



# Economics Group

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## Boomerang in Consumer Spending

*With a record increase in May that was more than double the consensus expectation, retail sales offer the latest evidence that economic activity snapped back in May. If this keeps up, we could be looking at a short recession.*

### Unequivocally Positive News for Consumer Spending

Retailers reported a record 17.7% increase in sales in May. Any monthly increase larger than 6.7% would have been a record, so this outturn cleared that bar with room to spare. It was also more than double the consensus expectation for an 8.4% increase.

You could throw some cold water on this by pointing out that after back-to-back record declines, low base effects set us up for an easy percentage gain. That may be true, but consider this: in the month of May, retailers saw more than half of the lost spending return. After being down more than 20%, retail sales are now off only about 8% since February.

### Some Stores are Already Back to Pre-Recession Levels

It was the best month on record for every category but four: grocery stores, health/personal care, general merchandise (the category that includes warehouse clubs) and nonstore retailers. Grocery, health and general merchandise stores, however, had their record monthly gain in March when many grocery store shelves were picked clean due to panic buying at the outset of the crisis.

The places we are still seeing activity even as many are still working from home translates directly into the store types that are flourishing amidst this pandemic. The neighborhood park is closed, and you need a bike or a new basketball or maybe a hoop for the driveway? Sporting goods stores sales are back above their pre-crisis peak. Finally finding time to renovate or spruce up the yard? Stores that sell building materials are now above pre-crisis levels too.

### Not Out of the Woods Yet

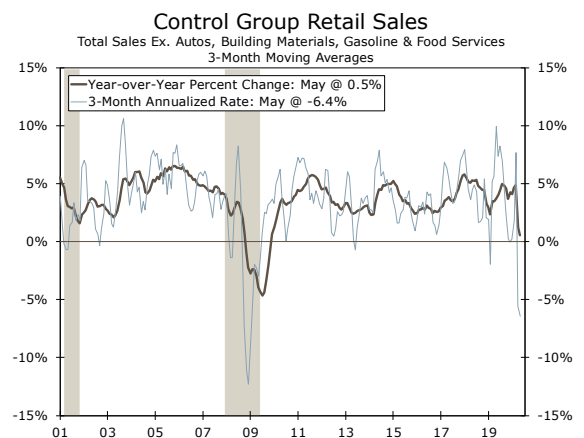
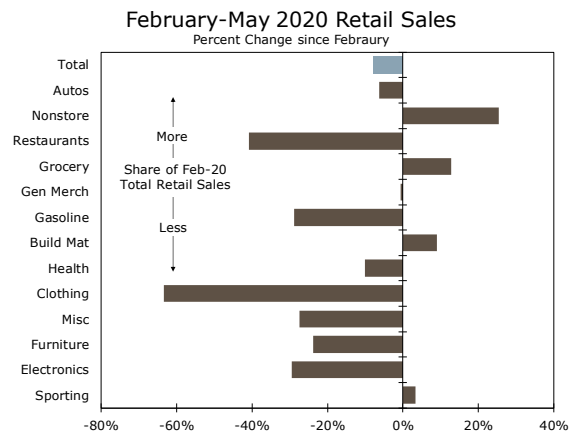
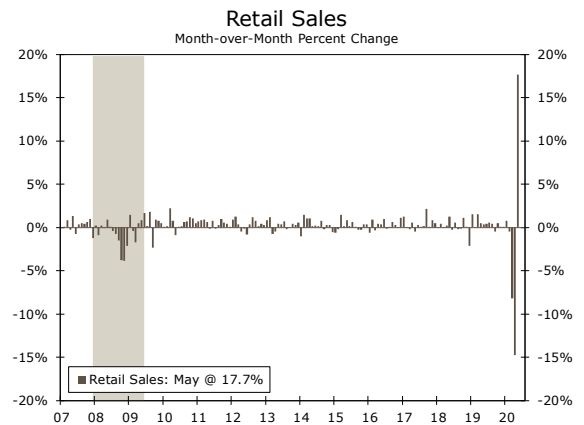
The rising tide of this May surge lifted all ships, but it hasn't lifted them equally. Not all stores are seeing things come roaring back.

With many people still working from home, there has been little need to freshen up the wardrobe, so sales at clothing stores are still less than half of what they were in February. People still aren't driving as much so gas station sales are still down more than 20% from the February level, as are other categories like restaurants, electronics and furniture stores.

### Consumer Spending Outlook Intact

Control group sales, which excludes autos, gas, building materials and food services, rose 10.6% in May. Despite this surge, after the virus-related drop-off in April, control group sales are still 3.3% below its March high. The year-over-year rate, however, is now positive, up 2% after dropping to -7.2% in April, but the three-month annualized rate is still -6.4%.

While we do not expect a monthly gain of this magnitude to be repeated in June retail sales, we do think record household savings augers well for sustained consumer spending growth in the second half of the year.



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