National Retail Federation

MONTHLY

Economic Review

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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 | Reducing Fear is Key to Economic Recovery from Coronavirus Pandemic

After more than 10 years, the longest economic expansion in U.S. history has come to an end as the coronavirus pandemic has wreaked havoc on the U.S. and global economies. Large portions of the country are shut down, businesses have been in retreat and unemployment has soared. The economic data now emerging is just as bad as feared. The government-mandated shutdown has resulted in a sudden stop rather than the gradual downturn that comes with a traditional business cycle slowdown caused by issues like a banking crisis or overextended household balance sheets. Economic activity has been restrained to constrict the virus, and even with some states reopening, it will take several months to assess the full consequences and project a path forward. Reopening the retail sector and putting our economy back on track will require a gradual, phased-in approach.

First-quarter gross domestic product showed that the U.S. economy declined at an annualized rate of 4.8 percent. Weakness was widespread across segments and reflected the crippling effects caused by business and school shutdowns, social distancing and other directives aimed at containing the virus. That compares with GDP growth of 2.1 percent in the previous quarter and was the sharpest reduction since an 8.4 percent drop in the fourth quarter of 2008 during the Great Recession. Given that the first-quarter decline came even though most of the economy was buoyant up through mid-March, it is likely just a murmur of how severely the pandemic has devastated many parts of the U.S. economy. A much deeper contraction is expected during the second quarter.

The coronavirus has put the brakes on consumer spending on nonessential items. Personal consumption of goods and services declined at a 7.6 percent annualized rate in the first quarter, the steepest decline since the second quarter of 1980. The pandemic has largely stalled retail sales, which are a key component in GDP and saw their biggest monthly drop on record — 8.7 percent — in March. And expectations for household income weakened in April, which may impact consumer spending power once the economy opens up again.

The major toll seen on consumer spending is largely the result of the loss of jobs and income. Layoffs have skyrocketed during the pandemic and the number of U.S. workers filing new claims for jobless benefits has hit more than 30 million, with the unemployment rate expected to jump to historical levels. The magnitude of the economic decline is being mitigated to a degree by Congress and the Federal Reserve putting numerous financial relief programs in place.

COVID-19 has hit the retail industry unevenly. Stores that were closed — either by government order or their own abundance of caution to protect customers and employees — have taken the brunt of the pandemic's financial impact. But there are many stores that remained open to serve their communities and power the economy with customers lining up outside the doors to stock up on essential goods. NRF, through its Operation Open Doors initiative, is drawing on the experience of these retailers — that have learned how to operate safely and profitably despite the pandemic — to develop guidelines and resources to help other retailers as they prepare to reopen and navigate the "new normal." From intensive sanitization, face masks and plexiglass shields to increased online sales, buy online, pick up in store and contactless curbside delivery, retailers are adapting and meeting consumer demand. Consumers are embracing these options, and we expect they will continue to do so post-coronavirus.

Getting back to working or shopping in a pre-virus manner is difficult to predict at this time, with households likely to tiptoe back in rather than making an immediate return to the lives they experienced before. The Conference Board's Consumer Confidence Index was at 86.9 in April, its lowest level since June 2014, and is likely to go lower. Confidence tends to be inversely related to the unemployment rate, which had been at a 50-year low prior to the pandemic outbreak. According to the Conference Board, consumers' assessment of present business and labor market conditions declined 90 points to reach 76.4, a record month-over-month drop.

But there is some good news on the horizon with consumer behavior. Despite the drop in the assessment of current conditions, consumers' expectations for the future rose by 7 points to 93.8, signaling an increase in the share of respondents who think the outlook for business conditions and jobs will get better in the next six months. The gap between opinions on current and future conditions indicates that consumers expect a V-shaped recovery as the economy reopens. The survey also shows that few believe the economy is in as dire a financial condition as experienced during the Great Recession.

While there are pluses and minuses to the economic situation, the data has spoken, and a severe contraction is likely underway. Unfortunately, the economy will be smaller by the end of 2020 compared with where it finished in 2019.

The most severe period of the downturn is expected to occur in the second quarter, and after that it is unclear whether the shape of the recovery will be a sharp V, gradual U, sharp down-up/down-up W or even the sharp decline and slow upturn of a backward-J.

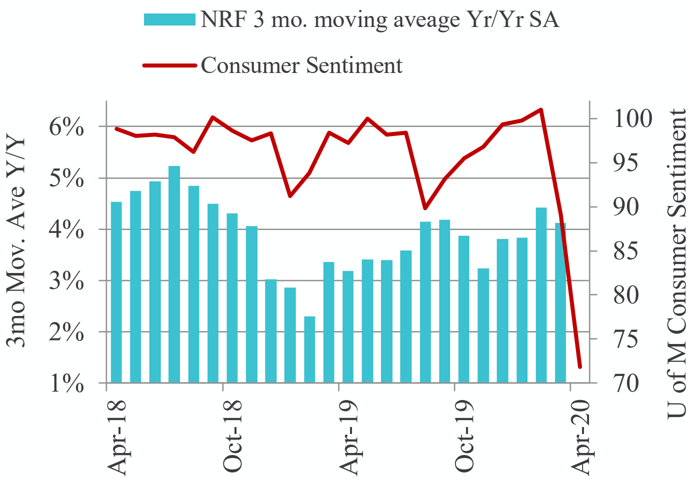
There are no models for what we are going through, and it is far too early to predict what will happen, including the trajectory of unemployment. The shape of the recovery is not as important as the shape and slope of the virus curve, which will ultimately determine how soon economic activity can resume. As states begin to slowly reopen and assuming the coronavirus does not come back, the economy should begin a process of gradual recovery. My overall impression is that the recovery will have fits and starts among states, regions and cities depending on the severity of the pandemic in their localities.

Attention has now begun to shift toward when and how the economy reopens. While we cannot be certain how quickly retail will recover, it is important to remember that many retailers are doing well, particularly those that have remained open. Those that were financially strong before the pandemic should have the strength to survive. And most of those that were weak before or were hit hard will likely reorganize and emerge right-sized rather than disappear.

Much of the world will not be quite the same, however. Consumer attitudes regarding health, contagion, socializing and spending will no doubt be different for some period of time. Anxiety and fear are very strong emotions and consumer behavior may take time to adjust. It is possible that consumers will be hands-off on spending for a while, reflecting the psychological blow of the pandemic, job losses, the volatility of the stock market and the push toward increased saving. How we live, work, shop, eat at restaurants and spend our leisure time could change, and many if not most of these changes are unpredictable. But in the end, shopping is more than a transaction. It is a social activity that is part of the fabric of American life, making it likely that consumers will want to return to normal shopping habits once the pandemic subsides and the economy fully reopens. As we work toward that point, reducing economic uncertainty and the fear of infection are the keys to a sturdy rebound.

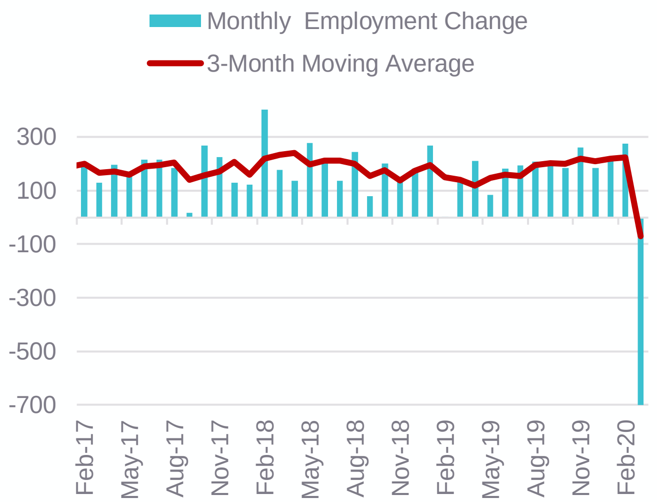
RETAIL SALES & SENTIMENT

Shutdowns and restrictions on economic activity caused a large decline in April's consumer sentiment. The three-month retail sales trend hides March's plunge in sales because January and February are included.



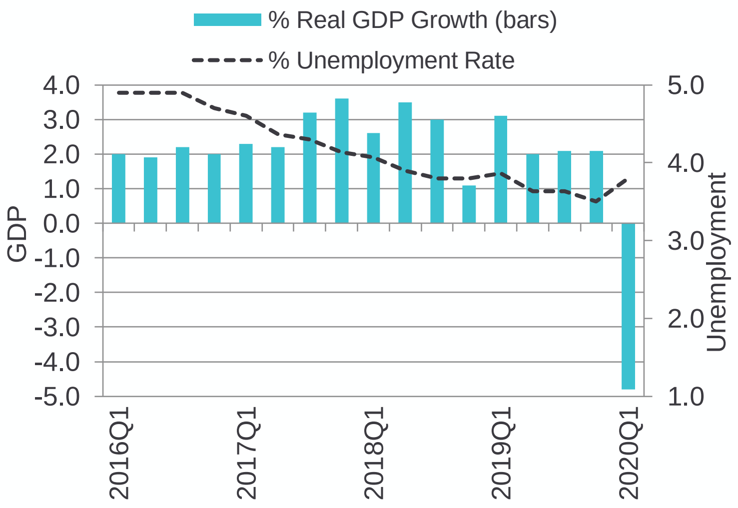
EMPLOYMENT

Payrolls declined by 701,000 jobs, larger than initially expected, and this deep drop occurred prior to many states instituting shutdowns.



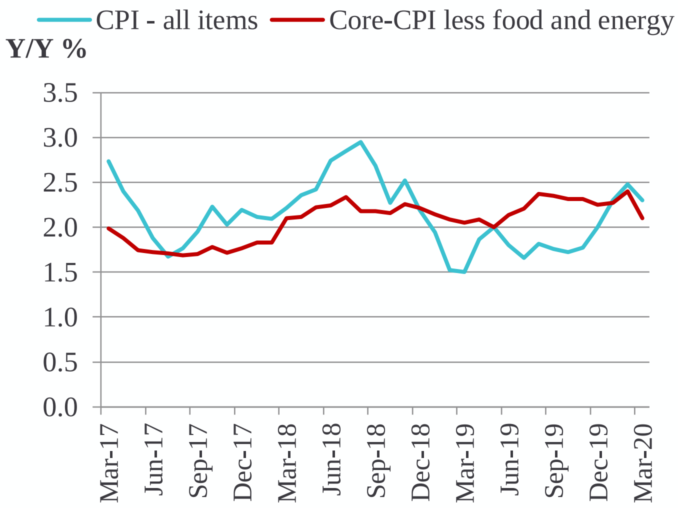
GDP GROWTH

The longest economic expansion in U.S. history has come to an end. GDP growth, running about 2 percent before falling off a cliff due to COVID-19, declined by 4.8 percent in the first quarter.



CONSUMER PRICE INDEX

Consumer prices fell in March, which was no surprise given the collapse in the economy. Much of the decline was due to double-digit drops in the prices of gasoline and fuel oil.



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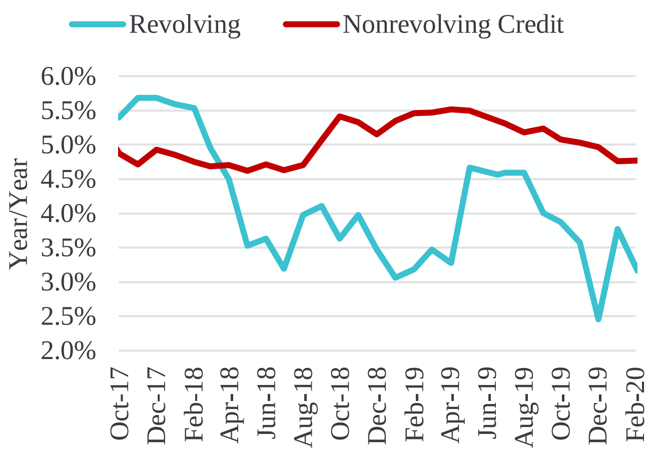
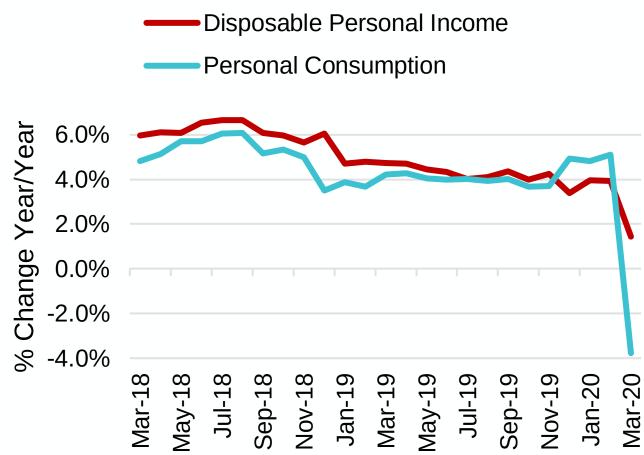
CONSUMER CREDIT GROWTH

Both revolving and nonrevolving consumer credit growth ticked down in February. Consumers will likely shift from balance accumulation to balance reduction in the face of layoffs.



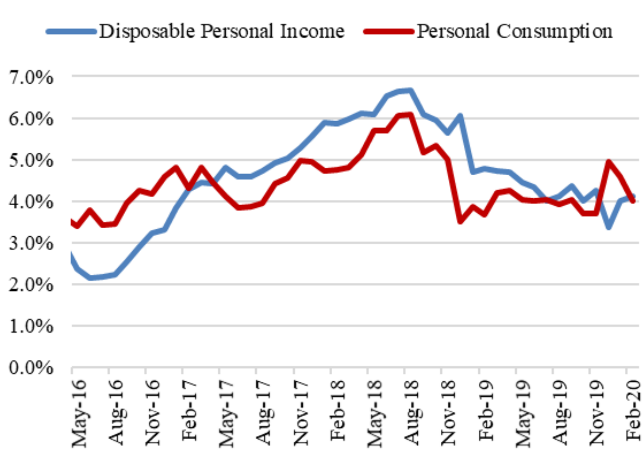
INCOME & CONSUMPTION

Consumer spending tumbled in March, with discretionary spending particularly hard hit by closures. Disposable personal income also fell, but less severely than spending.



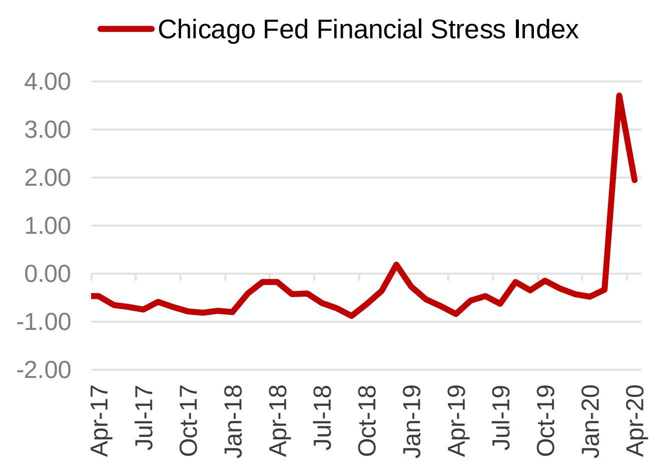
WAGES & SALARIES

The coronavirus crisis impacted the labor market toward the end of the first quarter, but its impact on employment costs and average hourly wages will not be seen until second-quarter data is released.



FINANCIAL STRESS INDEX

The St. Louis Federal Reserve Bank's Financial Stress Index measures financial stress in U.S. markets. Stress spiked in April, and May data will start to reveal the extent of the economic damage caused by the coronavirus.



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