

ECONOMIC NEWS

United States: Retail Sales Growth Was Stronger than Expected

HIGHLIGHTS

- ▶ Retail sales jumped 17.7% in May, after dropping 14.7% in April and 8.2% in March. Motor vehicle sales climbed 44.1%, and the value of service station sales increased 12.8%. Excluding motor vehicles and gas, sales increased 12.4%.
- ▶ Industrial production increased 1.4% in May after sliding 12.5% in April and 4.6% in March. Manufacturing output grew 3.8%. Mining activity decreased 6.8%, while energy production retreated 2.3%.

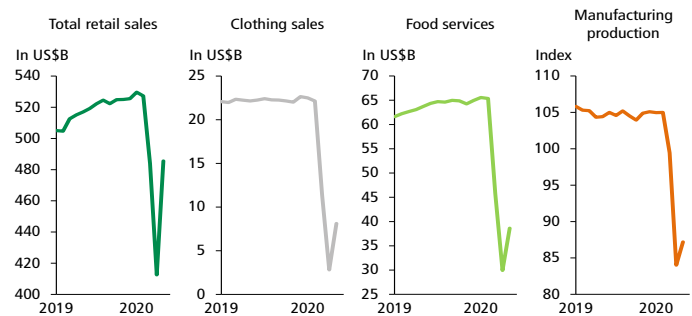
COMMENTS

After two historic drops, this is the biggest gain in retail sales since monthly data first started to be compiled in 1992. May's increase was also more than what the consensus had called for. The gradual business reopenings and the continued closures in May in certain heavily populated states like New York, California and Illinois, suggested a rather timid increase, so the gains are somewhat surprising. There were increases of 188.0% in clothing stores, 89.7% in furniture stores, 88.2% in leisure goods stores and 50.5% in electronics stores. Note that these retailers (along with food services, which increased 29.1%) were also the most impacted by the public health and lockdown measures. However, those that were already increasing in March or April, such as grocery stores (+2.0%) and nonstore retailers (+9.0%), have continued to grow. That said, total sales are still 7.9% below the February level, so the catch-up is far from over.

The increase in industrial production is much less impressive than that of retail sales and the 1.4% gain, while substantial under normal circumstances, cannot really be considered a rebound following a total drop of 16.5%. The automobile sector is the only one that posted a significant rebound, with growth of 120.8% after a total contraction of 83.5%. We are also seeing monthly increases of more than 10% in clothing and textile manufacturing. More worrisome is that some sectors are still down in May, including metallurgy, machinery, electrical

GRAPH

May's increases are welcome, but levels remain low



Sources: U.S. Census Bureau, Federal Reserve Board and Desjardins, Economic Studies

equipment and electronic products. This suggests that business investment will have a less pronounced post-pandemic rebound than consumption.

IMPLICATIONS

May marked the start of the recovery after the drops of March and April caused by the COVID-19 pandemic. However, despite last month's monthly sales increases (and those expected for June), consumption and production will post a substantial contraction for the whole second quarter. The positive effect will be seen in the third quarter's real GDP.

Francis Généreux, Senior Economist

François Dupuis, Vice-President and Chief Economist • Mathieu D'Anjou, Deputy Chief Economist
Hélène Bégin, Senior Economist • Benoit P. Durocher, Senior Economist • Francis Généreux, Senior Economist

Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

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