US Retail Sales: A Strong June, But What Comes Next?

Headline retail sales saw a further healthy gain in June, albeit a less dramatic one than in May when stores had just reopened. Sales rose 7.5% (consensus +5%), following a revised 18.2% gain in May (prev 17.7%). On the headline measure, sales are now only 0.6% lower than where they stood in February, despite only partial recoveries for gasoline stations (still 19% below Feb) and restaurants (27% down still), although the former is partially a factor of pump prices.

The control group (excluding autos, building materials, gasoline and restaurants) rose 5.6% and now sits 5.2% above the February level and is even modestly above the peak reached in March when stockpiling led to a temporary surge. Pent-up demand following the late March-April lockdown and spending of stimulus checks has driven strong sales in a number of areas, particularly clothing, electronics, furniture and sporting goods. Even on this stripped down control group measure, though, sales fell at an annualized 10% in Q2 overall.

However, even though we are only two weeks into a new month, today’s data may already be considered old news. The surge in Covid-19 cases in a number of states in the second half of June, leading to a re-tightening of restrictions in some areas and likely reduction in consumers’ desire to make discretionary purchases, already seems to have weighed slightly on national mobility data during the first half July (although the mobility figures aren’t adjusted for usual seasonality and so have to be treated with a degree of caution). Uncertainty surrounding the size of unemployment benefits after the end of this month could also be causing consumers to be more cautious since the start of July. Initial jobless claims seeing little decline again this week (1300K from 1310K in the prior week) will also raise concerns regarding the sustainability of strong consumer spending.

Forecast Implications - While other areas of consumer spending will be slower to bounce back, the strength of the recovery in retail sales during May and June suggests that the contraction in Q2 GDP won’t be as bad as we had previously assumed. However, given greater uncertainty surrounding the Q3 outlook due to the sure in Covid-19 cases and the re-tightening of restrictions in some areas, we will be trimming our growth forecast for that quarter which should leave the year as a whole still tracking close to our previous -6.2% forecast.