

Millennials in Spain accelerate online spending

A protracted period of high youth unemployment has held back younger cohorts in Spain from becoming major spenders online. But the shift to online shopping during the pandemic has left Spain's Millennials wanting more.

As a result of restrictions imposed in response to Covid-19, Spain is suffering its worst recession since the Spanish civil war ended in 1939. The country experienced one of the world's strictest and longest lockdowns, which ran from mid-March until June.¹ In October, parts of Spain—including Madrid, Catalonia and Navarra—faced renewed lockdown restrictions.^{2,3}

These lockdowns have curtailed business activity across sectors, with the tourism industry hit particularly hard. Tourist hotspots in Spain have seen minimal activity, with only a trickle of foreign visitors arriving this summer. According to the World Tourism Organisation, international arrivals were down by 75% in January-June 2020 compared with the same period in 2019.⁴ The sector accounted for 12.3% of Spain's GDP and employed 12.7% of its workforce in 2018,⁵ so the collapse in tourism, along with the pandemic's adverse impact on other sectors, has created a negative economic outlook for the country.

According to The Economist Intelligence Unit (EIU), Spain's economy is forecast to shrink by 12.6% in 2020. This economic contraction is likely to leave more people without

¹ Small shops and businesses were allowed to reopen early May.

² Guardian, "Spain's PM defends Covid emergency lockdown in Madrid", October 11th 2020. <https://www.theguardian.com/world/2020/oct/11/spain-pm-sanchez-defends-covid-emergency-lockdown-in-madrid>

³ Reuters, "Spain's Catalonia region orders bars and restaurants to shutdown for 15 days", October 14th 2020. <https://www.reuters.com/article/idUSKBN26Z1SG>

⁴ UN World Tourism Organization, Tourism Recovery Tracker. <https://www.unwto.org/unwto-tourism-recovery-tracker>

⁵ Instituto Nacional de Estadística (INE), Spanish Tourism Satellite. Statistical review 2019, December 27th 2019. https://www.ine.es/en/prensa/cst_2018_en.pdf

About this research

This country report is a part of The Economist Intelligence Unit's research programme "The Influential Shopper", sponsored by SAP Customer Experience. It is based on a survey of over 4,000 consumers in the US, Germany, the UK, Italy and Spain conducted in September 2020.

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jobs: Spain’s unemployment rate in the second quarter of 2020 stood at 15.3%, up from 13.8% at the end of 2019.⁶

In the retail sector, restricted access to stores and a rise in unemployment have contributed to declining sales since the start of the pandemic. Spain’s retail trade index was down by 15%, 32% and 20% year on year in March, April and May respectively, and then fell by 3-4% every month until August.⁷ To explore the changes in consumer spending levels and habits since the start of the pandemic, in September The EIU conducted a survey of 4,000 consumers across the US, Germany, the UK, Italy and Spain and developed a model to analyse results by generational cohort.

In our survey, about 46% of respondents in Spain said that their household income had fallen since the start of the pandemic—the highest percentage among the countries surveyed. By comparison, 40% of respondents in Italy, 27% in the UK and the US and 40% in Italy had experienced a drop in income. To mitigate the income shock, in March the Spanish government approved a ban on home evictions and gave small businesses a six-month break from making social security payments. The government’s furlough scheme, introduced in mid-March, was originally due to end in September but has now been extended until the end of January 2021.

Despite these measures, the consumer confidence index dropped from 100.1 in February to 96.3 in August, before recovering slightly to 96.6 in September. Our survey results also provide evidence of low consumer confidence in Spain. About 32% of respondents were unsure that they would be able to cover essentials—such as rent, food and healthcare—over the next six months. With families worried that they or their close relatives may struggle financially, many are saving more, says José Luis Nueno, professor of marketing at Spain’s IESE Business School. “The social network in Spain is tight” with grandparents supporting the younger generations in every recession, he says. “So grandparents, parents, everyone is cutting down [on spending].”

The EIU forecasts that retail sales in Spain will fall from US\$264bn in 2019 to US\$236bn in 2020, recovering to pre-pandemic levels only in 2022. Average monthly expenditure captured in our survey

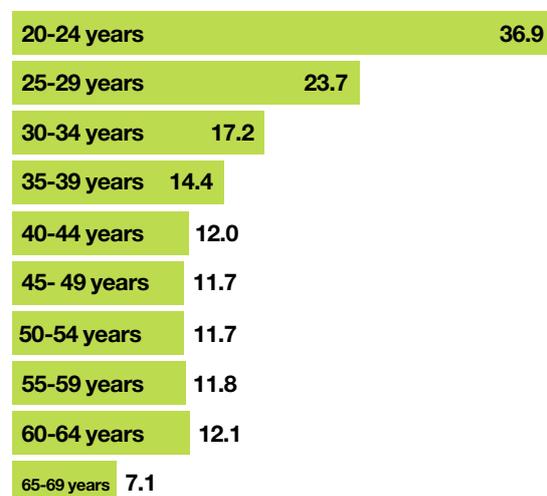
declined by 21% in June-August 2020 compared with January-March.⁸ Yet average online spending increased by 1% during the same period, confirming a shift to online spending during the pandemic. The remainder of this article takes a close look at this shift, exploring purchasing trends and motives for shopping behaviour by generational cohort.

THE SHIFT TO ONLINE SHOPPING

Online spending as a percentage of total spending increased for all age cohorts in Spain during the pandemic. As in other countries surveyed, Baby Boomers in Spain demonstrated the biggest shift to online channels between January-March and June-August 2020 (see Figure 2), with their online spending share increasing by 13 percentage points from 19% to 32%. Millennials also moved to online shopping in large numbers, recording a 12-percentage-point increase from 36% to 48%, while Gen X increased their share from 34% to 43% and Gen Z expanded theirs from 38% to 45%.

In terms of average monthly expenditure online, Gen X respondents in Spain reported spending the most—1.2 times as much as Millennials and Gen Z and 2.3 times as much as Baby Boomers. This paints a very different picture from trends in other countries in our survey, where younger cohorts spend the most online. Mr Nueno attributes this pattern to the high level of unemployment among younger generations in Spain (see Figure 1).

FIGURE 1
Unemployment rate by age group in Spain



Source: Instituto Nacional de Estadística (INE, National Statistics Institute)

⁶ INE. <https://www.ine.es/jaxiT3/Datos.htm?t=4086#!tabs-tabla>

⁷ INE, Retail Trade Index. https://www.ine.es/en/prensa/icm_tabla1_en.htm

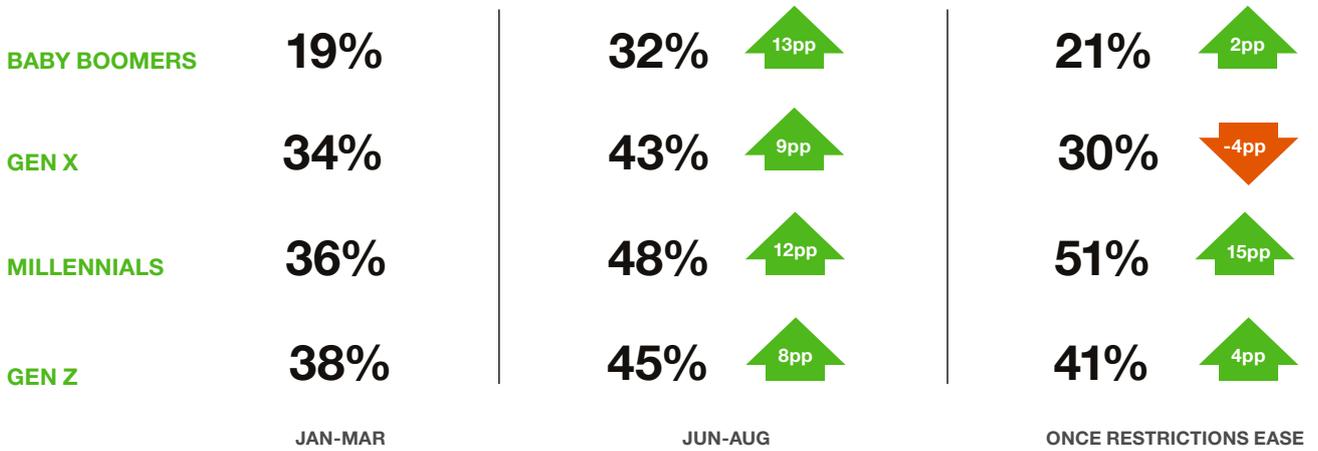
⁸ For product categories included in our survey.

THE INFLUENTIAL SHOPPER

FIGURE 2

Online spending as a share of total expenditure, and shift compared with Jan-Mar, in Spain

▲ ▼ Percentage-point (pp) difference compared with Jan-Mar

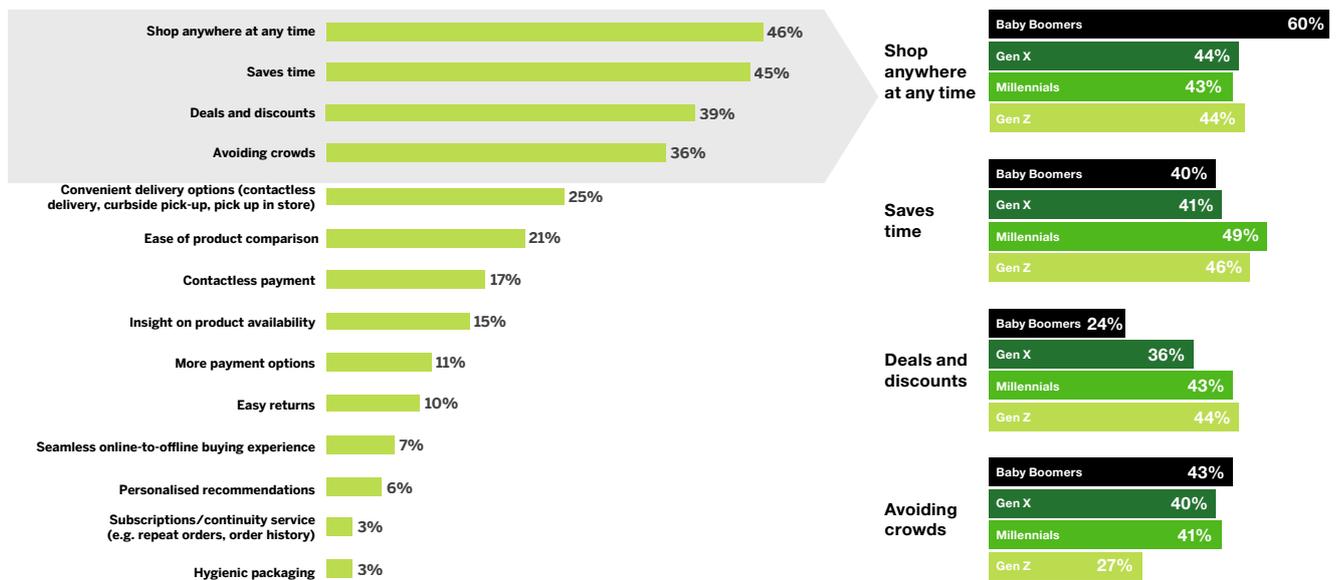


Source: Economist Intelligence Unit survey

FIGURE 3

Features that make online shopping preferable to in-store shopping in Spain

% of respondents



Source: Economist Intelligence Unit survey

While pandemic-related restrictions may have compelled consumers in Spain to move online, it is convenience that may be keeping them there. The ability to shop anywhere at any time and to save time are the two most important features of online shopping for respondents in our survey (see Figure 3). Baby Boomers cited convenience as a top feature at a significantly higher rate (60%) than any of the other cohorts (convenience was cited by 44% of Gen X, 43% of Millennials and 45% of Gen Z).

Safety concerns are a less important driver for online shopping in Spain, according to our respondents. "Avoiding crowds" was fourth on the list of top drivers for online shopping, cited by 36% of respondents. Furthermore, only 24% of respondents in Spain stated that they feel unsafe or uncomfortable at physical stores, significantly lower than the equivalent shares of respondents in the UK (41%) or the US (32%) but similar to those in Italy

(21%). Analysed by generational cohort, Millennial respondents in Spain were the most concerned about safety (at 30%, compared with 14% of Baby Boomers, 27% of Gen X and 20% of Gen Z), which could explain the sharp increase in their online spending as a share of their total expenditure.

Overall, the lower level of concern about safety in Spain than in other countries could point to a higher propensity to stay online once restrictions ease and the pandemic ends. Fifty-eight percent of respondents in Spain say they will maintain some of their new online shopping habits once the Covid-19 crisis is over. The next section explores this question further, and looks at the extent to which consumers in Spain want to return to bricks-and-mortar stores and their motives for doing so by cohort. Ultimately, brands that want to engage consumers effectively will need to know who their customers are and where to find them.

FIGURE 4

Changes in online spending by product and generational cohort in Spain

Percentage-point (pp) change in online expenditure as a share of total expenditure

Categories with the biggest increases in online spending share, Jun-Aug vs Jan-Mar 2020



Categories with the biggest increases in online spending share, once restrictions ease vs Jan-Mar 2020



Source: Economist Intelligence Unit survey

FUTURE SPENDING HABITS

Once restrictions ease, online spending as a share of total retail spending is expected to fall from the highs achieved during the pandemic but will remain elevated on average compared with pre-pandemic levels. The online spending share is expected to decrease from 32% to 21% for Baby Boomers, from 43% to 30% for Gen X and from 45% to 41% for Gen Z. Only Millennial respondents in Spain are expected to increase their online spending share once restrictions are eased, from 48% in June-August 2020 to 51%.

The rise in Millennial respondents' spending online stems largely from a jump in online food delivery. During the pandemic, Millennial respondents in Spain increased their spending on online food delivery from 28% of their total spending on this category to 63%; once restrictions ease, the share is expected to grow to 65% (that is, 37 percentage points above pre-pandemic levels). Gen X and Baby Boomers will also see small increases in online food delivery above pre-pandemic levels, at 6 and 2 percentage points respectively.

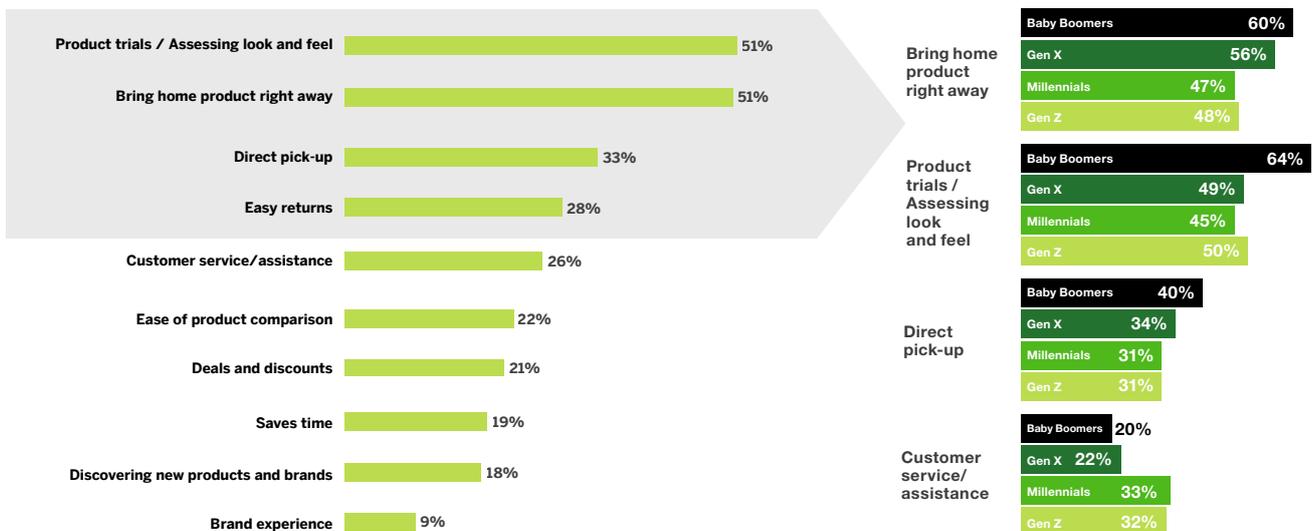
Once restrictions ease, consumers in our survey also expect to increase their online spending share above pre-pandemic levels on books, toys and games (by 13 percentage points) and furniture and home decor (10 points). By comparison, the gains in online spending

share for footwear, clothing and accessories and for consumer electronics and appliances are expected to be much smaller, at 3 and 2 percentage points respectively. These product trends could indicate that although consumers in Spain are expanding their online spending share across a number of product categories, the increases are greater for more standardised products (such as books, toys and games) than for products where fit, look and feel are more critical (such as footwear and clothing). Results from our survey lend further support to this hypothesis: the top feature of in-store shopping, cited by 51% of respondents, is the opportunity to assess the look and feel of a product (see Figure 5).

NAVIGATING TOMORROW'S TRENDS

“E-commerce will continue to grow in Spain because there is going to be a lot of market share up for grabs,” says IESE Business School’s Mr Nueno. Moreover, there are signs that this shift to online spending could change the dynamics of shopping. “We are [observing] that weekend peaks in shopping malls have disappeared,” he says. “Everything has been levelled over the week. People are buying more every day of the week and less on the weekends.” Brands and retailers that can successfully adapt their

FIGURE 5
Features that make in-store shopping preferable to online shopping in Spain
% of respondents



Source: Economist Intelligence Unit survey

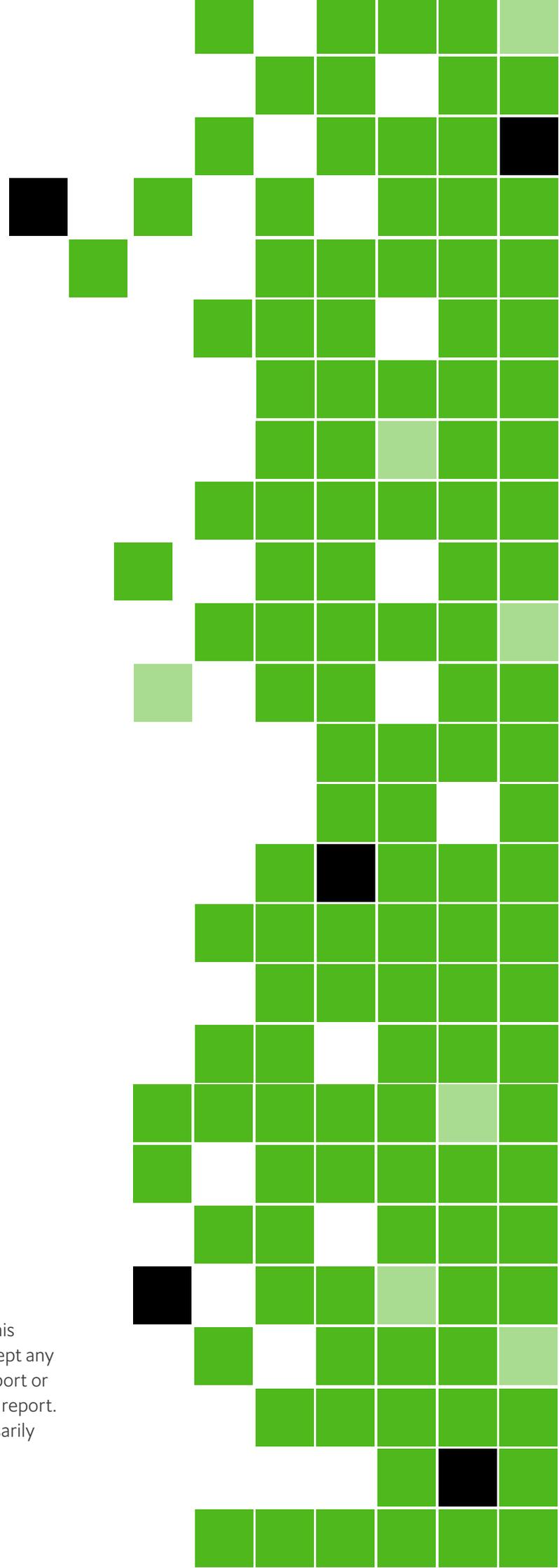
supply chain strategies to respond to these changes in demand will thrive, argues Mr Nueno.

Once restrictions ease and people begin to return to bricks-and-mortar stores, there may be an increased shift towards omni-channel shopping, whereby consumers buy online and pick up in-store or discover in-store and order online. Consumers' desire to shop anywhere at any time could be a key driver for retailers' long-term omni-channel strategies. "We realise how important it is to be a multi-format company," says Rosa Carabel, sales network managing director of Spanish supermarket chain Eroski. "This means that we [need to] have different kinds of businesses, from hypermarkets to small proximity supermarkets to an online [platform]."

In Spain, the convenience of online shopping may support retail spending levels even if the country's negative economic outlook looks likely to dampen overall consumer spending. Amid a protracted period of economic uncertainty, offering individually tailored deals and discounts online could also help to keep Spanish consumers engaged. This is a feature of online shopping that is more important for younger generations than older ones: 44% of Gen Z and 43% of Millennials consider these kinds of deals and discounts an important feature of online shopping, compared with 36% of Gen X and 24% of Baby Boomers. Combining "buy anywhere, anytime" convenience with personalised discounts could be a winning strategy for building more resilient retail business models.

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**José Luis Nueno,
professor of marketing,
IESE Business School**



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LONDON

20 Cabot Square
London, E14 4QW
United Kingdom
Tel: (44.20) 7576 8000
Fax: (44.20) 7576 8500
Email: london@eiu.com

NEW YORK

750 Third Avenue
5th Floor
New York, NY 10017
United States
Tel: (1.212) 554 0600
Fax: (1.212) 586 1181/2
Email: americas@eiu.com

HONG KONG

1301
12 Taikoo Wan Road
Taikoo Shing
Hong Kong
Tel: (852) 2585 3888
Fax: (852) 2802 7638
Email: asia@eiu.com

GENEVA

Rue de l'Athénée 32
1206 Geneva
Switzerland
Tel: (41) 22 566 2470
Fax: (41) 22 346 93 47
Email: geneva@eiu.com

DUBAI

Office 1301a
Aurora Tower
Dubai Media City
Dubai
Tel: (971) 4 433 4202
Fax: (971) 4 438 0224
Email: dubai@eiu.com

SINGAPORE

8 Cross Street
#23-01 Manulife Tower
Singapore
048424
Tel: (65) 6534 5177
Fax: (65) 6534 5077
Email: asia@eiu.com

