ECONOMIC UPDATE
REGIONS
May 15, 2020

April Retail Sales: No Quick Comeback From An Epic Decline

- Retail sales fell by 16.4 in April after falling 8.4 percent in March (initially reported down 8.7 percent)
- Retail sales excluding autos fell by 17.2 percent in April after falling 4.2 percent in March (initially reported down 4.5 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) fell by 15.3 percent in April

Total retail sales fell by 16.4 percent in April, with ex-auto sales down by 17.2 percent and control retail sales down by 15.3 percent, each more severe than we and the consensus expected. That April retail sales were terrible comes as no surprise in light of widespread store closures and the carnage seen in the labor market, with lower goods prices acting as an extra weight. What is more relevant at this point, not to mention much more uncertain, is the path forward. That retail stores are being allowed to open up is a step forward, but this is a small step given that openings are on a limited basis which varies from state to state. Whether, or to what extent, consumers are willing to return to stores remains to be seen, but this is likely to be a trickle rather than a flood for some time to come, on top of which a badly battered labor market, shaken consumer confidence, and what for many households are diminished income flows will be pressing constraints on consumer spending, likely for some time to come.

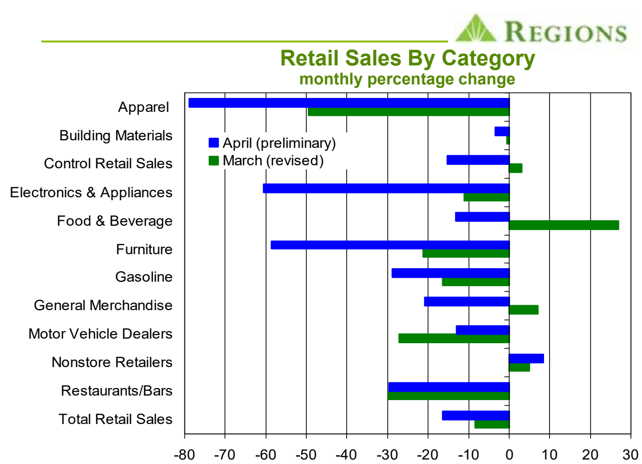
Sales at nonstore retailers rose by 8.4 percent in April, the only one of the 13 broad categories to see an increase in sales. The COVID-19 virus is accelerating the shift in shopping patterns, favoring online sales at the expense of sales in physical stores, that has been in place for many years. But, while this gets around the issue of whether or not consumers are willing to return to physical stores, labor market conditions, the state of consumer confidence, and the strength of income flows matter every bit as much for online sales as they do for sales via any other distribution channel. In other words, the question of how consumers spend is a different question than how much consumers spend, a point often lost in discussions of online sales.

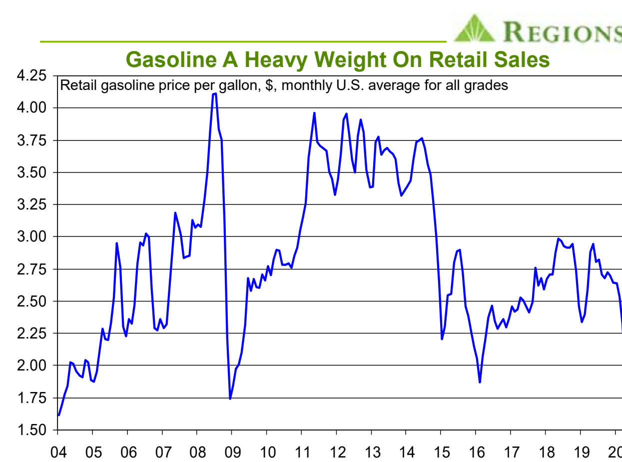
Gasoline station sales fell by 28.8 percent in April, reflecting a sharp drop-off in demand coupled with a better than 20 percent decline in prices. Sales revenue at motor vehicle dealers fell by 13.0 percent, which is much milder than the decline in unit motor vehicle sales, which fell by 24.3 percent. The difference is that fleet sales, included in unit sales counts but not retail sales, fell dramatically during April, meaning that consumers accounted for a much higher share of overall unit sales. There are indications that by the end of April, retail motor vehicle dealers were beginning to stabilize, having been aggressive with incentives, emphasizing enhanced online sales platforms, and facilitating vehicle deliveries without consumers having to visit a physical showroom. This is an instance in which the COVID-19 virus accelerated a shift in shopping patterns that was in a relatively early phase.

Grocery store sales fell by 13.2 percent in April, but this followed a 28.6 percent increase in March as consumers rushed to stock up on essentials, perhaps leaving less for them to purchase in April. The magnitude of the decline in April, however, is a bit surprising given that prices for food consumed at home were a notable outlier in an otherwise soft April CPI report. Prices for food consumed at home were up by 2.5 percent in April, the largest monthly increase since February 1974. While the data on sales at warehouse/club stores come with a one-month lag, sales at such stores roll up into the broader general merchandise stores category, in which sales fell by 20.8 percent in April after having risen by 7.1 percent in March. Sales at warehouse/club stores rose by 13.0 percent in March, so we can assume the April data will reveal a sizable decline, particularly given that many of these stores also sell gasoline.

In other categories, sales at apparel stores were down by 78.8 percent in April, after having declined by 49.4 percent in March, sales at furniture stores were down by 58.7 percent, sales at electronics & appliance stores were down by 60.6 percent, restaurant stores were down by 29.5 percent, and department store sales were down by 28.9 percent.

For as long as we've been doing this job, the biggest issue in forecasting retail sales for March and April was trying to adjust for the varying timing of Easter and how that would impact the seasonal adjustment process. The rule of thumb was to take the average of the percentage change for the two months as a truer picture of underlying sales trends. Those were the days. What we learned from this year is that the average of bad and even worse is terrible. While retail sales will get better from here, the question is at what rate, and we think it is going to be a long, slow climb.





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