ECONOMIC UPDATE
REGIONS
June 16, 2020

May Retail Sales: Spike In Sales Crushes Expectations, But Is Just A Start

- Retail sales rose by 17.7 percent in May after falling 14.7 percent in April (initially reported down 16.4 percent)
- Retail sales excluding autos rose by 12.4 percent in May after falling 15.2 percent in April (initially reported down 17.2 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 11.0 percent in May

Total retail sales rose by 17.7 percent in May, with ex-auto sales up by 12.4 percent and control retail sales up by 11.0 percent, in each case well above even the most aggressive forecast. At the same time, revisions show the decline in retail sales in April was less severe than had initially been estimated, with total retail sales down by 14.7 percent rather than by 16.4 percent as first estimated. To be sure, the increases in May must be put in the context of the declines seen in March and April, but that sales rose so sharply offers a hopeful note on the rate at which the economy will rebound from the brief but violent recession associated with the COVID-19 virus and the efforts to stem its spread.

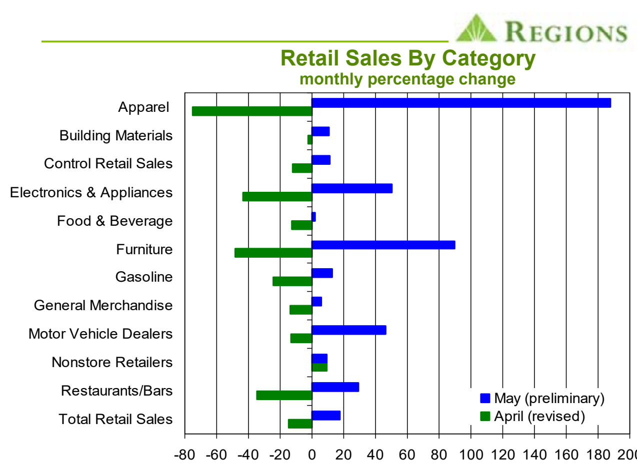
By the end of May, all states had taken at least some steps to ease restrictions on economic activity, restrictions that in many cases had been in place since mid-March. Moreover, even though the marked deterioration in labor market conditions in April led to a sharp decline in aggregate wage and salary earnings, the largest single component of personal income, a surge in transfer payments pushed total personal income up by 10.5 percent in April. The jump in personal income along with a double-digit decline in total consumer spending drove the personal saving rate up to 33.0 percent. Clearly the stage was set for retail sales to increase, though the degree to which they did so is surprising.

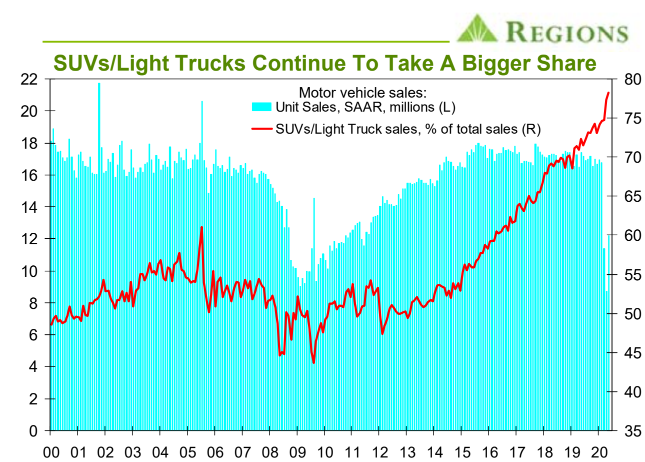
May saw sales rise in each of the 13 broad categories for which data are reported. Apparel store sales rose by 188.0 percent – no, that is not a typo on our part, but, after having declined by 48.7 percent in March and by 75.2 percent in April, even with May's increase the level of apparel store sales stands 63.0 percent below the level of February sales. Furniture store sales rose by 89.7 percent in May, leaving the level of sales 26.3 percent below February sales. After rising by 29.1 percent in May, the level of restaurant sales stands 40.9 percent below February sales. We could go through each category and make the same point, i.e., as eye-popping as some of the percentage increases in May are, the dollar volume of sales is still well below that of February, with total retail sales 7.9 percent below February's level.

Sales revenue at motor vehicle dealers rose by 46.2 percent in May. As we noted in our *Economic Preview*, unit motor vehicle sales rose by 40.0 percent in May, and with fleet sales still on hold, the increase in unit sales reflected sales to consumers. At the same time, the sales mix of unit sales shifted even more strongly in favor of higher priced SUVs/light trucks, which contributed to the gain in sales revenue outpacing the gain in unit sales. Sales of motor vehicles held up better than most of us expected would be the case, and an increased emphasis on online sales/no contact deliveries helped sustain sales. One problem manufacturers will have in the near term is replenishing supplies. Inventories, which had been elevated, have been drawn down, and while manufacturers are back online, they continue to face supply chain issues while it will take time for workers to adapt to reconfigured production processes. Still, in terms of problems to be contending with at this point in time, motor vehicle manufacturers could do a lot worse.

Gasoline station sales rose by 12.8 percent in May. Weekly data showed gasoline demand steadily rising throughout the month, and while the CPI data show seasonally adjusted gasoline prices fell in May, our sense is that the CPI data did not capture the jump in retail gasoline prices that took place the last week of May, which includes the Memorial Day weekend. Sales by nonstore retailers were up by 9.0 percent in May, which may seem tame compared to some of the other increases, but keep in mind that this is the one category which had clearly outperformed the field in March and April – the initial estimate of an 8.4 percent increase in April was revised to show a 9.5 percent increase.

For as long as we've been doing this job, which is a long time, we've always followed one basic rule – don't make too much out of any single data point, good or bad. The May retail sales report is no exception. While the "V-shaped" chorus is in full voice this morning, keep in mind the labor market is far from healed and many households face an "income cliff" in the weeks ahead that poses a clear downside risk to consumer spending. So, while May is a good start, that's all it is.





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