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 | Economic data during pandemic brings more questions than answers

Optimism about the economy and retail spending is being tested daily with the spread of the coronavirus. The economy officially fell into a recession in February, with the decline clearly seen by March and even more profound in April. By May, federal stimulus in the form of $1,200 checks had been disbursed, the unemployed were receiving an extra $600 a week from the government and many businesses had begun to reopen, all leading to signs that the economy was turning upward. Since then, the direction and pace have turned again as the coronavirus has seen a resurgence that has states rolling back their reopening measures. Big questions are looming and we are all grappling to discern what incoming data is telling us about the health of the economy and consumers. Depending on the data selected, the answers are not entirely clear. Traditional monthly economic indicators showed an improved economy in May and June. Yet by mid-July, more frequent data – some of it coming out weekly and developed specifically to track the economic impact of the coronavirus – indicated little improvement and that the pace of recovery was flattening. Could it be that we are at or heading back to the same spot we were two months ago?

Consumer spending on goods and services was up 8.2 percent in May, ending two consecutive months of decline as government aid, pent-up demand and an improved job market drove the public to buy again, and up another 5.6 percent in June. Retail sales have also shown an exceptionable rebound with the reopening of the economy. NRF’s calculation of retail sales – which excludes automobile dealers, gasoline stations and restaurants to focus on core retail – was up 4.9 percent in June seasonally adjusted from May and up 9.3 percent unadjusted year-over-year. Two-thirds of retail categories saw month-over-month gains and just over half saw year-over-year increases. Many of the gains came at retailers that were closed during the pandemic – clothing store sales more than doubled – but some now face the prospect of being ordered to close again as the virus returns in some areas around the country. Housing demand has rebounded strongly as the relaxation of state shutdown orders has helped buoy homebuyer confidence but is also at risk as some states close again.

The labor market posted a strong rebound in June, adding 4.8 million jobs while the unemployment rate ticked down to 11.1 percent from 13 percent in May. That marked the second consecutive month of employers adding jobs. But that data was collected prior to the number of coronavirus cases beginning to increase again. During the week ending July 18, 1.4 million initial unemployment claims were filed, a rise of about 100,000 from the week before that broke a steady decline after the peak 6.9 million claims filed the last week of March. While the initial claims data is far from encouraging, continuing claims for unemployment insurance benefits – those for workers who remain on unemployment after filing initial claims – portray a different picture. Continuing claims dropped to 16.2 million for the week ending July 11, down from 17.3 million the week before and the lowest level since the peak of 24.9 million in early May. That shows that cumulative layoffs have declined, and unemployment is being displaced by hiring and recalls of workers by employers.

A big question is whether the pace of growth and momentum will carry forward over the next few months. The reemergence of virus transmission nationally has given rise to increased uncertainty. The University of Michigan's consumer sentiment reading, which had been at 72.3 in May, rose to 78.1 in June but dropped back to 73.2 in July. That was down nearly 28 points from February. Richard Curtin, the chief economist in charge of the survey, said declines are likely in the months ahead as the coronavirus spreads and causes "continued economic harm, social disruptions and permanent scarring."

Based on monthly and quarterly data, the U.S. economic recovery continues despite elevated COVID-19 cases. But in examining weekly data, the pace of improvement appears to be slowing. We are awash with these "high frequency" indicators and while many recently showed the economy on a good start down the recovery runway, they now suggest the recovery is moving sideways. For example, the Weekly Economic Index from the Federal Reserve Bank of New York and the Mobility and Engagement Index from the Federal Reserve Bank of Dallas, also produced weekly, are now reflecting a leveling-off of economic activity and consumer mobility.

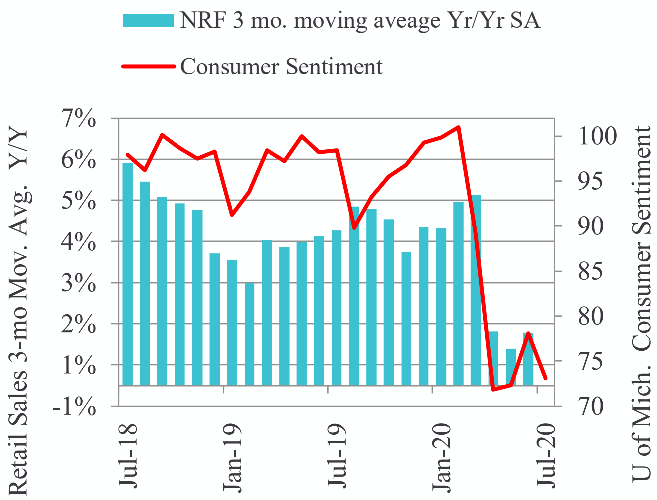
Clearly retail and housing have rebounded strongly with the reopening of the economy. As noted above, the combination of pent-up demand, fiscal support and low interest rates has fueled spending. However, households are facing the potential loss of income from expiration of the supplemental unemployment insurance benefits if not renewed by Congress. It is well understood by economists that a lack of clarity regarding job outlook and future finances tends to influence spending behavior. Coupled with that, uncertainty about further fiscal support from Congress is likely to cause consumers to shift more into saving their money and away from spending.

Time will tell, but the bottom line is that the economy is far from being out of the woods. The question is whether it is re-entering the woods. Consumer spending remains the most important force driving the recovery, but recent polling shows consumers are concerned with the health of the economy in addition to their own health and safety. Business and consumers alike face uncertainty and challenges with the rising number of infections.

Many economists say the virus will determine the timeline of the recovery. I agree, but that does not mean we are helpless to affect the outcome. Many retailers are following guidance from public health experts and encouraging their customers to wear masks, and NRF has called for all retailers to adopt a nationwide policy requiring customers to wear masks or face coverings while shopping in stores. It appears that the efforts are being successful – a survey conducted in early July by the Federal Reserve Bank of Cleveland found 89.9 percent of consumers said they wore masks in indoor public places such a grocery store. But why is the Federal Reserve conducting surveys on face mask usage? The simple answer is that the economic recovery hinges on stopping the virus and masks are one of the most effective ways we can get that done.

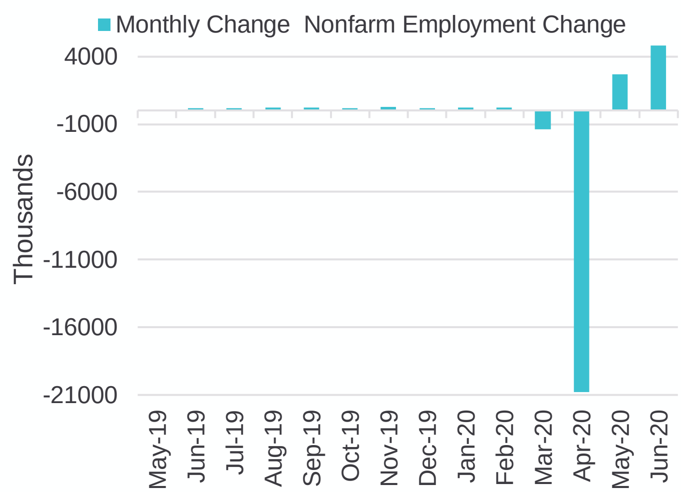
## CONSUMER SENTIMENT

Consumer sentiment remains at recessionary levels, and the resurgence in COVID-19 infections is likely to keep it there. Retail sales rose at an unprecedented rate in June, but before the increase in infections.



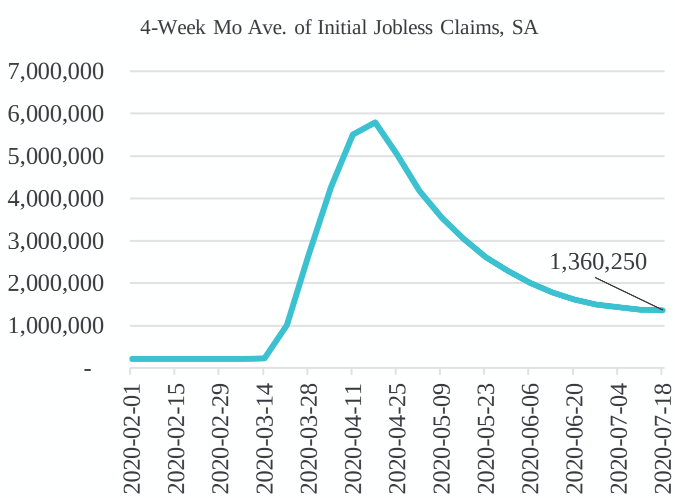

## EMPLOYMENT

A net gain of 4.8 million jobs in June stemmed from a reopening of businesses. That followed a 2.7 million gain in May. The stronger jobs data has provided a boost to consumer spending.



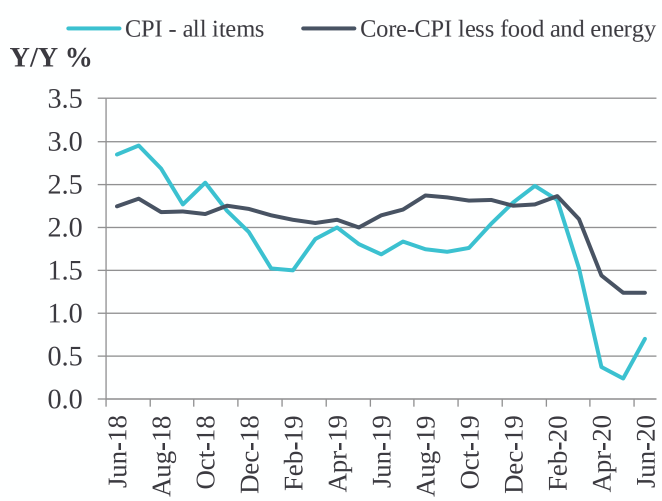

## JOBLESS CLAIMS

The long tail of layoffs continues as reflected in unemployment insurance claims. A likely headwind to lower claims is the recent rise in COVID-19 cases associated with new business closings.




## INFLATION

Year-over-year growth in consumer prices remains weak. Key Consumer Price Index components (energy commodities, airfare, travel and transportation services) caused the decline.



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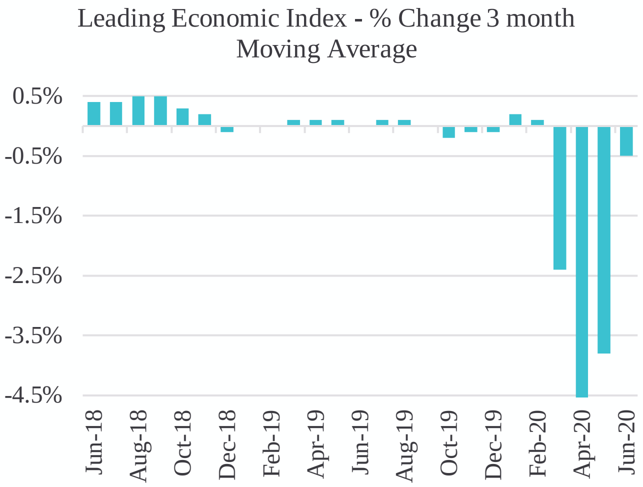
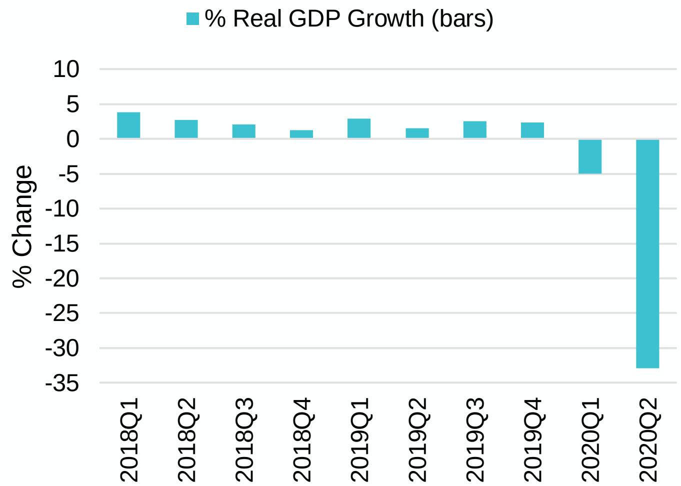
## LEADING ECONOMIC INDEX

The Conference Board's Leading Economic Index showed conditions improved in June but business conditions still point to a weak recovery



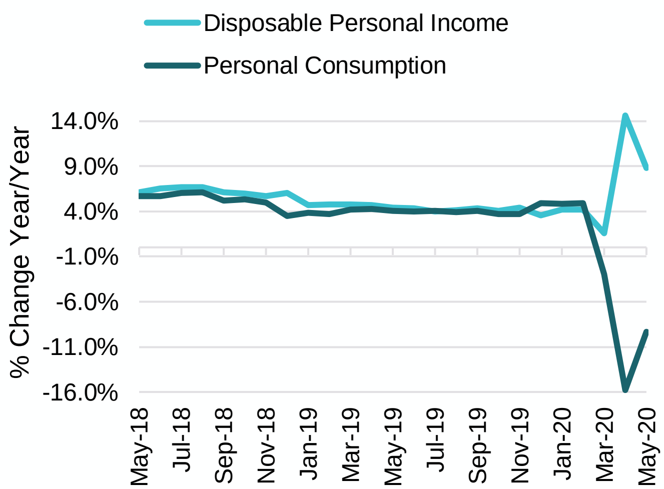

## GDP GROWTH

Gross domestic product declined 5 percent in the first quarter, according to the Bureau of Economic Analysis. The second-quarter plunge of 32.9 percent was shocking but not surprising.



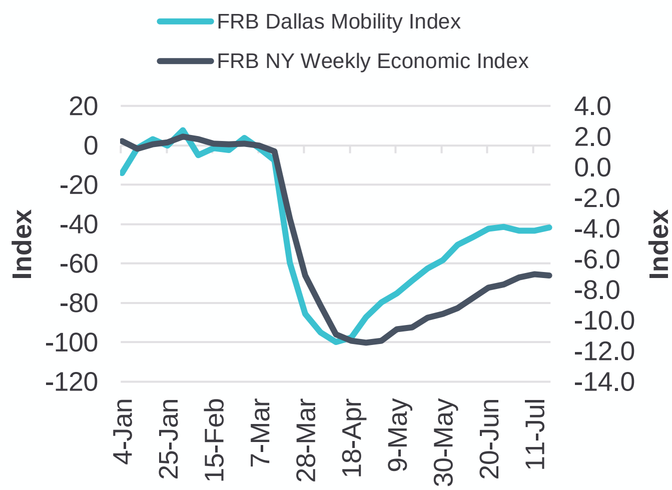

## CONSUMER SPENDING

Consumer spending on goods and services turned up sharply in May, partially reversing its year-over-year decline. The pace of disposable personal income growth slowed as stimulus payments went away.




## ECONOMIC INDICATORS

The Dallas Fed's Mobility and Engagement Index and the New York Fed's Weekly Economic Index are now reflecting a leveling-off of economic activity and consumer mobility.






NRF National Retail Federation