

June Retail Sales Show Potential Shift In Consumer Spending

Reopening boosts consumption last month. Consumer spending posted impressive gains for a second consecutive month as states greenlighted a wider range of businesses to resume operations. Total retail sales advanced 7.5 percent last month, building on an 18.2 percent climb in May. The increase pushed year-over-year gains into positive territory, though sales sit well below pre-health crisis levels. In addition to greater access to both service-based and traditional retailers, the magnitude of stimulus pumped into the economy by the Fed and Congress contributed to the rise.

Additional sectors benefit from spending. Diners cautiously returned to restaurants, driving a 20 percent rise in receipts during the month. Sales at motor vehicle dealers, meanwhile, soared 8.7 percent year over year as buyers secure in their employment situation took advantage of low interest rates. The impact of workers moving into suburbs and vacationers acquiring recreational vehicles may also have contributed to motor vehicle sales. Elsewhere, early reports on new home sales in June indicate a significant jump in purchases, which is helping drive large monthly advances at stores that sell furniture, appliances and electronics. Other sectors posting strong monthly gains include gas stations as well as clothing and department stores as more people commute to work and refresh summer wardrobes.

Essential retailers give back some gains. Faced with more options, consumers are spreading out their expenditures, though spending did not fall substantially in any sector. Grocers recorded a 1.6 percent dip in sales as restaurants reopened. Although some of the increase in online sales is expected to be permanent, a portion of the bump recorded during wide shutdowns was anticipated to return to brick-and-mortar concepts. Nonstore retailers surrendered 2.4 percent of retail sales month over month but remain more than 23.4 percent above year-ago levels. Sales at building material stores also ticked modestly lower month to month.

Potential Developing Headwinds

Continued surge in spending in doubt. The federal government's \$600 weekly unemployment supplement is scheduled to sunset at the end of July. According to research by the University of Chicago, approximately two-thirds of recipients were receiving benefits above their typical wages. While the next stimulus bill is expected to extend some unemployment benefits, lawmakers will likely cap unemployment at previous pay. Employees that are returning to work often face reduced pay relative to pre-health crisis levels as businesses operate at partial capacity and reduced revenue.

Spike in coronavirus cases threatens retail sales. Several states have taken a step back in reopening plans as hospitals have neared capacity. Sunbelt states have been forced to close some business again to prevent overwhelming the healthcare system. States that trail these in reopening schedules may tap the brakes to prevent a future partial shutdown.

7.5% Monthly Gain in Retail Sales in June

1.1% Y-o-Y Increase in Retail Sales in June

Sales in Most Categories Improve in June

