15 May 2020
Snap

US: Retail plunge intensifies GDP fears

April retail sales numbers underline the devastation on Main Street and shopping malls across the country caused by Covid-19 containment measures. Re-opening is now getting underway, but ongoing social distancing means this process will be slow while the surge in unemployment will further limit the prospects of a near-term rebound in sales

16.4%

Drop in April retail sales

MoM

Worse than expected

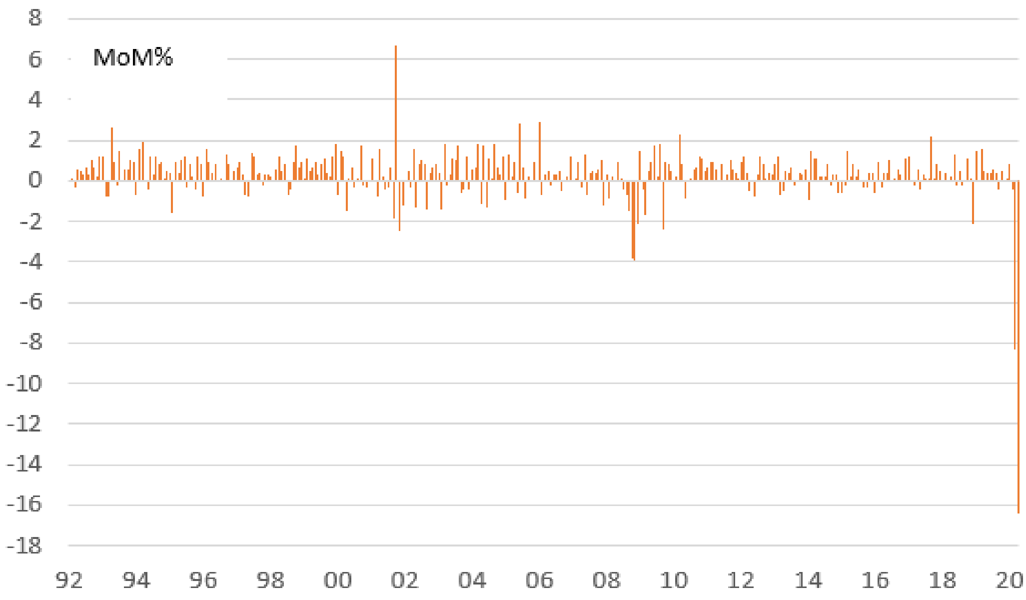
Retail ruin

US retail sales fell 16.4% in April, worse than the 12% figure expected by the market. After the 8.3% decline in March, this brings a two-month drop in sales of 23.4%. These are obviously new records and underline the economic cost of Covid-19 containment measures that have shuttered stores and lead to mass unemployment.

The details show another massive decline in clothing (-78.8%MoM), with furniture down 58.7%, electronics down 60.6%, sporting goods down 38% and department store sales down 28.9%. We already knew that autos (-12.4%) would be weak, although we had been looking for a drop of nearly twice as much given the precipitous decline in volumes, while gasoline station sales fell 28.8% thanks to both price and demand declines.

Eating and drinking out obviously fell again (29.5%MoM), but grocery also declined 13.1%, presumably reflecting the fact that after all the panic buying in mid-March with long check-out lines and scuffles over some products, households have calmed themselves and are gradually running down their over-stocked fridges and freezers.

MoM% change in retail sales



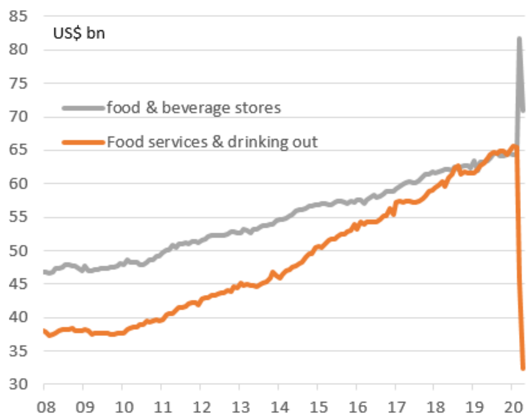
Source: Macrobond, ING

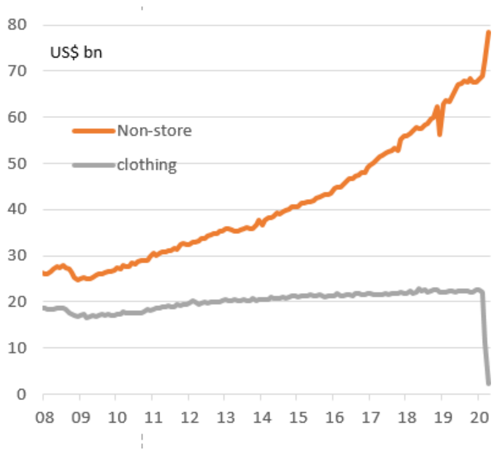
The odd surprise...

There was one positive category – non-store retail – but this rose "only" 8.4%, which may come as a surprise to many. However, we have to remember there is a categorisation issue as if you buy clothing from a well-known retailer that is categorised as a department store or a clothing store (as it has lots of physical presence) it won't be classified as a non-store sale. We can all make a pretty good guess who is making up the bulk of the gains in "non-store".

The fact that April's sales were so weak relative to March shouldn't come as a surprise. April experienced the full lockdown hit with most physical retailers, apart from grocery and pharmacies, closed-down while restaurants and bars were shuttered. We must remember that the first half of March was pretty much business as usual with the store closures only really coming in the final two weeks of the month. Moreover, March grocery sales were lifted by panic buying.

Retail sales values by category





Source: Macrobond, ING

On track for a 13% drop in GDP

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. Consumer spending is around 70% of total GDP, implying that retail sales account for just under a third of GDP. Given the 23% cumulative fall in retail sales over the last two months this alone is enough to knock more than 6 percentage points off the level of nominal GDP.

The other components of consumer spending, such as housing, are unlikely to fall anywhere near as much. Nonetheless, with investment spending set to decline dramatically as businesses retrench we continue to expect a peak to trough economic contraction of around 13% in US GDP.

Hitting the bottom

Today's report should mark the nadir for the sector with gradual re-openings in some states starting through May. This should accelerate through June barring a renewed spike in Covid-19 cases that prompt a return to lockdown. Nonetheless, the rebound is likely to be limited by social distancing restricting the number of people on the premises, consumer caution regarding the virus and the hit to consumer demand caused by tens of millions of people having lost their job.

Remember that the Global Financial Crisis saw output fall 4% peak to trough and it took 14 quarters for that output to be recovered. We see little reason for the lost output in the current crisis to be recovered much quicker than that.

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