

Commerce sector outlook 2021–2023: Commerce after the year of COVID-19

Jaana Kurjenoja

Chief Economist

Excerpts from the forecast. The full text is available to members of the Finnish Commerce Federation on the members' pages at [Kauppa.fi](https://www.kauppa.fi), in the Research section.

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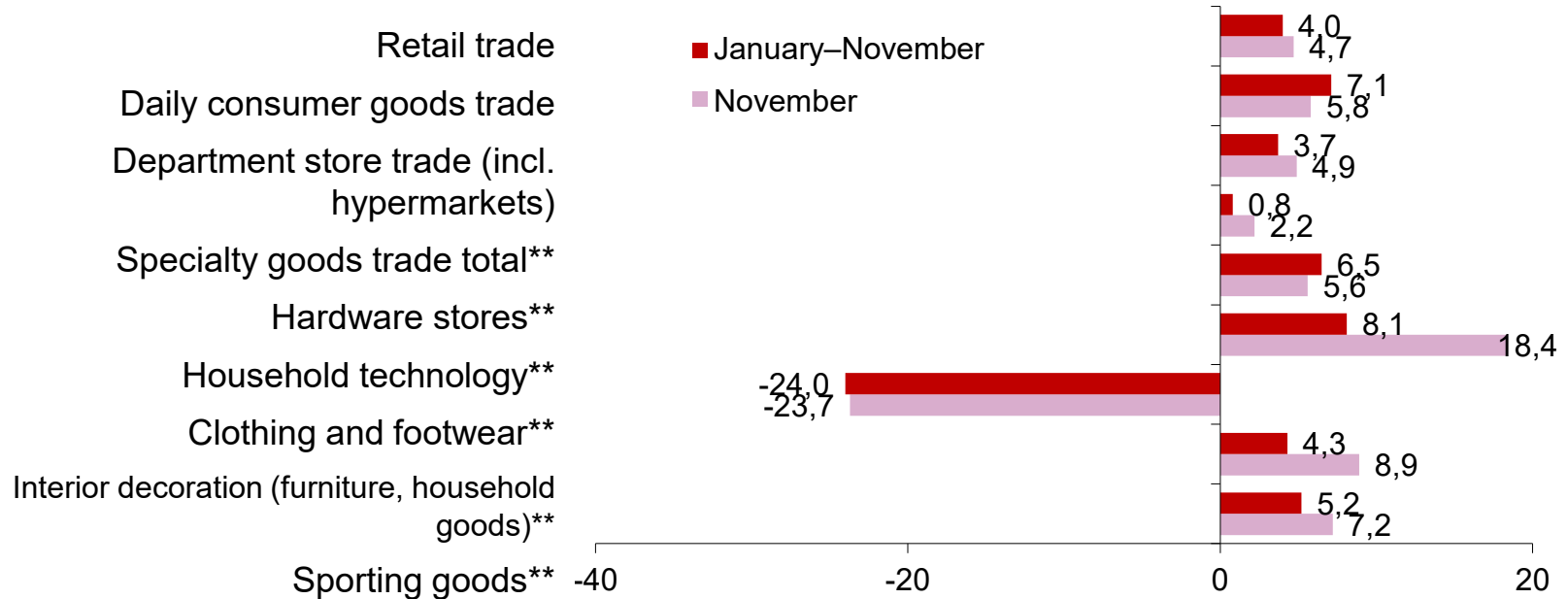
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Commerce sector turnover development

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Annual change in turnover in the largest retail trade sectors

Cumulative annual change for January–November and the annual change for November 2019–2020, %

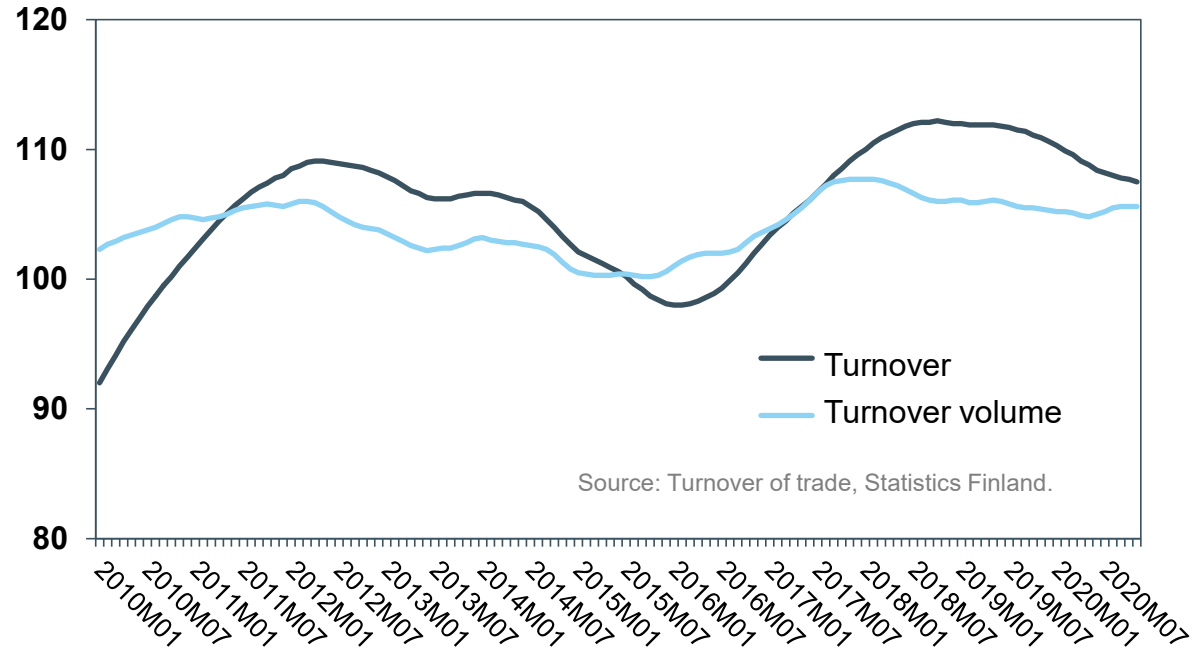


Source: Turnover of trade, Statistics Finland.

Wholesale trade turnover and volume index trends

Indices at the annual level, 2015 = 100, latest observation November 2020

The declining trend in wholesale trade turnover began already towards the end of 2019, and gained momentum during spring 2020.



COVID-19 caused brisk growth for some retail businesses and a sharp decline for others

- The annual cumulative growth of the entire retail sector's euro-denominated turnover reached 4 per cent in January–November, while turnover volume* increased by 4.1 per cent. According to preliminary statistics, the annual growth of the retail sector's euro-denominated turnover was approximately 3.7 per cent and turnover volume* increased by 3.6 per cent.
 - Growth was particularly intense in the following retail trade sectors: daily consumer goods trade (January–November cumulative annual growth 7.1%), home electronics (8.1%), hardware stores (6.5%) and specialty goods trade of flowers, plants and gardening (8.1%).
 - The exceptional growth began in hardware stores as early as in February, and continued far into the summer. The growth was boosted both by the weather conditions and people staying at home and in their summer cottages more than before. The growth continued in the autumn, although at a slightly slower pace.
 - Sales of home electronics have grown for several years. Remote working and studying, and less movement overall during the COVID-19 crisis, boosted growth in the sales of electronics last year.
 - The growth in the daily consumer goods trade began immediately in January, and intensified throughout the year. Measured by turnover, 2020 was the best year of the 2000s. The cumulative growth of turnover in January–November was 5.2%.

COVID-19 caused brisk growth for some retail businesses and a sharp decline for others

- The year 2020 was a contradictory time for the specialty and household goods trade. Some companies and sectors recovered from the sharp decline in March–April, but for others the year ended grimly.
 - Turnover in interior decoration and household goods trade and sporting goods trade fell clearly in March–April, but grew again in May and throughout the autumn. In November, the cumulative turnover had clearly increased year-on-year for both sectors.
 - The optical sector received a hard blow in March, and in April–May, turnover in the sector plummeted by nearly 40% year-on-year. Although sales picked up in late summer and autumn, it was not enough to compensate for the losses of the spring and early summer. In November, the cumulative turnover of the sector had decreased by nearly 13% year-on-year.
 - Likewise, bookshops and jewellers experienced an intense decline in turnover in March–May, that continued in the autumn. In November, the cumulative turnover for both sectors had declined approximately 13% year-on-year.
 - In March and May, turnover in specialty goods trade of clothing and footwear decreased nearly by half and in April, by almost 70%. The development continued throughout the autumn, and by November the year-on-year cumulative turnover had shrank by 24%.

A close call for wholesale trade?

- In wholesale trade, the annual change in euro-denominated turnover was -3.9 per cent in January–November, and in turnover volume*, -0.8 per cent.
 - Wholesale trade related to cafes and restaurants lost most of its turnover. At the same time, there was growth in wholesale related to retail trade, such as hardware and department stores and daily consumer goods trade as well as IT wholesale trade.
 - In late spring, a decrease in new industrial production and orders was also reflected on wholesale trade, stoking fears about the development of employment and turnover of the sector.
 - These fears were further increased by a decrease in construction volume. However, a higher number of new construction projects were started last year compared with the previous, which is supportive of wholesale trade turnover.
 - In November, the decrease in industrial production slowed down and number of new orders started growing again.
- If realised, this more positive industrial outlook will support the development of wholesale trade this year.
- The total amount of wages and salaries in wholesale trade started to decline in April after the growth seen in the early part of the year, but in the autumn there was no further decrease year-on-year.

* Turnover adjusted for price fluctuations.

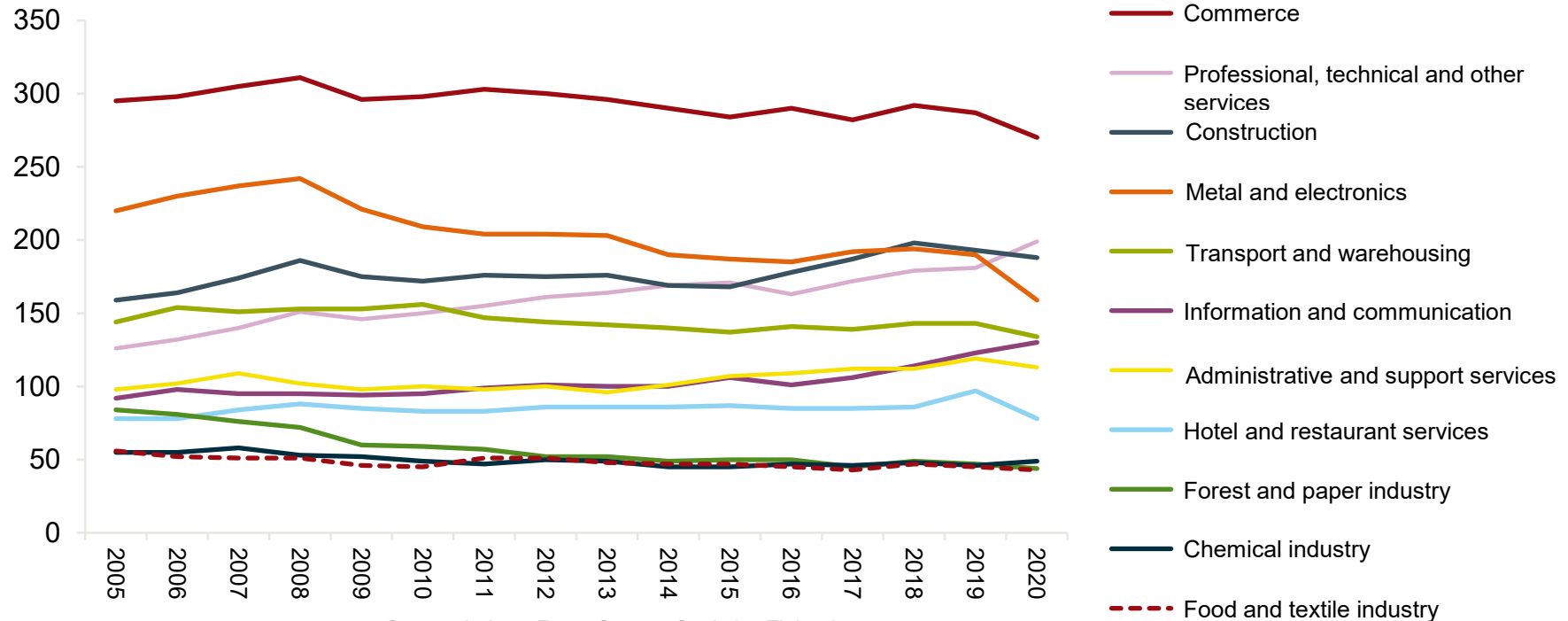


Commerce sector employment development

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Even with a decrease in employment, commerce is still the largest employer in the economy

in thousands



Source: Labour Force Survey, Statistics Finland

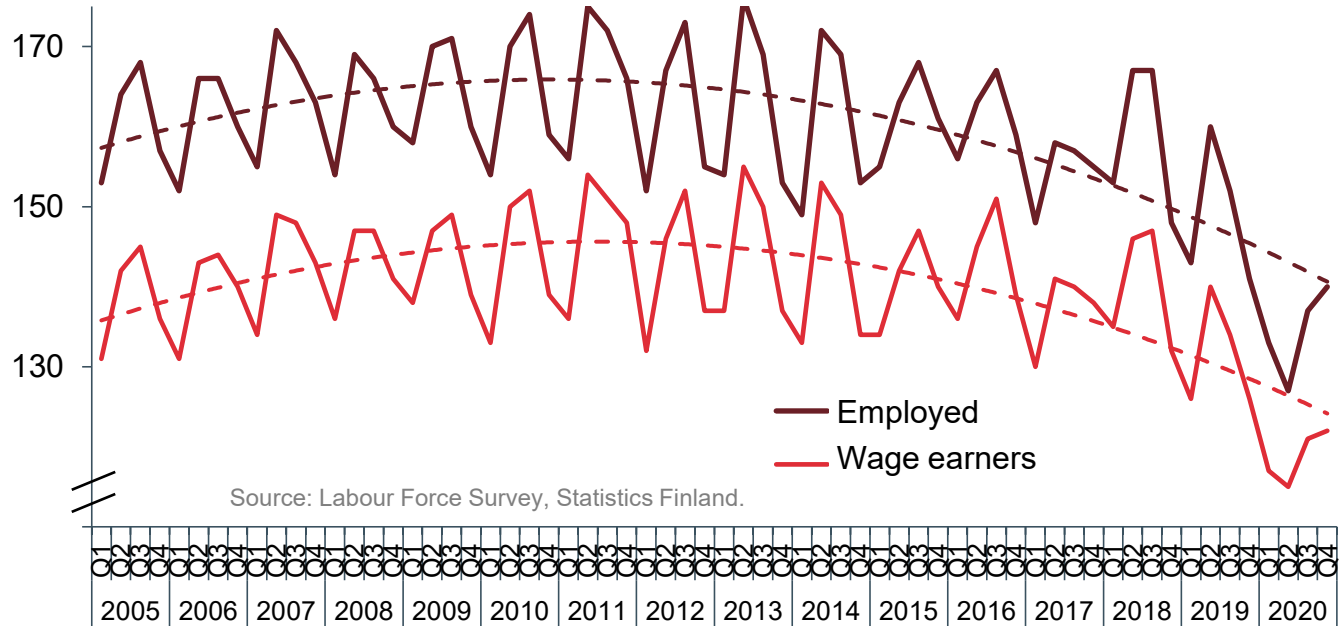
Declining employment trend continues in the retail sector

The number of employees and wage earners in the retail sector according to the labour force survey by Statistics Finland
in thousands

Note! In statistics, employees laid off for less than three months are considered employed

The declining trend of employment in the retail sector began in 2012–2013.

Tighter domestic and international competition in both the brick-and-mortar and online channels, along with the need to enhance the efficiency of operations and increase cost-efficiency, are reducing the demand for labour in the long run.



Number of employed decreased despite growing turnover

- The long-term trend in employment has begun to change: The link between the development of turnover and the demand for labour is not as strong as it used to be.
 - Internationally, companies are trying to more effectively manage supply chains in commerce and make them shorter. Economies of scale are being sought through chain formation, large central warehouses and cooperative purchasing, among other things.
 - The competition for customers is taking place in all channels, across boundaries.
 - International and domestic competition in both wholesale and retail trade has increased the need for higher efficiency of operations and for cutting costs, including in Finland.
 - Automation and digital development facilitate higher efficiency and productivity, and more personnel is not always needed to maintain or improve services.
- In 2019, 10,000 employees were lost from retail trade and in 2020 approximately 15,000. Employment has declined particularly in specialty goods trade.
- In wholesale trade, the high business cycle in construction in particular has supported employment in the past two years. Lay-offs and the reduced recruitment of seasonal workers and trainees brought about a downturn in the sum of wages and salaries in wholesale trade already in April. It would seem that employment growth is now coming to an end.



Retail sector turnover and employment 2021–2023

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Commerce sector outlook – background

- The economy will grow slightly less than three per cent. Over the next couple of years, the rate of growth will first decline to two per cent and then slightly under.
- Export and import growth this and the next year will be approximately 4–5 per cent.
- Inflation will accelerate to reach approximately one per cent this year and 1.5 per cent next year.
- Private spending will recover approximately 3–4 per cent this year.
 - Private spending will be undermined by continuing uncertainty and increased saving by households. On the other hand, as the COVID-19 pandemic relents, the accrued savings form a large potential for growth in private spending. After the pandemic, the growth in spending will likely be directed to other services than retail trade.
 - This year, the decrease in number of employed persons will slow down the growth of purchasing power at the level of the national economy.
 - Growing unemployment will promote saving and increase uncertainty, reducing household spending.
- Residential construction will not decrease considerably this year, but many companies will postpone or cancel their construction investments, and this will affect wholesale trade related to the construction sector.
- Increased freight prices, longer delivery times and shortages of steel and other raw materials may cause production bottlenecks and weaken wholesale trade in particular, but also retail trade procurement chains.
- The situation could be affected considerably if the COVID-19 pandemic continues over the summer in Finland and globally.

Commerce sector outlook – background

- This forecast contains no assumptions regarding taxation apart from the tax and payment decisions already issued.
- The forecast assumes that the worst phase of the COVID-19 pandemic winds down by the summer.
 - If the pandemic continues long into the autumn retail trade – and especially daily consumer goods trade – could grow more rapidly than forecasted. However, the growth impulse of COVID-19 will be smaller than last year.
 - On the other hand, the economic and employment impact of an extended pandemic decrease purchasing power and trust, and some commerce sectors may decline sharply.
- There are downward risks involved in growth this year and in the coming years.
 - Downward risks include issues related to Brexit, public sector indebtedness and possible tax increases related to the recovery phase.
 - Population ageing and urbanisation are changing the structures of trade.
 - The costs arising from the ageing population and public sector reforms, such as the reform of the Finnish social welfare and health service system, create pressures for increased taxation, particularly taxes on consumption. If implemented, higher taxes would erode purchasing power and increase costs in the commerce sector.
- There may also be positive risks regarding growth this year and in the next few years.
 - The growth of private spending could be stronger than forecasted.
 - Global recovery from the COVID-19 crisis may be faster than predicted. In that case, economic growth may be faster in Finland than generally predicted.

Kiitos!

Jaana Kurjenoja
Pääekonomisti
Kaupan liitto

jaana.kurjenoja@kauppa.fi

 [@JaanaKurjenoja](https://twitter.com/JaanaKurjenoja) / [kauppa.fi](https://www.kauppa.fi)



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