US: Retail ruin?

March retail sales numbers highlight the devastation on main street and shopping malls across the country caused by Covid-19 containment measures. Ongoing social distancing mean the re-opening process will be slow while the surge in unemployment will further limit the prospects of a near-term rebound in sales

-8.7% MoM

The biggest monthly fall in retail sales on record

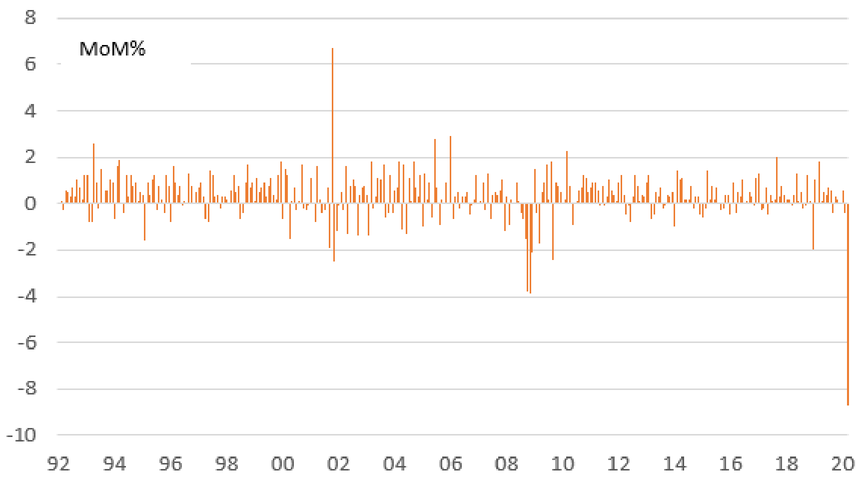
Bad, but it could have been worse...

US retail sales fell 8.7% in March versus the 8% consensus figure – the worst monthly figure on record. As for the details, we already knew that unit auto sales plunged by a third in March to an annualised 11.37m units from 16.83m in February with the value of those sales declining only

25.6%, according to today's figures. Eating and drinking out understandably collapsed as restaurants and bars shuttered (down 26.5%), but we felt the damage would have been even greater than that. Meanwhile, gasoline station sales only fell 17.2%. Again we thought this number would have been weaker thanks to a combination of a 10% fall in gasoline prices and the travel restrictions that saw demand at the pump dry up. Clothing was incredibly bad, falling 50.5% while furniture sales fell 26.8% and sporting goods fell 23.3%.

The fact that March started off relatively "normally" with the shutdowns only really kicking in from the second week shows us how tough things have been in the second half of March. This of course prompted panic buying at grocery stores with food sales surging 25.6% while health spending rose 4.3%, non-store retail was up 3.1% and building materials were up 1.3%.

The month-on-month percent change in US retail sales (1992-2020)



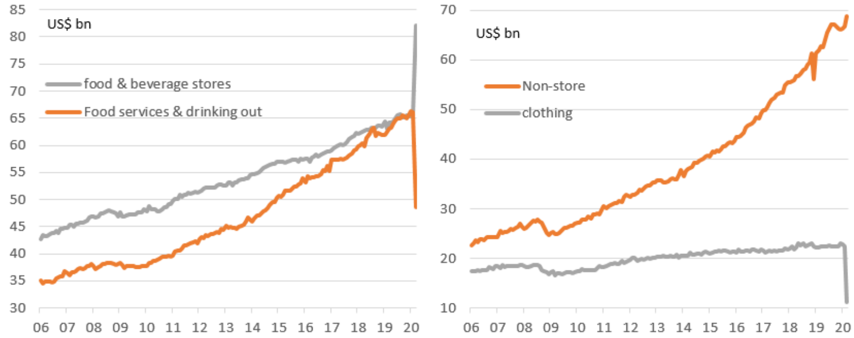
Source: Bloomberg, ING

April will be weaker

We admit we had been braced for a far worse headline figure given some of the grim debit and credit card transactions numbers released by US banks. Moreover, we had thought electronic payments would be boosted by consumers switching to online shopping as physical stores closed. This would have cannibalised a huge proportion of cash transactions, which obviously can't be used online. Pre-lockdown cash still accounted for 26% of spending according to the Federal Reserve's Diary of Consumer Payment Choice.

With the lockdowns having spread across the country in recent weeks, we suspect that there will be more pain to come, compounded by the fact that millions of workers have lost their jobs and will automatically be constricting their spending. A such, April's retail sales report will likely show broader weakness.

"Winners" and "losers" - US dollar value of retail sales for selected sectors



Source: Macrobond, ING

Looking for the positives

Financial markets will likely shrug off this report given growing optimism for the outlook based on parts of Europe starting to re-open and statements suggesting US authorities are developing a similar roadmap. Everyone hopes that this goes smoothly, businesses can re-open and millions of people who were furloughed or laid-off can return to work. However, we must recognise the risk that as shops re-open and social interaction starts to increase the number of cases could rise again. This could prompt renewed shutdowns, such as in Singapore last week. That is why we will be closely following what happens in Austria and the Czech Republic over the next couple of weeks.

But it is a long road ahead...

We then have to think what the longer-term outlook will be. Firstly, will consumers return to the shops? If there is a lingering fear factor about the virus it could suggest that a "return to normality" may take longer to achieve. Moreover, traditional bricks and mortar retailers were already struggling from the onslaught of online competition. This crisis has meant that there is a significant proportion (of largely older) shoppers for whom buying online has been a new and positive experience. Will they return to physical stores? If not, this implies more closures and job losses and emptier main streets and shopping malls, which can lead to a downward spiral in activity in nearby establishments.

Then there is the uncertain time line for when restaurants and bars will re-open. The longer the delay the greater the chance some of these venues fail or need to be restructured with fewer workers, despite the support from the government and the Federal Reserve.

Given the scale and breadth of the US shutdown our best guess is that the economy contracts by around 13% peak to trough before we start to see a rolling process of re-opening in the US from mid-May. This will involve some ongoing form of social distancing meaning that a return to "business as usual" could take many months – we don't expect the lost output to be fully recovered until mid-2022. In this environment, unemployment will fall far less quickly than it spiked, which implies little prospect of a V-shaped recovery in consumer spending. As such the retail sector, particularly traditional bricks and mortar retail, will continue to face headwinds even after the Covid-19 threat fades away.

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