US: Retail rebound boosts hopes of a V-shaped recovery

Retail sales rebounded in May as the re-opening process got underway across the United States and incomes were supported by extended unemployment benefits. However, questions hang over how long the benefits will last, millions of Americans remain out of work and ongoing social distancing means we remain a long way from 'normality'

A masked shopper in New York

17.7%

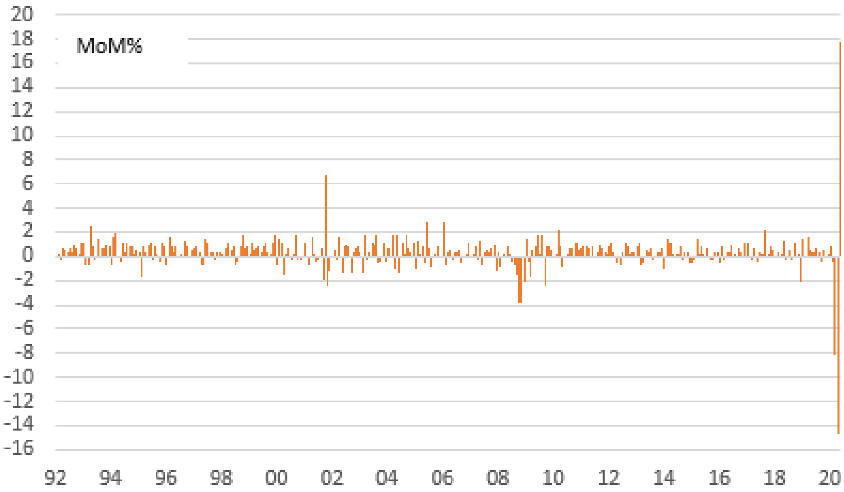
Increase in May US retail sales

Month-on-month

Better than expected

Retail sales bounced back far more vigorously than expected in May, surging 17.7% versus the consensus forecast of an 8.4% gain, while the plunge in April was revised to be a little more moderate than initially reported (-14.7% versus -16.4%). This means that the seasonally adjusted dollar level of US retail sales is back roughly to what we saw in March, which in turn is around 8% below January's level. This is much stronger than the weekly Redbook chain stores sales figures had hinted at, with today's report clearly boosting hopes of a more V-shaped recovery.

Retail sales MoM change

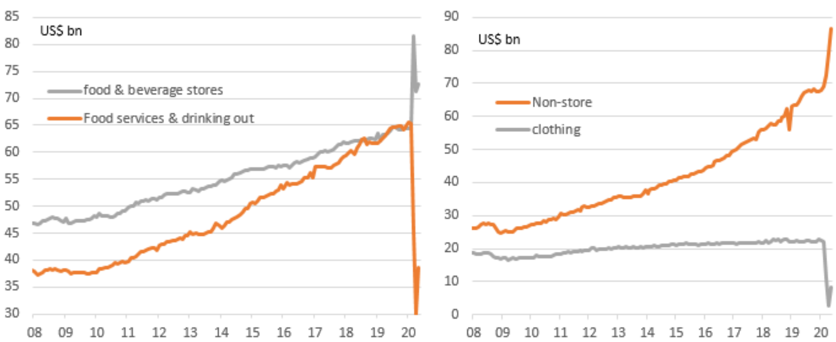


Source: Macrobond, ING

The details show a very strong increase for motor vehicles (+44%), furniture (+90%), sporting goods (+88%), electronics (+50%) and clothing (+188%), all helped presumably by some pretty decent price discounting.

Retail sales have on average accounted for 42% of total consumer spending over the past ten years – housing, healthcare and financial services are the other big chunks. In turn, consumer spending is around 70% of total GDP, implying that retail sales account for just under a third of GDP so the scale of today's rebound is hugely important and will inevitably lead to upward revisions to 2Q GDP.

$ value of retail sales for key components



Source: Macrobond, ING

It is clear that huge fiscal and monetary support, including the extra $600 per week in unemployment benefit, has given households the income and the confidence to spend. However, this $600 extra payment ends in July and we must remember that employment is still 20 million down on where it was at the beginning of the year.

As such the outlook for the coming months remains uncertain and is going to be determined by how quickly the re-opening gathers momentum and how many of the laid-off workers return to their previous jobs.

A renewed spike in Covid-19 cases in some states is leading to fears that we could see a pause in some of the re-opening processes and even the potential return to lockdowns. This will obviously be severely damaging to recovery hopes. In any case, there will be ongoing social distancing constraints and consumer caution until there is a vaccine. Given this situation, we shouldn't extrapolate from today's report that we are imminently heading back to "normality".

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