The bottom fell out for most retailers when the lockdowns began. In the months since, record gains and declines have been recorded in just about every store type, yet remarkably, the overall level of retail sales is just a scant 1% shy of its pre-crisis peak. In this special report, we pick up the pieces from the explosion that has occurred across the retail landscape and consider how things might play out in the second half of 2020, a year that is without question the most chaotic in living memory for retailers.

It is a case study in randomness for business survival as storied American franchises have filed for bankruptcy and well-known retailers have closed their doors for good, while others are jubilant and cannot keep items in stock. This has all occurred against the backdrop of the fight against COVID-19, which after a promising start has given way to the long-feared second wave which threatens to shake things up again before all this is over.

Retail sales cratered 22% between January and April as efforts to contain COVID-19 massively disrupted consumer behavior. Then, as stay-at-home orders began to be lifted and many businesses started to re-open, sales rebounded with remarkable vigor lifting the overall level of retail sales to just 1% off the pre-virus January peak (Figure 1). While the overall level of sales is nearly back to where it was, outcomes vary dramatically by store type (Figure 2). That variability in many instances means the difference between either making it to the other side of this crisis or literally closing up shop.

Source: U.S. Department of Commerce and Wells Fargo Securities

With retail data now available through June, we have the ability to analyze how sales have fared throughout the pandemic. More notably, the spike in case counts means consumer demand is poised to shift again. A full understanding of how things played out in the retail landscape during the initial lockdown can inform the outlook for consumer spending amid the resurgence of COVID-19 cases. Armed with that data, we take a detailed look at how sales have performed by retailer and use that to help you frame your thinking about what to expect in the months ahead.

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Together we’ll go far
While You’re at the Grocery Store, Can You Get More...Everything?

Food & beverage, or grocery, stores were the most notable beneficiary of the stay-at-home orders that popped up across the nation in March. But, supermarkets were not the only ones doing well during quarantine. Panic buying gripped the nation during the initial onset of the pandemic in early-March, and shoppers heaped carts high at certain retailers with everything they thought they might need for a long stretch at home. Sales also surged at health & personal care stores, (which often carry, among other things, toilet paper) and general merchandise stores (which include warehouse clubs such as Costco).

So no surprise to learn that March marked the largest month for sales on record for these three types of retailers. In the absence of that panic buying in April, these retailers reported record declines; a factor behind overall retail sales falling a record 14.7% that month. Sales in each of these categories remain below their March peaks, but did continue to rise from their April lows. As consumers balance the risk of venturing out of their homes versus maintaining a safe approach to consumption, we expect these consumption categories to continue to improve in coming months, though we are unlikely to see a similar stockpiling surge like we saw at the outset of the crisis.

No Dishes Tonight, Put Your Mask on, We’re Getting Takeout

Grocery store sales, however, fell 1.2% in June, which we attribute to a more pronounced pick-up in food services & drinking places, or restaurants (Figure 3). While still operating at a limited capacity, restaurants around the country were allowed to extend dine-in services within the first or second phase of many state re-opening plans. This likely led to a pick-up in restaurant visits, as there has been a pent-up demand for many services. Restaurant sales surged nearly 60% from their April low, but still remain down nearly 30% from their pre-virus January peak, which is the most of any category as of June. The accelerating COVID-19 case counts and corresponding containment measures puts the restaurant recovery at risk. For example, California has re-imposed some statewide closures including restaurants, bars and breweries, which if adopted in other states could stem the recovery in restaurant sales. Further, high frequency data from OpenTable, which measures seated diners, suggest restaurant demand began to stall at the beginning of July.

Source: U.S. Department of Commerce and Wells Fargo Securities

The Pandemic Hit Fast-Forward on the Shift to Online Shopping

In the event you hadn’t noticed the increase in delivery truck traffic in your neighborhood, Nonstore retailers, or online sales, is the one category of retail that continued to see increased sales throughout the virus-related collapse in spending. Online sales got a lift as many people turned to virtual options while confined to their homes. The monthly gains in online sales from March through May rivaled its largest monthly increase of sales on record set back in January 2019. The shift to online, in many ways, was an extension of a pre-existing trend, as online sales have been outpacing more traditional forms of retail for many years (Figure 4).
Even if a vaccine were to arrive tomorrow, some of this shift is likely permanent as former hold-outs to shopping online discover the convenience and ease of the experience. A smooth re-opening for brick and mortar commerce might take some of the momentum from online, but the resurgence in COVID-19 cases means a smooth re-opening is less likely. This is why online consumption is one area we expect will continue to gain market share and even receive a boost in the event mobility restrictions are re-instated. Online sales, however, did fall 2.4% in June, as many shoppers clearly had a desire to get out amid the re-opening of many more traditional brick-and-mortar retailers.

To that effect, clothing & accessories store sales came roaring back in May (+176.7%, month-over-month) and June (+105.1%), after experiencing the largest decline in sales of any retailer, falling over 85% from its pre-virus peak to its April low (Figure 5). A share of this decline was likely price related, as consumer apparel prices tumbled, but even after the more than doubling of sales the past two months, clothing sales still have a long way to go to reach its prior peak. Furniture & home furnishing stores and electronics & appliance stores also re-opened and experienced an uptick in sales. Electronics stores actually saw a record increase in June, as did miscellaneous stores (florists, used merchandise, pet supply shops) and gasoline stations. The rebound at gas stations was partly price related as demand picked up amid what are still-low levels of mobility.

**Figure 5**

Source: U.S. Department of Commerce and Wells Fargo Securities

### Summer Rec

Sporting goods & hobby stores sales are more than 20% above their pre-virus June-2019 peak (reference Figure 2) as demand for summer recreational goods roared back as households in lockdown bought up swing-sets, basketball hoops and trampolines. This jibes with the rebound we recently highlighted in the recreational goods & vehicles component of durable goods spending in the national accounts, which were up 10% above their pre-virus peak in May. The longer road here could be tougher, however, once the hoop is up, it is there for years, meaning this consumption category may subside in coming months.

Motor vehicle & parts dealers and building material & garden equipment stores are also above their pre-virus peak (Nov-19 for autos and Jan-20 for building materials). Autos sales will likely continue to support total retail sales in the months ahead even if some localized set-backs reverse re-opening plans—that is, as long as dealerships aren’t required to close. Given the quick snapback in auto sales, we are inclined to think that the slip in sales has more to do with dealership closures than the massive job losses since March. Building material stores broadly held up during the crisis as this category includes retailers such as Home Depot, that were deemed essential during the lockdowns. Out of all the categories that experienced declines, building material stores experienced the smallest decline in sales, falling just 3.3% from its pre-virus peak to its April low (reference Figure 5). Building material sales declined a modest 0.3% in June, but we expect this category to hold its ground.
Resurgent Virus Dampens Spending Outlook

You could have worked a lifetime in retail and not seen the madness that took place in the first half of this year and we are not out of this pandemic yet. That means at least a few more bumpy months for consumer spending. Accelerating COVID-19 case counts are a serious downside risk to the consumer outlook. Not only could the resurgence lead to localized setbacks and more retail closures, but it could dampen consumer confidence and in turn, consumption. The environment is largely dependent on the virus’ trajectory. That said, barring a mutation that makes the virus more deadly or contagious, we expect the worst of the demand hit from the coronavirus is behind us.

Online sales should continue to gain particularly to the extent that re-opening plans are slowed. We expect the turn towards food at home will remain in place, but as long as restaurants remain open, sales should continue to recover as consumer itch to get out even if it is risky. It may be tougher to see continued gains at general merchandise, electronics and sporting goods stores in the months ahead, as there is only so much demand to be satiated. Based on our expectation for continued improvement in home sales, furnishings and building material stores should get some lift as the shift of millennials into home ownership is accelerated by the current downturn. Overall, consumer spending should continue to rise, but we expect the pace of rebound to moderate in the months ahead amid accelerating COVID-19 cases.

In a few months we will publish our annual Holiday Sales outlook. With back-to-school sales potentially being held back due to distance learning, you can bet that retailers will be eager to get people thinking about the holidays. We know it is only July, but here is one forecast you can hang your hat on: Christmas trees will be in stores before you know it.