



COVID-19 and the retail sector: impact and policy responses

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Key messages

The retail sector is of paramount importance across OECD countries. It operates as a gateway to consumers from upstream sectors, accounts for almost 5% of GDP, and employs about 1 in 12 workers. COVID-19 has dramatically disrupted the sector, with the shock differing massively between brick-and-mortar versus online shops, essential versus non-essential stores, and small versus large retailers.

Five policy measures that countries need to take now for the benefit of firms, workers and customers to shield the retail sector from the effects of the crisis and enhance its resilience are as follows:

- Ensure that liquidity assistance schemes are accessible to retail firms, irrespective of their size.
- Help essential retailers deal with labour supply shortages, in particular by smoothing demand-supply matching for retail jobs and providing guidance on health and safety standards.
- Support retail firms to implement social distancing measures.
- Ensure that competition in the sector remains sufficient in the aftermath of the crisis.
- Increase retail firms' resilience by diversifying their sales channels, in particular by helping small brick-and-mortar retailers go online.



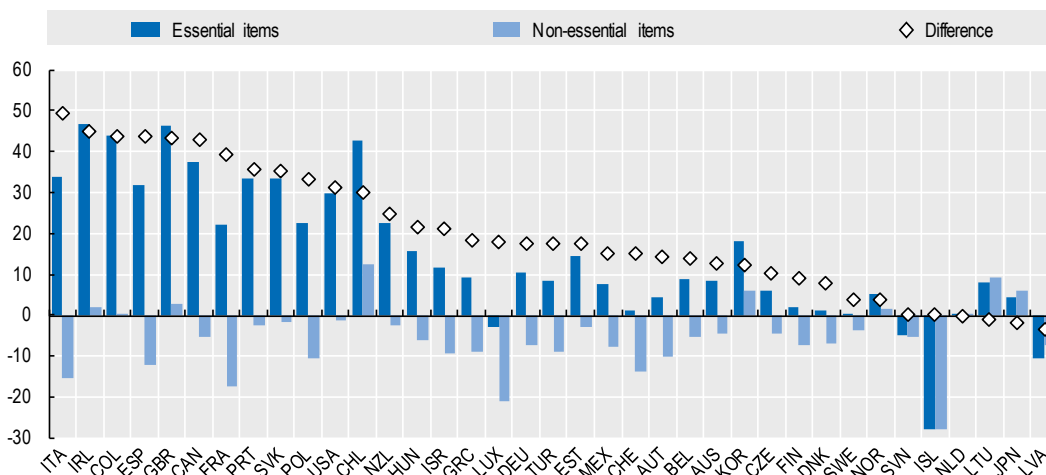
The importance and specificities of the retail sector

The mitigation measures aimed at slowing the novel coronavirus (COVID-19) pandemic taken over the past few months have directly affected the supply, demand and daily operations of the retail sector. The retail sector includes all resale activities of new and used goods (not including motor vehicles and motorcycles) mainly to the general public for personal or household consumption or use.

The overall impact of retailing is large, due to a number of factors. The retail sector is an **economic heavyweight**: on average across OECD economies, about 1 in 12 workers are employed in retail, and the sector accounts for almost 5% of GDP. Moreover, it mainly serves final demand, and thus occupies an **important position in value chains** both as a provider to households and as an outlet for upstream sectors. It also often complements activities in other hard-hit sectors, e.g. tourism. In addition, the retail sector is very **labour intensive**, so any disruptions have disproportionate employment consequences. The sector also relies on low-wage and part-time, on-call and gig workers that are not well-covered by traditional social protection measures, which further strengthens the social consequences of the crisis in this sector.

Figure 1. Change in demand for essential versus non-essential retail goods

Growth of Google searches for retail items between April 2019 and April 2020 (%)



Notes: This graph reports the growth in searches for essential and non-essential retail items (normalized by the overall volume of searches), defined as the unweighted average of the growth rates of the relevant categories. Essential items include the following categories: "Consumer Electronics", "Grocery & Food Retailers" and "Pharmacy" (see [del Rio-Chanona et al., 2020](#)). Non-essential items include the following categories: "Luxury Goods", "Home Appliances", "Home Furnishings", "Luggage & Travel Accessories", "Apparel" and "Gifts & Special Event Items". Google searches are a rough proxy for demand, and should be interpreted with great care. In particular, the increase in searches for essential retail items may partly reflect a shift to online shopping for these items, rather than a pure increase in demand. These data have however the merit to be available for a large number of countries and to allow comparisons.

Sources: Google Trends and OECD computations.

At the same time, the impact of the COVID-19 crisis on the retail sector is **heterogeneous** and depends on the combined effect of three characteristics. First, the effect of social distancing measures on individual retail businesses depends on **whether they are deemed essential**. On the one hand, most non-essential retail activities have been shut down; essential retail businesses, on the other hand, often operate in difficult conditions, including labour supply shortages, major disruptions in supply chains and working conditions, and sometimes large spikes in demand for specific items. For example, in the United States, while the sales of clothing retailers dropped by 89.3% in April 2020 year-on-year, the sales of grocery stores increased by



13.2% according to the [Census Bureau](#). In the EU, while the sales of non-food products dropped by 23.8% in April 2020 year-on-year, the sales of food, beverages and tobacco has increased by 1.2% according to [Eurostat](#). Data on Internet searches confirm diverging trends for essential and non-essential retail items in most OECD economies (Figure 1), in particular in countries that are most affected by the pandemic. Second, **lockdowns and social distancing measures affect retailers with physical stores more than online retailers**, and may ultimately accelerate the ongoing shift from brick-and-mortar to online retailing. For example, in France, [Nielsen](#) reports that the market share of e-commerce rapidly increased to almost 10% of total consumer goods sales during the confinement period, compared to less than 6% in 2019. In the UK, the [Office for National Statistics](#) reports that the proportion of retail expenses spent online increased from 19.1% in April 2019 to 30.7% in April 2020, reaching a record high. Third, the sector is characterised by the **coexistence of businesses with strikingly different abilities to weather the crisis**, linked to different liquidity positions and access to outside finance.

Policies to support the retail sector and strengthen its resilience

To help otherwise healthy firms survive the current crisis and safeguard the corresponding jobs, governments need to help the retail sector weather the three shocks it is faced with: a demand shock, a supply shock, and a productivity shock. In the short run, it is necessary to support retail firms just like other firms in the business sector. Yet, the specificities of the retail sector call for tailored policy responses.

First, governments need to **make liquidity assistance quickly and readily available to retailers [so as to keep them afloat](#)**. As non-essential retail activities face unprecedented drops in demand due to the lockdown, liquidity assistance will help avoid the “death by accident” of otherwise solvent retailers. Governments have already offered large and transversal emergency support; they need to ensure that it is accessible to all retail firms, be they small independent shops or large chains. Beyond the emergency, liquidity support measures should only be made available to viable firms in order to prevent adverse impact on business dynamism.

Second, governments need to **help essential retailers deal with labour supply shortages**. Essential retail firms are experiencing both a spike in product demand and a drop in labour supply because of containment measures and confinement restrictions. For example, in the United Kingdom, [Nielsen](#) reports that sales of shelf-stable groceries (i.e. food that can be safely stored at room temperature) more than doubled during the week leading to the lockdown compared to the same week in 2019, while the [Institute of Grocery Distribution](#) reports staff absenteeism rates of 20% or more during the early phase of the lockdown. Governments have taken four types of measures to ensure that households have access to essential goods: 1) increasing financial incentives for retail workers; 2) temporarily easing labour market or retail regulations for essential activities; 3) smoothing demand-supply matching for retail jobs; 4) providing guidance for health and safety in retail stores to address employee concerns (see Box 1 for examples). These measures should [follow recognised responsible business conduct standards](#) to prevent detrimental consequences on workers' well-being. The effectiveness of these measures crucially depends on the quality of social dialogue between employers and their staff (see a [joint declaration of retailers and trade unions](#), for example).

Third, governments should **support retail firms with the implementation of social distancing measures** intended to keep staff and clients safe. Measures include flexible opening hours or clear and specific guidance on health and safety standards for sale and delivery (see Box 1 for examples). Social distancing sharply affects retailer's productivity, however (e.g. due to the extra costs for personal protective equipment and the lowered intensity of shopping activity). Government action can help smooth this shock to productivity by reducing informational barriers and regulatory uncertainty, ensuring a steady supply of protective equipment and supporting the communication with customers. Moreover, governments should re-assess the regulation of discount sales in physical stores. In several countries, existing rules only allow certain markdowns during

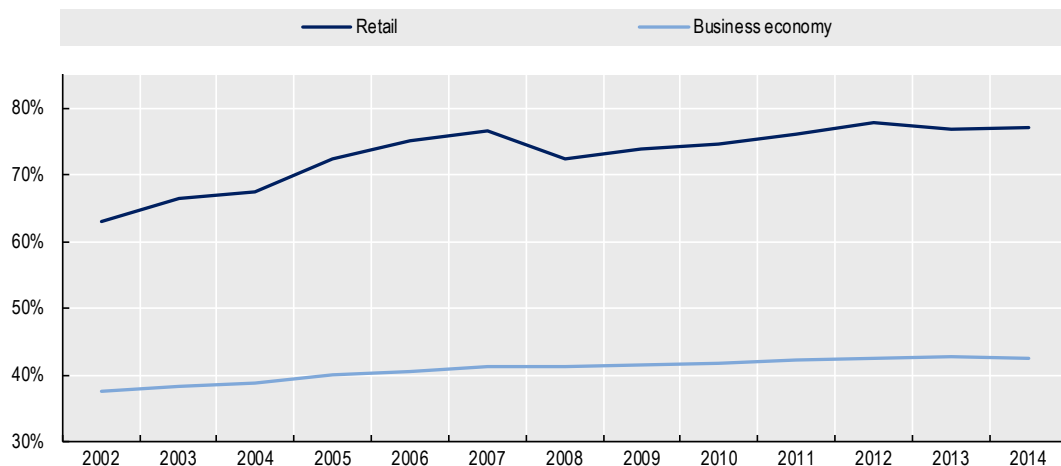


short periods of time, which could both jeopardise social distancing efforts and restrict retailers' ability to implement business strategies that can help them compensate for the COVID-19 revenue shock.

Fourth, governments need to **ensure that competition remains sufficient in the retail sector following the crisis**. Despite governments' best efforts, the COVID-19 crisis may lead to the exit of many retailers. This impact is likely to be asymmetric, as the crisis weighs disproportionately on brick-and-mortar and small firms, while online and large firms are more likely to survive. Therefore, the crisis could further reduce retail's local footprint and amplify the ongoing consolidation in the sector, where sales of the top eight business groups already reached almost 80% in 2014 (Figure 2). Moreover, in the exceptional circumstances of the COVID-19 crisis there are [instances where co-operation between competitors is legitimate and lawful in order to overcome disruptions](#), especially in essential retail supply chains. Against this backdrop, governments need to ensure that competition remains sufficient to avoid negative impacts on consumers. In particular, competition authorities should [challenge exploitative pricing behaviours](#) and continue to [carefully review merger activity, both during and after the crisis](#). Moreover, governments in several OECD countries still have scope to lower entry costs and facilitate the emergence of new retail firms by easing registration and licensing requirements (Figure 3).

Figure 2. Industry concentration in retail

Sales of top eight business groups, as a percentage of total industry sales, 2002-14



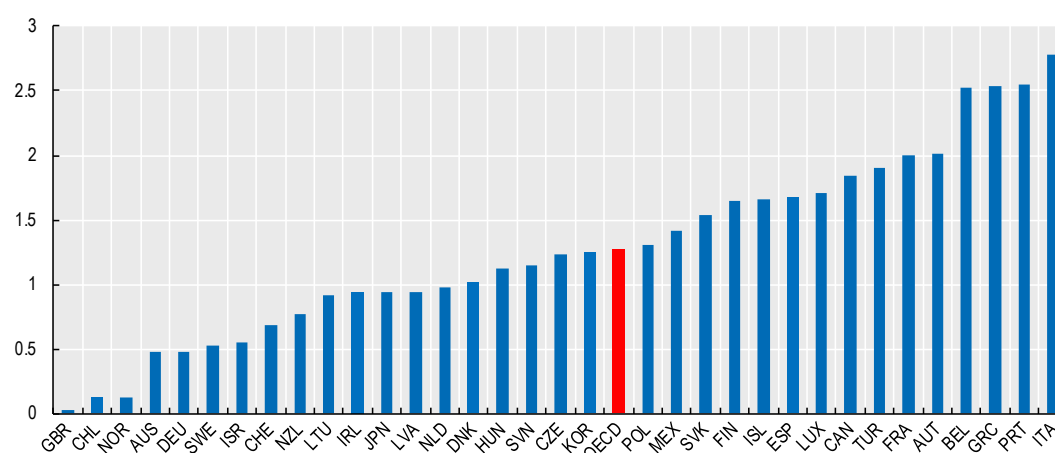
Notes: Concentration is measured as the share of top eight business groups in the sales of each industry in each country covered (Belgium, Finland, France, Italy, Japan, Spain, Sweden, the United Kingdom, and the United States). The business economy covers two-digit industries in manufacturing and non-financial market services. Retail covers ISIC Rev4/NACE Rev2 industry 47. The figure refers to unweighted mean concentration rates across country-industry pairs.

Source: Bajgar et al. (forthcoming), "Supersize me: Intangibles and industry concentration".



Figure 3. Product market regulation in retail

Index of regulatory barriers to firm entry and competition in retail distribution, 2018



Note: Composite index based on four items: registration and licensing, regulation of shop opening hours, regulation of retail price and regulation of online sales.

Source: OECD (2020), *Product Market Regulation Indicators* (database), <http://oe.cd/pmr>.

Fifth, in the longer run, the retail sector will benefit from efforts to **increase its resilience to shocks**. Brick-and-mortar retailers can diversify their sale channels, especially by [expanding their activity to online sales](#). For instance, in Korea, the government is strengthening its support for small businesses to enter online sale platforms. In Japan, the government will provide a business continuity subsidy, which allows firms to diversify and expand their sales channels. Beyond financial support, governments should pay attention to regulatory barriers that hinder the participation of traditional retailers in online sales (e.g. permitting and zoning rules) and to framework conditions that affect demand for online sales (e.g. digital literacy, consumer protection, security and reliability of payment systems). Finally, as [COVID-19 affects food and agricultural supply in complex ways](#), the retail sector should also consider the resilience of its supply chain where needed, notably by relying on more diversified sources of goods, by improving inventory management and by leveraging data analytics to improve forecasts on sales and supply chain tensions.

Box 1. Examples of policies implemented in OECD countries to help essential retailers deal with labour supply disruptions during the COVID-19 crisis

The policy measures listed below focus on supporting firms. They complement policies meant to [support workers' income](#) and those that [help non-standard workers in the sectors most affected by containment measures](#), including retail.

Smoothing the matching of demand and supply for retail jobs

While many retailers have been forced to cut their workforce due to the pandemic, other retail companies are hiring additional workers to meet increased consumer demand. Governments (e.g. Australia, France), retail trade associations (e.g. in the United States) or even large corporations (e.g. [Alibaba](#)) are attempting to reduce transaction costs and speed up the reallocation process by setting up online platforms for jobs in essential sectors (including retail).

- **Australia:** [Job hub](#) focused on some sectors, including retail.



- **France:** mobilisationemploi.gouv.fr platform led by Pôle emploi (the national employment agency) to improve the matching in “priority sectors” (including logistics).
- **United States:** “[Job opportunities for workers displaced by COVID-19](#)” platform set up by the National Retail Federation to ease the job search and matching in retail.

Providing guidance for health and safety in retail stores

Many retailers, especially small and medium-sized enterprises, lack the capacity or knowledge to implement appropriate health and safety measures during the pandemic. Providing practical guidance for essential retail stores will reduce uncertainty for retail employers, employees and consumers.

- **Ireland:** The government and the National Standards Authority of Ireland have provided retailers with a [business continuity guideline](#), including hygiene measures to be taken.
- **France:** The Minister for the Economy and Finance and the Minister for Labour asked the retail professional organisation to publish [health and safety standards](#), which were released in March.

Increasing financial incentives for retail workers

Retail workers are at a high risk of infection, which tends to decrease labour supply because of the fear of contamination. Some governments have increased the pay premium by either paying a bonus directly (Italy) or by introducing a tax free bonus to help firms incentivise their workers (France).

- **France:** [Extension of the scope and eligibility of the “prime Macron”](#), a tax- and social security-free wage bonus, so that firms can compensate employees whose working conditions are affected by COVID-19; [most large retailers operating in France use it](#) to reward some categories of workers during the pandemic.
- **Italy:** [Introduction of a EUR 500/month bonus](#) for workers who keep operating in COVID-19 affected areas; subsequent [extension of the scheme](#) to allocate EUR 100 to all workers physically present on the job (income ceiling applies).

Temporarily easing regulations on essential retail activities:

Retail is labour intensive and large retail firms typically follow sector-wide labour regulations (including collective bargaining) which restricts the transfer of employees across activities, locations or establishments. Some governments have temporarily loosened regulations to facilitate the supply of essential goods by making opening hours more flexible (Belgium, France), allowing overtime (Germany, France), facilitating the transfer of staff (Belgium, France) or allowing furloughed workers from other sectors to combine unemployment benefits or short-time work schemes with a part-time job in retail (Belgium, France, the United Kingdom).

- **Belgium:** Discussions with social partners to [temporarily loosen regulations](#) regarding opening hours, transfer of staff between firms or locations and possibility of working a flexi-job (part-time) while keeping temporary unemployment benefits.
- **France:** Regulatory easing regarding the [sublease of employees between firms](#); [temporary loosening of labour laws](#), e.g. increase in the authorised working hours per day and week, decrease in the minimum rest between work shifts, and easing of Sunday work.
- **Germany:** [Legislative amendment](#) to increase the maximum working hours per week, change the rest requirements and ease Sunday work; [temporary authorisation](#) to deliver essential goods without a valid professional driver qualification.
- **United Kingdom:** Under the [Coronavirus Job Retention Scheme](#), workers are permitted to work for another employer whilst placed on furlough.



Further reading

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