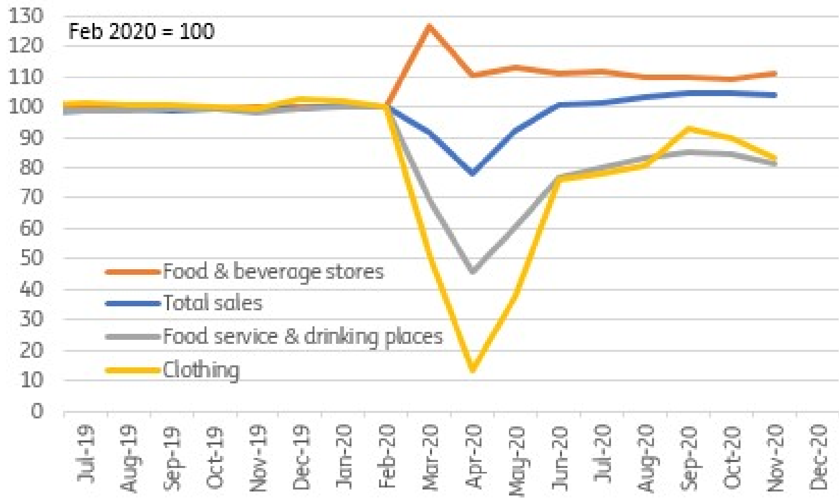
US: Retail feels the squeeze

The spike in Covid-19 cases is hurting sentiment while also prompting more and more movement restrictions that are coming with a high economic cost. Two consecutive monthly retail sales declines could easily turn into three, which underlines the case for more fiscal support for the economy

Shoppers at a technology store in Houston

US retail sales fell 1.1% month-on-month in December versus the -0.3% consensus forecast with weakness, unfortunately, seen throughout the report. In fact, it is easier to give you the ones that rose – just 3 components – building materials +1.1%, food & beverage +1.6% and non-store +0.2%. It is a very disappointing outcome and as we head to a December and January period that is likely to struggle even more as Covid containment measures kick in, this puts more pressure on Washington to agree on a fiscal support package.

Retail sales levels

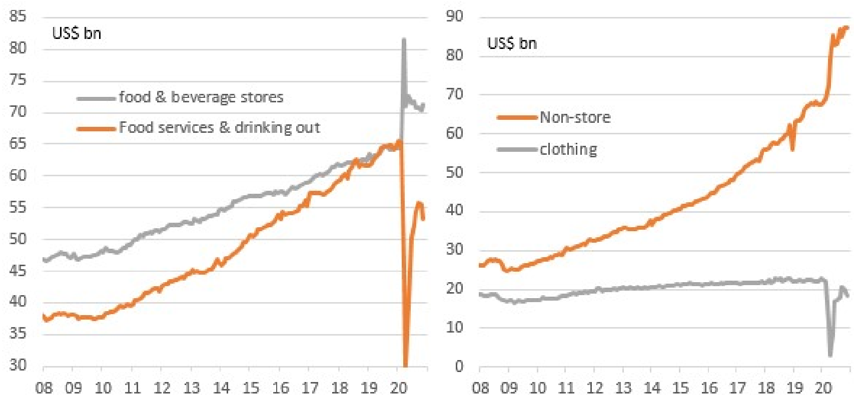


Source: Macrobond, ING

The big falls were in electronics (-3.5%), clothing (-6.8%), department stores (-7.7%) and eating/drinking out (-4%). Moreover, there were downward revisions to October's data with the headline retail sales figure moving from a 0.3% MoM growth rate to a 0.1% contraction.

Significantly, the "control" group, which excludes volatile food, gasoline and building materials and better maps onto consumer spending within the GDP report fell 0.1% in October and 0.5% in November. We could certainly see a decline in December as well, which suggests that the current 4Q20 GDP consensus forecast of 4.5% annualized growth is looking a little optimistic. We wouldn't be surprised to see something closer to 2% with a potential negative reading for 1Q21 despite the vaccination program that is now underway.

Key retail sales component divergences



Source: Macrobond, ING

With an increasing number of city mayors and state governors warning of more movement restrictions to combat the rise in Covid-19 cases, the economy is facing a period of growing uncertainty. With more restaurants being forced to close and the threat of closure of non-essential retail in some areas the need for more support for the economy is growing. Hopefully we will get a fiscal package agreed to mitigate some of these headwinds, but it won't be able to fully offset weaker consumer spending or the threat of rising joblessness.

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