

# MONTHLY Economic Review

APRIL 2020

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*The data for this report is released on a rolling schedule. The presented numbers are current as of publication and are subject to revision.*

## SYNOPSIS | **Stopping the pandemic is the first step to restoring the economy**

March was an historic month — unfortunately, for many of the wrong reasons. The country is now in the midst of a national health emergency that has triggered adverse shocks to all dimensions of the economy and created significant challenges as the public has been asked to step back from economic activity. The economic impacts are unlike any past pandemic, with many retailers and other businesses closed nationwide and many states in a lockdown where citizens are directed to stay at home. The equity markets have experienced historic selloffs and jobs have been profoundly impacted. U.S. initial filings for unemployment benefits jumped to a shocking record high of 3.3 million in the week ending March 21. That compares with only 282,000 claims the week before and is nearly five times the previous record of 695,000 set in October 1982.

How quickly the country gets a handle on containing the virus will determine the degree of the impact on the economy and how soon businesses can reopen. NRF is not sugarcoating the outlook. We expect a severe contraction, and if the nation doesn't get the virus under control, the fallout will be worse. "Social distancing" and self-quarantining are now common in our day-to-day lives, and many of those who have not lost their jobs are working at home. With shelter-in-place or stay-at-home directives, retail foot traffic is nearly nonexistent. This is a serious time for retail firms as they try to sustain themselves, but the loss of income for both consumers and businesses is not distributed evenly. Some "nonessential" retailers will see huge losses and many retail workers will lose their jobs. Yet other "essential" merchants will benefit from stable revenues and their workers will have secure jobs as they try to keep up with the demand for goods and services.

While recent market behavior is somewhat analogous to October/November 2008, what is happening is much different than what we experienced with the Great Recession of 2007-2009. At that time, both the economy and the financial system were broken. There were huge amounts of excessive leverage, overbuilding of homes and structures, and millions of individuals lost their jobs as excesses were eradicated.

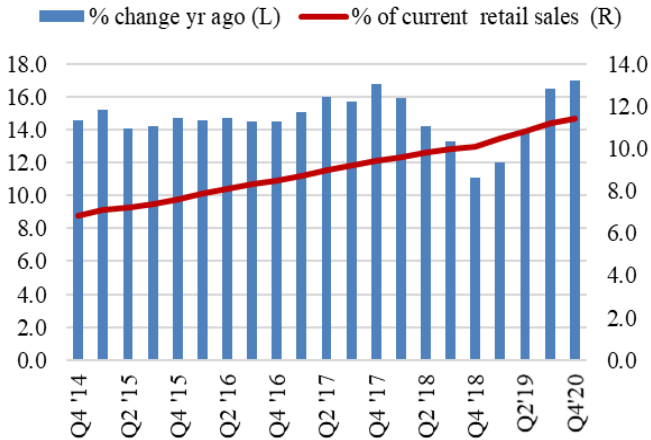
Fortunately, the economy entered the COVID-19 corridor with sound fundamentals. According to the Bureau of Economic Analysis, gross domestic product grew at an annualized pace of 2.1 percent during the fourth quarter of 2019. Sturdy employment gains, low inflation and elevated consumer confidence had provided the engine for growth for the longest economic expansion in history. At this juncture, it is probable that we will experience a severe contraction at least in the second quarter, and GDP is about to go into a mandated nosedive. Upcoming government reports on economic data will likely show big, scary numbers and losses to the \$22 trillion economy. When and what kind of bounceback and trajectory remains unsettled. Nonetheless, we do not believe today's situation presages a prolonged economic downturn. Once the pandemic is over, we hope we will find that there is nothing structurally wrong with the economy and that any deficiencies were solved by monetary and fiscal policies.

Any economic outlook is uncertain and difficult to quantify. The initial effect on retail sales will not be available until the Census Bureau releases March data on April 15. However, that data could be delayed or unreliable because retailers that closed during March were not available to complete the monthly survey of retail sales Census relies on to calculate the data. It is not known how long this situation will last. Estimates of the impact of supply shocks, fewer jobs, reduced consumption and diminished wealth effect on the economy — or the ability of government stimulus efforts to offset these issues — all depend on the pace and scope of the infection and mortality rate. Even forecasts considering assumptions about these factors are highly unreliable and very subjective.

The big question is can we get back to normal and how soon? It all depends. We don't have the data to chart a roadmap to follow and the journey will be painful. It is critical to ramp up fiscal policy that aids individuals, states and businesses. Recent actions by the Federal Reserve and Congress — including the loans, tax relief and other provisions of the Coronavirus Aid, Relief and Economic Security Act — will help immensely by providing liquidity and keeping the credit markets flowing to the flywheels of the economy. Nonetheless, the primary priority is to first get the spread of the virus under control and then resume economic activity. All the policy we throw at this will not help unless we reduce the public health risks.

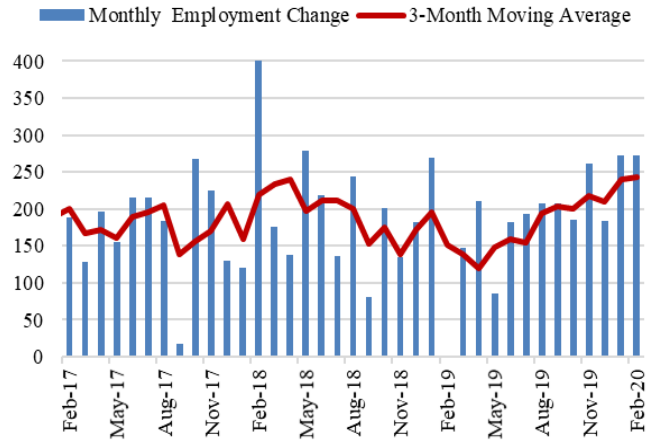
## RETAIL SALES

Ecommerce retail sales totaled \$158 billion in the fourth quarter. That was up 16.7 percent from a year earlier, beating the 16.5 percent gain in the prior period.



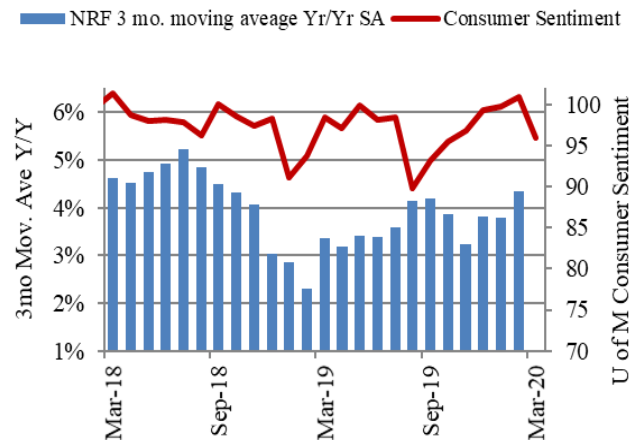
## EMPLOYMENT

After a strong showing in January, employment surprised on the upside in February, adding 273,000 jobs. The unemployment rate declined to 3.5 percent, its cyclical low but has spiked since.



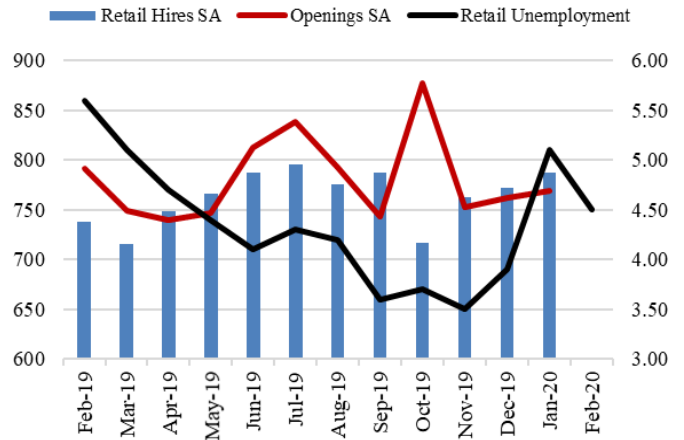
## CONSUMER SPENDING

Consumer spending and confidence remained quite solid in February. Both are expected to take a hit in the coming months due to a combination of rising anxiety about COVID-19 and steps to limit its spread.



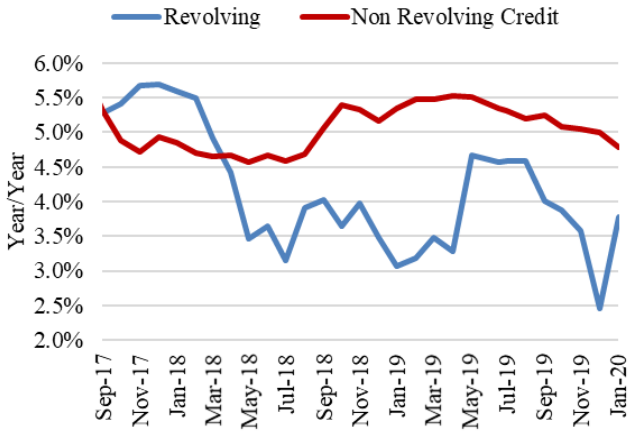
## JOB OPENINGS & HIRES

The gap between retail openings and hires narrowed from last October's high with strong hiring in January. February's retail unemployment declined to 4.5 percent from January's 5.1 percent.



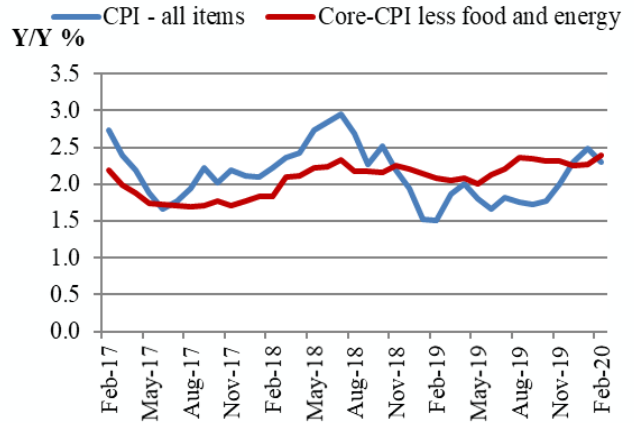
## CONSUMER CREDIT GROWTH

Consumer credit growth moderated in January, rising only \$12 billion compared with December's \$20.3 billion. Total consumer credit balances are expected to grow over the next few quarters.



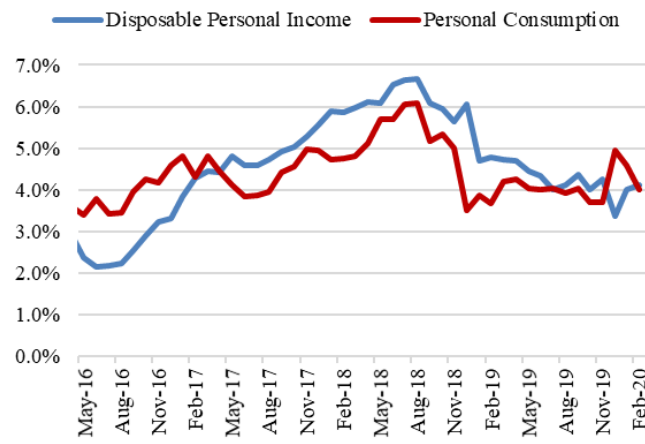
## INFLATION

The year-over-year change in the core Consumer Price Index has been relatively stable. Since early 2017, core CPI inflation has averaged 2 percent, the same average as the past 20 years.



## INCOME & CONSUMPTION

Disposable personal income and consumption were relatively solid before the COVID-19 pandemic. The savings rate in February rose to 8.2 percent from 7.9 percent in January.



## LEADING ECONOMIC INDEX

The Conference Board's Leading Economic Index three-month moving average was unchanged and had pointed to positive growth in February but did not capture the impact of COVID-19.

