

US: Retail bounces back, but much tougher times ahead

Households were in a positive mood in June with retail sales bouncing back close to pre-Covid levels. Unfortunately, renewed shutdowns, closed businesses, rising joblessness and with the US\$600/week Federal benefit payment scheduled to end shortly, the July and August figures will paint a gloomier picture



Shoppers at a technology store in Houston

7.5% MoM increase in retail sales in June

Retail gets back on track

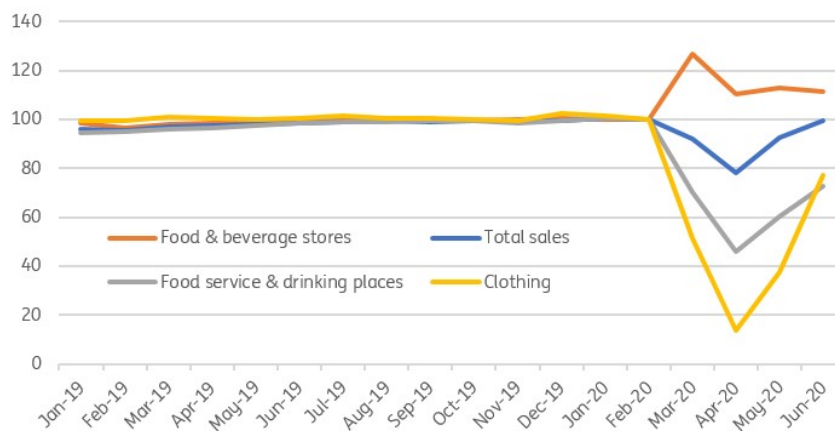
Retail sales rose 7.5% month-on-month in June, well ahead of the 5% consensus and this means that the level of spending is just 0.6 percentage points shy of where we were pre-Covid in February. This is a remarkable achievement given the surge in unemployment the US economy has experienced and serves to underline the effectiveness of the government's support package of

those impacted by joblessness.

The US\$600/week extra coming from Federal coffers as part of the Pandemic Unemployment Assistance program has meant many households actually have higher incomes (University of Chicago estimate 68%) than when they were working. As such there is clear evidence from credit and debit card transactions (see <https://www.tracktherecovery.org/>) that it is lower income households that have really driven the rebound in spending.

The details show that grocery remains way out front in terms of performance (see chart), but there have been major improvements in all categories. The so-called “core” figure, which excludes food, gasoline and building materials and better maps consumer spending, was slightly less strong posting a 5.6% gain, but this still suggests a decent end to the quarter.

Level of retail sales versus February



Source: Macrobond, ING

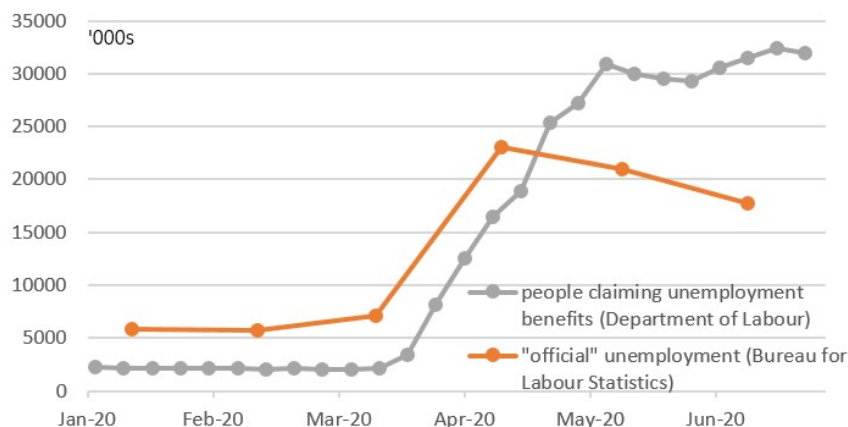
But prepare for a bumpier rise in July and August

Looking further ahead, pent-up demand after weeks of lockdowns have clearly contributed to this strong turnaround and we suspect momentum will likely fade, together with the fact that renewed lockdowns are reducing the opportunities to spend money on recreation, eating out, hospitality, etc. Unfortunately the credit and debit card transaction data mentioned earlier suggests that spending fell by around five percentage points in the second half of June, which clearly relates to the new containment measures. However, it also may reflect renewed virus fears as cases surge above 60,000 per day nationally with potential shoppers staying at home.

The jobs market also remains a worry. Today’s initial jobless claims data once again highlighted how sticky the jobs market is with 1.3mn logging a new claim the week of 11 July versus expectations of 1.25mn. Continuing claims fell by slightly more than expected to 17.338mn. However, the total number of people claiming benefits under ALL programs, while falling, is still up at 32mn. That is because a broader range of people qualify for benefits under the Pandemic Unemployment Assistance program, which had 14.3mn claimants as of the week of 27 June.

This only serves to illustrate the ongoing extreme stress in the jobs market and suggests unemployment is closer to 20% than the 11.1% currently listed as the “official” rate.

Which measure of unemployment do you believe?



Source: Macrobond, ING

Official unemployment rate set to rise and spending to fall

Extended unemployment benefits, including the US\$600 per week Federal boost, are supporting incomes and consumer spending. However, if this program expires at the end of this month as planned there will huge drop in incomes for those millions of people at a time when the reinstatement of Covid-19 containment measures is limiting the opportunities for finding work. Nearly US\$20bn per week is being paid out to claimants and if it completely disappears (or is merely cut aggressively) we should expect to see a fall in August retail sales – remember we are already suspecting a fall in July sales, based on credit and debit card transactions

The ending of the benefit will also mean that the August official jobs report could see the unemployment rate rise sharply. Remember to be “officially” unemployed you have to be actively searching for work, but to claim unemployment benefits you don’t. In the absence of job creation (due to renewed lockdowns) this implies “official” unemployment could rise by 14.25 million (32 million benefit claimants less 17.75mn currently officially unemployed) as they “actively” look for work.

We don’t want to detract too much from today’s fantastic spending numbers, but we strongly suspect the economy is in for a much bumpier ride over the next couple of months after the initial post re-opening surge.

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