ECONOMIC UPDATE
REGIONS
July 16, 2020

June Retail Sales: Spending On Goods Normalizing, But For How Long?

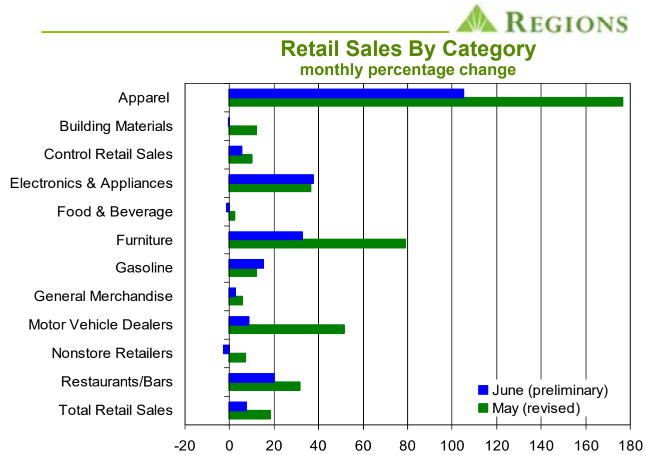
- Retail sales rose by 7.5 percent in June after rising 18.2 percent in May (initially reported up 17.7 percent)
- Retail sales excluding autos rose by 7.3 percent in June after rising 12.1 percent in May (initially reported up 12.4 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 5.6 percent in June

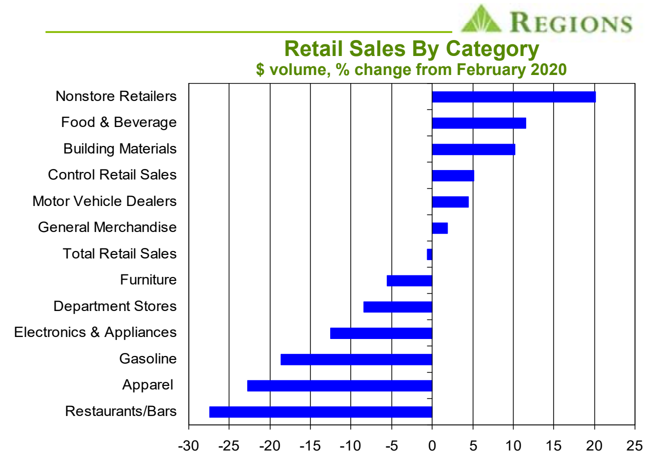
Total retail sales rose by 7.5 percent in June, beating our above-consensus forecast of a 5.1 percent increase, with ex-auto sales up by 7.3 percent and control retail sales up by 5.6 percent. May's increase in total retail sales was revised to 18.2 percent from the initial estimate of a 17.7 percent increase, though this mostly reflects an upward revision to sales revenue at motor vehicle dealers, as the revised increases in ex-auto and control retail sales for May are smaller than the initial estimates. It is interesting to note that, after three months of exceptionally strong growth, sales at nonstore retailers declined in June, suggesting consumers took advantage of restrictions on movement and economic activity having been eased at the end of May. This of course raises the question of whether, or to what extent, this pattern will reverse in the July data given the jump in COVID-19 cases toward the end of June – which came after much of the data on June retail sales had been collected. It is also important to note that the retail sales data do not capture consumer spending on services, which accounts for over two-thirds of all consumer spending. It was spending on services that was hit much more quickly and much harder than spending on goods as the pandemic struck, and this figures to be the case in the wake of the recent spike in cases, particularly since so much of spending on goods can easily be done online, going back to our point about a shift back toward online sales in the July data.

Sales rose in 10 of the 13 main categories in June. In addition to sales by nonstore retailers, sales at building materials stores and grocery stores fell in June, but these declines come from notably elevated dollar volumes of sales over prior months. Gasoline station sales rose by 15.3 percent in June, reflecting a spike in prices (up over 12 percent seasonally adjusted) coupled with higher demand. Thanks to a further increase in unit sales, revenue at motor vehicle dealers rose by 8.7 percent in June after a 51.5 percent increase in May. Sales at electronics/appliance stores (up 37.4 percent) furniture stores (up 32.5 percent), and department stores (up 19.8 percent) built on hefty increases in May, though this pattern was nowhere more pronounced than at apparel stores, which posted an increase of 105.1 percent in June after a 176.7 percent increase in May.

Still, it's easy to get so hung up on the magnitude of the increases in sales in May and June that one loses sight of the magnitude of the declines seen in March and April – look no further than all the headlines touting June's "record" increase in total retail sales. True, as of June, the dollar volume of total retail sales stands just 0.56 percent below that of February, i.e., before the pandemic began to impact the economy. But, as our second chart below shows, fortunes vary sharply across the various categories of retail sales. It is no surprise that the dollar volume of sales by nonstore retailers and at grocery stores and building materials stores stand well above February's levels, reflecting the dramatic shift in shopping patterns during the pandemic. It is also worth noting that, in the case of gasoline station sales, significantly lower prices account for much of the shortfall between the dollar volume of sales in June compared to that of February.

As noted above, there is considerable uncertainty as to how the recent upturn in COVID-19 cases will impact spending patterns. One thing that is already turning up in the higher frequency data is that spending at bars and restaurants has begun to decline – even with increases of 31.5 percent in May and 20.0 percent in June, overall spending in this segment is still 27.4 percent below where it was in February. In addition to the jump in COVID-19 cases, another source of uncertainty over the course of consumer spending is the looming expiration of the $600 per week in supplemental Unemployment Insurance (UI) benefits. While this will bring an immediate, and sharp, decline in cash flows, it is important to note that the hit to spending will not be as quick or as drastic as the hit to cash flows, as many households have saved some of the aid that flowed through the CARES Act. Census data shows funds from the Economic Impact Payments, most of which were made in April, were saved and are being used by many households to fund current spending, and the same is likely true of the supplemental UI benefits. Either way, the next few months are likely to bring notable shifts in retail sales, even if not of the same magnitude as those of recent months. It remains to be seen whether the shifts will be more pronounced in the dollar volume of sales or the composition of sales.





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