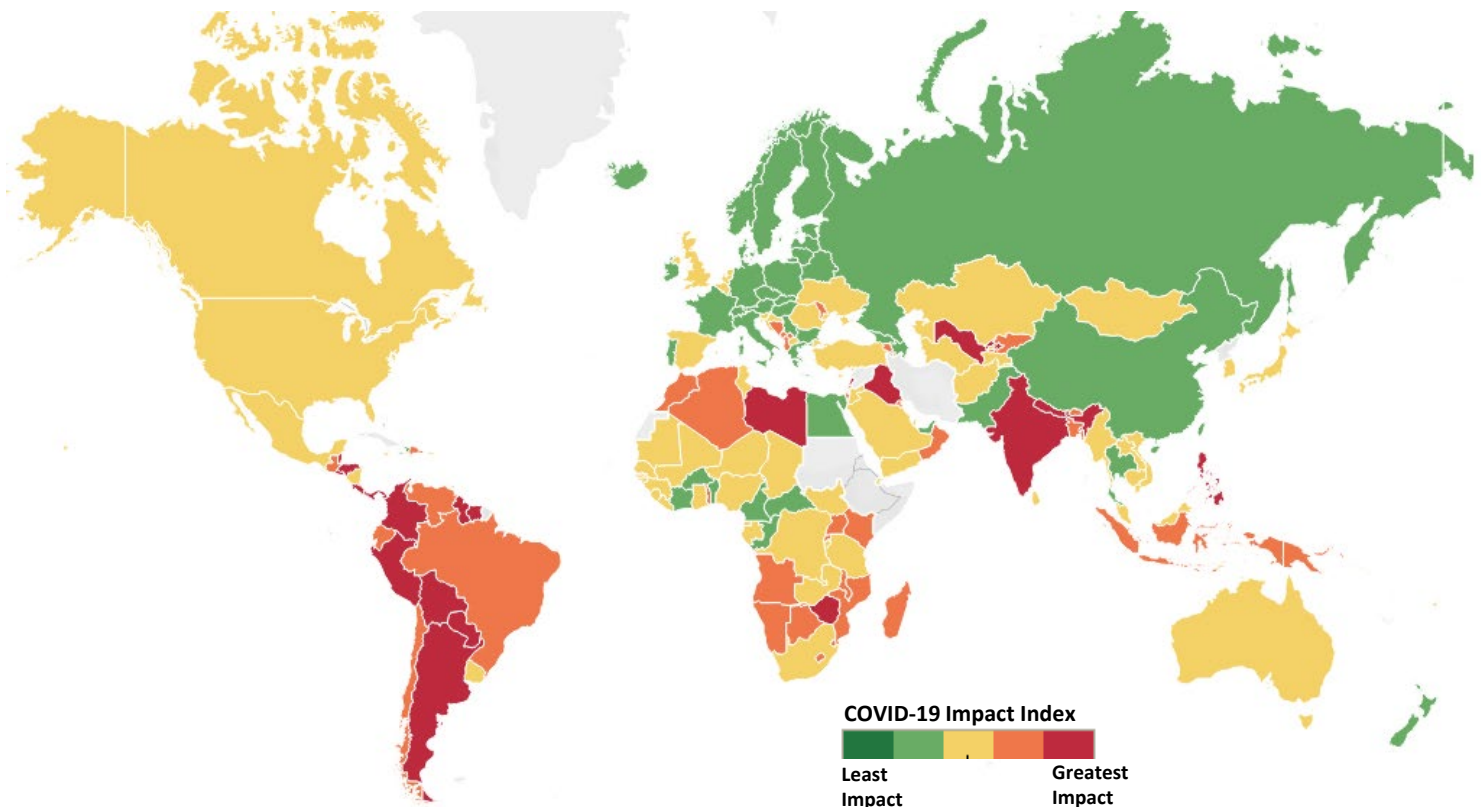
Customer loyalty clearly drives the franchise value of businesses, so what attributes can help predict a merchant's success in securing such loyalty? The power of a global brand, for one. In a sample of all restaurants that managed to remain open in August, well over half of multinational brands had high customer loyalty scores in 2019, compared to just one in four for their local-brand counterparts.

Economic research suggests that consumers' propensity to visit new retailers increases with income as they spread their spending away from chain stores towards more boutique shops and independent restaurants. As household incomes recover from the pandemic, businesses that have invested in building their brands and customer loyalty will be better positioned to capture returning consumers.

Sources: Visa Business and Economic Insights, VisaNet, Baker, Baugh and Sammon (NBER study) – Measuring customer churn and interconnectedness.



Economic impact of COVID-19 (by country)



- As of 14 September, there are now 29.1 million confirmed COVID-19 cases, with 19.6 million recoveries and 925K deaths. COVID-19's economic impact appears to be waning with the countries that have been most severely affected by the pandemic easing to 23 in August.
- The continued recovery in broad-based measures of mobility and industrial production, led by the easing of restrictions in northern Europe, were the primary drivers of the modest improvement in the August reading of the economic impact index .
- Despite the resurgence in COVID-19 deaths and depressed consumer confidence levels, household spending on discretionary categories in the majority of countries inched up closer to the pre-pandemic trend line last month.
- Regionally, the economic impact index indicates a sharper downturn for countries in the southern hemisphere, particularly in the Latin America region, which accounted for over 40 percent of global deaths in August.

The Visa COVID-19 Economic Impact Index tracks how the pandemic has affected economic activity across the globe through 12 key indicators: COVID-19 confirmed cases, COVID-19 death rates, airline transactions, cross-border lodging transactions, discretionary spend, discretionary transactions, restaurant spend, restaurant transactions, Google COVID-19 community mobility, consumer confidence, Purchasing Managers' Index (PMI) and leading economic indicators.

- **Singapore broadens efforts to re-start cross-border business travel.** Singapore and Japan agreed to a “reciprocal green lane” that allows business and official travelers from each of their countries to enter the other without being subject to a 14-day quarantine. Singapore has similar arrangements with China, Malaysia, Brunei and South Korea. Singapore Airlines received approval to provide transit services from select cities in Indonesia and Malaysia. With the gradual resumption of business travel to Singapore, the government will be accepting applications for organizers to pilot business events of up to 250 attendees.
- **China’s manufacturing activity continues to grow.** The National Bureau of Statistics manufacturing PMI was 51.0 in August, signaling that more Chinese state-owned and large enterprises continue to expand their sales, than those that are contracting. The index fell 0.1 points from the previous month, reflecting the impact of heavy rains and flooding on production in certain regions. A separate measure of manufacturing activity, the Caixin PMI, rose 0.3 points to 53.1, the highest since January 2011, indicating that the rebound by private sector businesses remains on track.
- **The Reserve Bank of Australia injects more liquidity into the market.** The RBA increased its Term Funding Facility for banks earlier than expected. Banks now can tap unconditional funding equal to 5 percent of their assets (up from 3 percent previously) for three years at a 0.25 percent interest rate. Now that rates could be lower for longer, this provides a welcome boost as Australia enters its first recession in decades.

- **Russian economy rebounds from a steep drop in Q2-2020.** Russian GDP fell by 8.5 percent YoY in the second quarter of 2020. However, recent business surveys point to a swift recovery, with Russia’s composite PMI (services and manufacturing) at 57.3 in August, its highest level since early 2017. After hitting a low of 13.9 in April, the index has steadily climbed upwards.
- **Short-lived economic recovery in the Gulf reverses in August.** The PMIs for the two largest Gulf economies—Saudi Arabia and the United Arab Emirates (UAE)—deteriorated again in August, following a brief and marginal improvement in July. The tripling of the value added tax on July 1 drove the drop in Saudi Arabia’s PMI, while steep job cuts in the UAE weighed on overall business and economic conditions. Alarming, the UAE’s employment sub-index fell to an 11-year low as businesses continued to shed jobs amid challenging labor market conditions.
- **South Africa eases lockdown and lifts most of restrictions on economic activity.** South Africa, the worst-hit African country by the COVID-19 pandemic, moved to ease economic and social restrictions in mid-August, allowing domestic travel, business reopenings and small family gatherings. The decision follows a steady and continued decline in the new confirmed cases, notably compared to late July, when the number of new cases peaked at nearly 14,000.

- **Weakening Eurozone economic activity puts downward pressure on consumer prices.** Consumer prices dropped into deflationary territory in August for the first time in four years. A weaker inflation outlook raises the chance that the European Central Bank will inject yet more stimulus in the economy during the fall.
- **The euro strengthened against the dollar and the pound.** The British currency faces headwinds because of the persistent uncertainty surrounding the final Brexit deal. Negotiations appear to be at a stalemate.
- **The United Kingdom reported nearly 3,000 new COVID-19 cases** in the first week of September as schools reopened and the government encouraged a return to the physical workspace. Cases climbed in France and Spain as well.
- **The European Commission is working on creating a more coordinated approach to managing travel restrictions,** as Schengen countries³ have started to reintroduce corridor specific restrictions. Hungary reinstated a complete international travel ban into the country.

United States

Jeffrey Roach

- **The U.S. labor market is slowly improving**, but even with businesses reopening as of the end of August, employment is still down 11.5 million jobs since February. The pace of hiring moderated again in August, with 1.37 million jobs added, down from 1.73 million added in July and far off from the 4.78 million jobs added in June. Both hours worked and average hourly earnings increased in August, helping to support nominal consumer spending in the near term. Manufacturing showed the strongest gains, with increases in both workweek and overtime hours.
- **Consumer spending on services will likely not recover in the same way** as spending on goods, illustrating how recovery paths are diverging. In this recovery, 'a rising tide will [not] lift all boats.' Although COVID cases surged in several parts of the country, nominal consumer spending continued to rebound in July, beating expectations even when June's growth was revised upward. Spending on durable goods, like computers and televisions, showed the strongest signs. Even with recent gains, total spending in July is still 4.6 percent below pre-shutdown levels.
- **During the Jackson Hole Symposium, Federal Reserve Chair Powell announced changes to monetary policy guidelines**, with one important implication being that rates are likely to stay lower for longer. Federal Reserve officials will likely be more comfortable with higher inflation and less focused on inflation risks from a tight labor market. The Fed set the stage for additional stimulus, perhaps by expanding asset purchases in the coming months.

Canada

Mariamawit Tadesse

- **Canada's economy is picking up, albeit very slowly as containment restrictions become relaxed.** The latest economic data reveals that the economy continues to heal from the impact of the lock-downs. Employment continued to rebound in August, rising by 1.4 percent compared to the previous month, with most of the gains in full-time work. Household spending and exports also rose. The challenges for the Canadian economy are highlighted by the latest quarterly GDP figures, which showed that Canada's real GDP fell by 38.7 percent on an annualized quarter-over-quarter basis in Q2-2020.
- **Bank of Canada maintains its policy interest rates at 0.25 percent** and is continuing its quantitative easing program of large-scale asset purchases of at least \$5 billion per week of government bonds. Inflation will continue to stay close to zero.

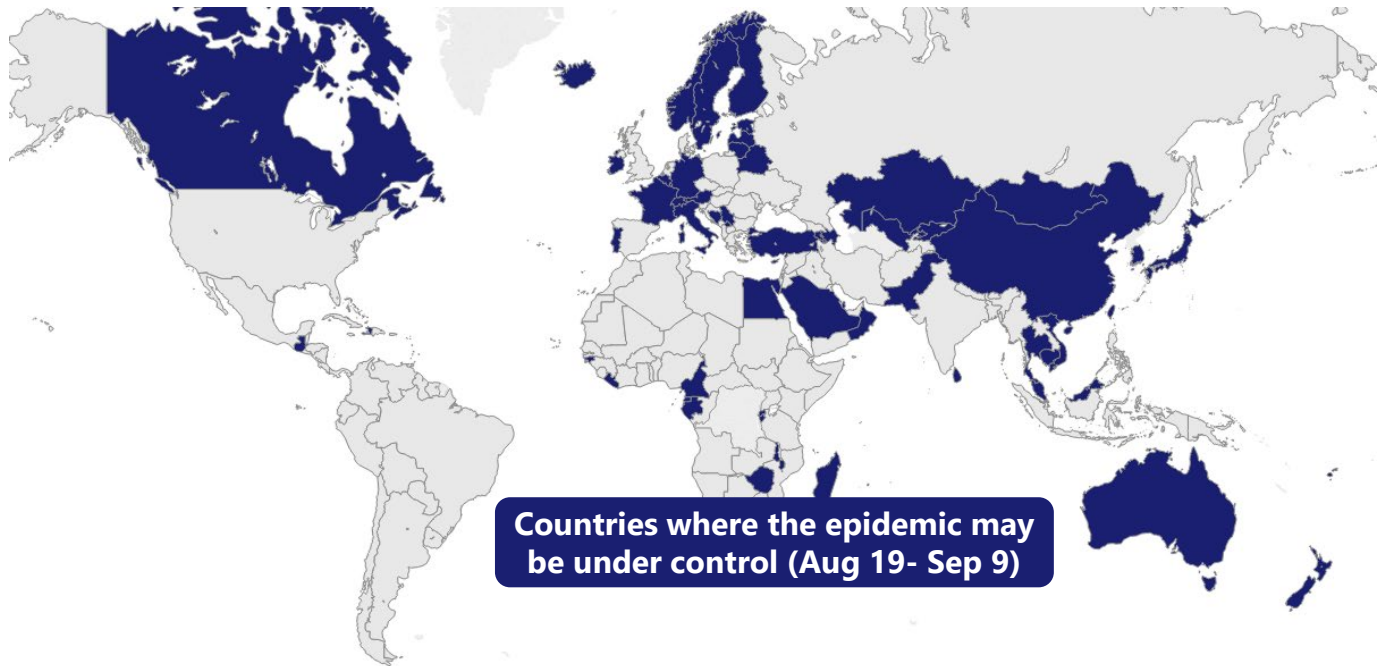
Latin America & Caribbean

Mariamawit Tadesse

- **Latin America's COVID cases passed 8 million.** The region makes up 40 percent of the world's new COVID-19 deaths. The economic impact of the pandemic and lock-downs have pushed many economies closer to financial crisis, especially as the region's lockdowns have lasted longer than those in Europe and Asia. Limited progress has been made on containing the disease.
- **Brazil's GDP contracted 11.4 percent YoY**, officially pushing the economy into a recession. The decline is greater than the country's previous nine recessions in four decades. Brazil is behind the U.S. in its death toll from the coronavirus.
- **Peru's economy declined 30.2 percent YoY** in the second quarter. Peru was one of the countries that enforced lockdowns early and provided stimulus measures for its people. Its copper mines—the world's second-highest producer after Chile—have been rebounding quickly from the impact of the pandemic.
- **Mexico's inflation inches closer to Banxico's target range in August.** The GDP shrank 19 percent YoY, with Mexico likely to introduce fiscal integrity and austerity for 2021.

Global cross-border travel and COVID-19 trends (Aug 19- Sep 9)

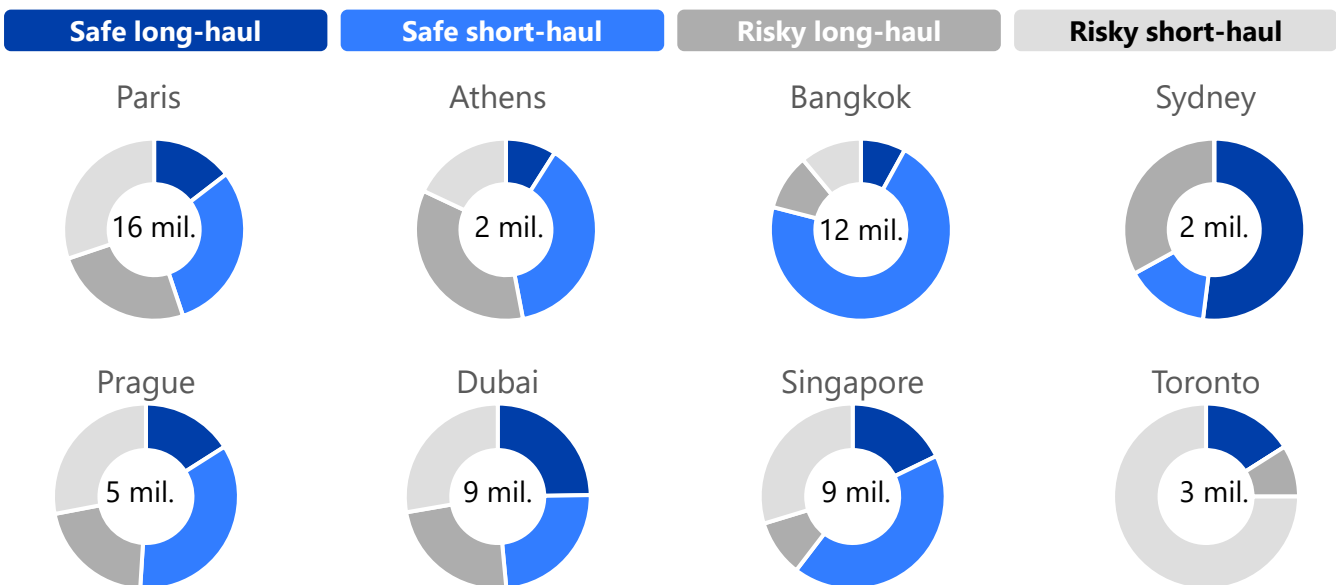
- Through the end of August, risks from COVID-19's spread rose in Europe but retreated in the Asia Pacific region. Australia returned to the safer list, while Spain's epidemic intensified.



Source: Johns Hopkins University/Haver Analytics, ourworldindata.org/coronavirus-testing;

Key travel destinations in the leading 15 (2019 summer arrivals, by degree of virus control in origin countries)

- Since more Asia Pacific countries have brought their epidemics under control, Bangkok and Singapore could now welcome a wider set of travelers from neighboring markets that only require a short-haul flight. Similarly, Sydney benefits from a larger set of long-haul markets from elsewhere in Asia Pacific.
- With more European countries facing a second wave of infections, safer short-haul markets are also shrinking. For Paris, Prague and Athens, the share of safer source markets has now fallen below 50 percent.

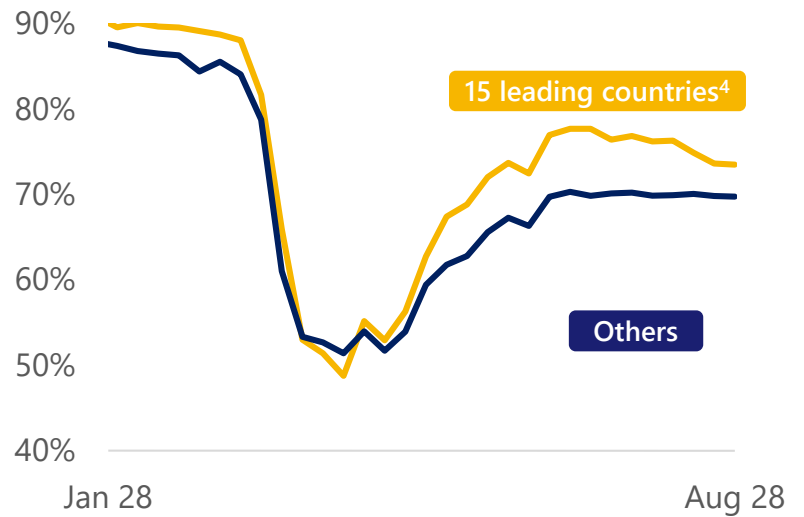


Sources: Visa Business and Economic Insights, Visa International Travel (VISIT) platform.

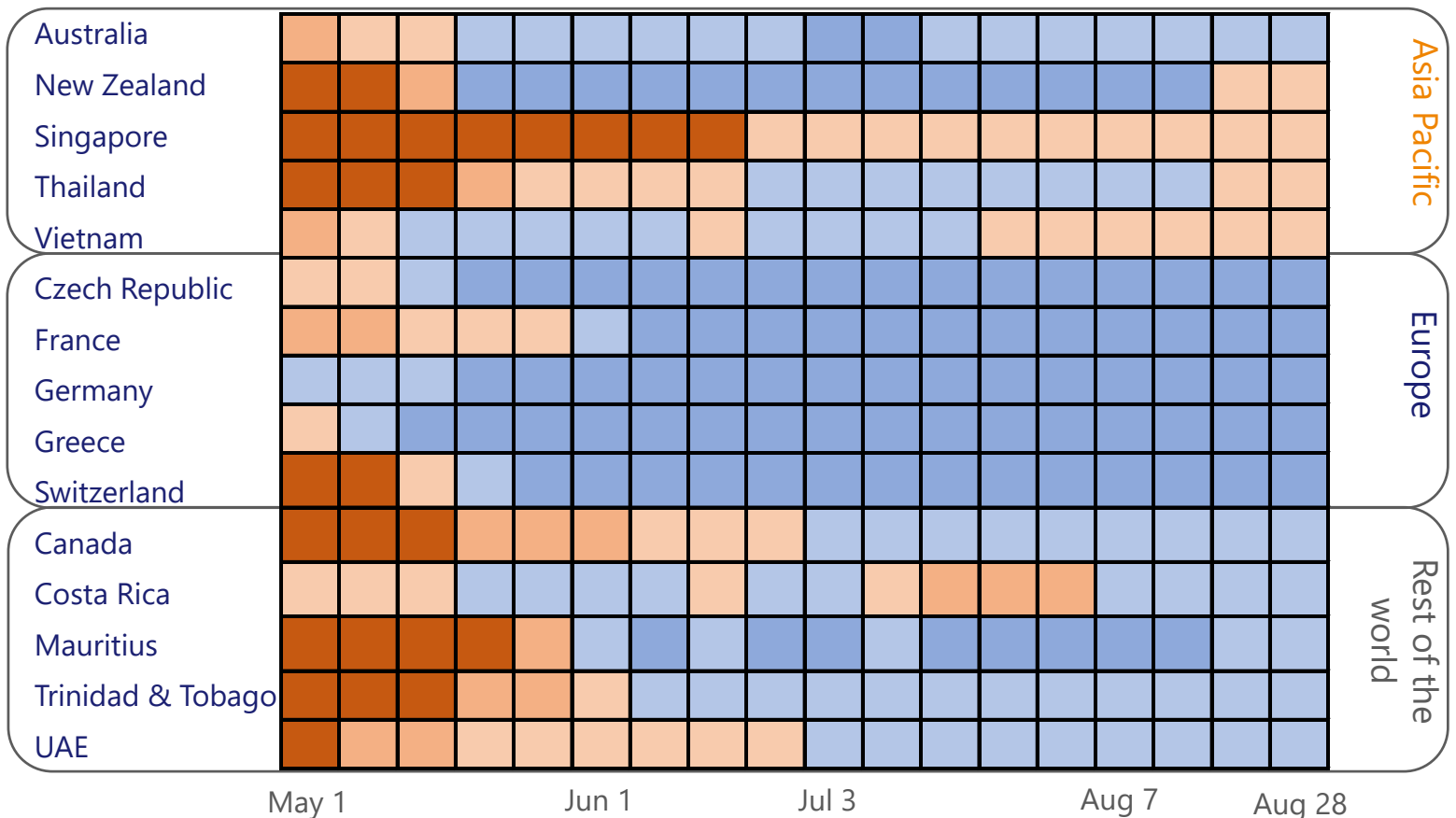
Business pressures rise as more countries combat a second wave

- Small businesses in the 15 countries⁴ that led the world in bringing the global first wave of the COVID-19 pandemic under control have seen their lead over the rest narrow.
- In early July, the share of firms in the leading countries that had re-opened was 8 percentage points higher than their peers. That lead has been cut in half to 4 percent, mainly due to businesses closing down again.
- A key contributing factor to renewed pressure on their small businesses could be the resurgence of coronavirus in many countries. Recent increases in daily confirmed cases have exceeded the peaks from prior to the March lock-downs in half of the 15 countries (including Australia, Vietnam, Czech Republic, France, Greece, Costa Rica and Trinidad and Tobago).

Small- and medium-sized merchants that remain open* (Percent of total active in 2019)



Percent open* ■ Over 90% ■ 80%-90% ■ 70%-80% ■ 60%-70% ■ 50%-60% ■ Less than 50%



Sources: Visa Business and Economic Insights, VisaNet. *Merchant closures and reopenings are estimated based on active point-of-sale terminals with minimal domestic transaction activity in calendar year 2019. Merchants are classified as small and medium if their total domestic purchase volume in 2019 was not in the top quartile of all merchants within the same industry and city.

Footnotes

¹ A merchant's customer base loyalty is measured using a metric that replicates the churn index described in the Baker, Baugh and Sammon NBER study that measures the persistence in the share of annual revenues generated by the merchant's repeat customers from the previous year. Analysis covers 35 representative countries across the world where Visa has significant presence. Countries included in chart: Finland (FIN), Great Britain (GBR), United States (USA), Vietnam (VNM), Saudi Arabia (SAU), Kenya (KEN), Australia (AUS), Indonesia (IDN), Columbia (COL), and the Philippines (PHL).

² A merchant brand is classified global if it had non-trivial domestic sales transaction activity on Visa cards in at least three different countries in 2019. A merchant's customer base loyalty is measured using a metric that replicates the churn index first described in the Baker, Baugh and Sammon NBER study that measures the persistence in the share of annual revenues generated by the merchant's repeat customers from the previous year. A merchant is classified as high customer loyalty if it is within the bottom quartile by its churn score among the firms within the same country and segment. Analysis covers 35 representative countries across the world where Visa has significant presence.

³ Schengen countries: A group of 26 European countries that have officially abolished all forms of border control at their mutual borders.

⁴ The 15 leading countries are Australia, New Zealand, Singapore, Thailand, Vietnam, Czech Republic, Germany, France, Greece, Switzerland, Canada, Costa Rica, Mauritius, Trinidad & Tobago, UAE. Leading countries have met two criteria: the first wave of the epidemic is under control, and their national lockdowns ended by mid-May.

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