



Economics Group

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Retail Sales Back in Black

The June report leaves total retail sales just 1.0% off its pre-virus peak, and control group 1.4% above its peak. Were it not for the virus rebound, retail sales would be poised for full recovery.

V-Shape Recovery

The June retail sales report was much better than expected and in a way it's a torment because the remarkable rebound could be a fleeting one as the country struggles with a re-emergence of growth in COVID-19 cases that might force new closures. The 7.5% surge handily exceeded expectations and lifts the overall level of retail sales to within striking distance of its pre-recession peak. Clothing stores (+105.1%), auto sales (+8.2%) and restaurants (+20.0%) accounted for most of the gain. Sporting goods stores added another 26.5% in June lifting this category to a level that is more than 20% above its pre-recession peak.

The False Start He Warned Us About

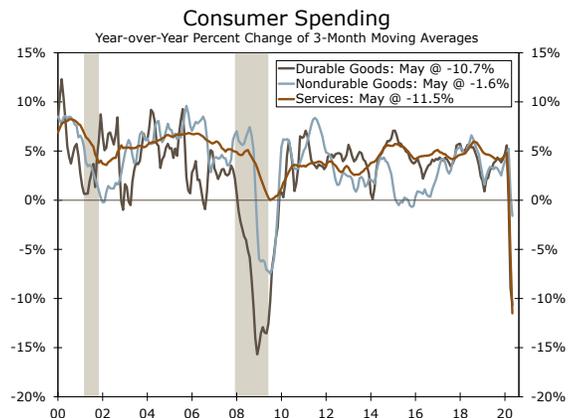
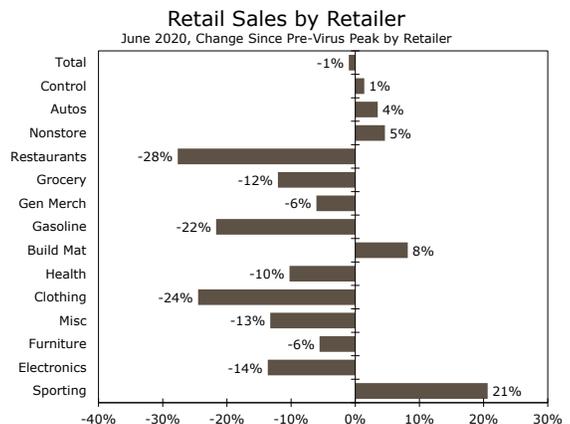
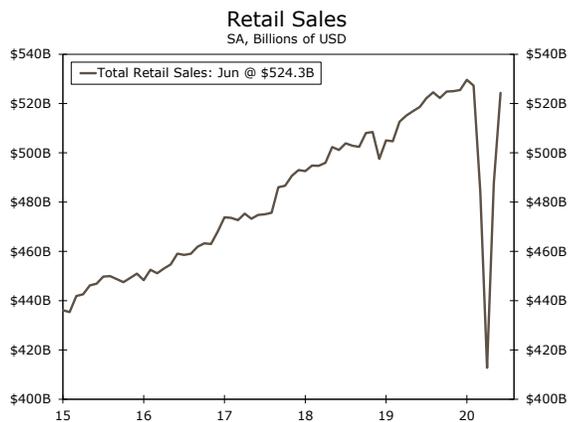
The months ahead may not be so smooth for the retail outlook. While May and June figures benefitted from both low-base-effects as well as a gradual loosening of stay-at-home orders in many parts of the country, July will not have the same wind in its sails. The "easy gains" that were made possible from sharply curtailed spending have already been realized and the growth in both case counts and the positivity rate suggest that the loosening in stay-at-home orders could be stopped or even reversed in many states.

In the early days of this crisis at the beginning of April, Fed Chair Jay Powell announced some of the policy measures taken by the Fed to offset the worst effects of the pandemic and cautioned that it was critical to "avoid a false start where we will partially reopen and that results in a spike in coronavirus cases, and then we have to go back again to square one."

Going back to square one is not likely going to happen for a lot of reasons, but simply slow-walking the re-opening process will result in a less robust rebound in consumer spending than we had expected a few months ago when leading health experts still thought we'd have the virus under control by now.

I've Been Too Long I'm Glad to Be Back

Two major positives are still intact for the consumer spending outlook: First, households have significantly ramped up savings during quarantine and that can fuel spending in the second half of the year. Second, there is still pent-up demand for services. This has been a theme of ours since the lockdowns first began, and the longer the lockdowns remain in place the more the appetite is growing. A night out whether it's the local pizza place or an agreeable meal in a nice restaurant is out of reach. People across the income spectrum have not had the ability to indulge that desire since there was snow on the ground in many parts of the country. In retail sales that pent up demand will be most evident in restaurants. Most other categories are goods-related, and will be less reflective of the coming services boom. But the restaurant category, even after the gain in June is still 27.7% below its pre-recession peak which is down more than any other category.



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