

Research Briefing | Global

Coronavirus Watch: Retail surge unlikely to last

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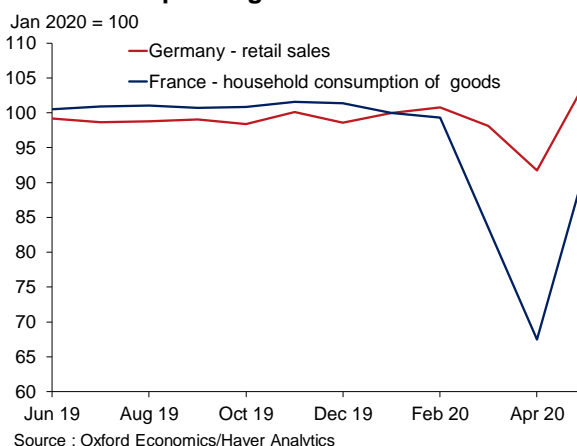
- Further evidence has emerged showing that households headed back to the shops in May as lockdowns were loosened. But the currently stellar pace of household spending tells us little about its prospects further ahead – fortunes in H2 and beyond will primarily reflect developments in household income.
- The front-loaded nature of US fiscal support for households means that the lockdown and unemployment surge are yet to push down aggregate US household income. But the potential ending of the Federal Pandemic Unemployment Compensation scheme could dampen household incomes considerably, particularly if lockdowns are re-tightened.
- In Europe, household incomes have received less of an upfront boost than in the US, but support for workers via furlough and short work hours schemes should last longer, leading to a smaller and less imminent drag on incomes.
- With employment beginning to recover and savings pushed up by lockdown we see sustained rises in household spending from here. But we still do not expect household spending to reach Q4 2019 levels for at least another 18 months.

The hard data published over the past week continue to show a fast and broad-based recovery during the first phase of the post-lockdown recovery. [German retail sales](#) and [French consumer goods spending](#) increased by 14% and 37% in May from a month earlier, consistent with the surges seen elsewhere (**Figure 1**). Notably, the revival in German sales meant that the annual growth rate returned to positive territory.

Meanwhile, South Korea recorded an 8.9% monthly rise in exports in June. This still leaves the level 20% lower than in January, but the revival is consistent with the picture painted by the surveys of export orders which rebounded further in June (**Figure 2**).

Figure 1: Consumer spending rebounded in May

Eurozone: spending indicators



The pick-up in spending in Germany and France in May points to a strong rebound in the eurozone as a whole.

While French spending remained well below pre-crisis levels, in Germany retail sales bounced above early 2020 levels.

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Although the retail sales surge that has taken place across Europe and the US in May is encouraging, the outlook for consumer spending remains highly uncertain.

Retail spending in May is likely to have been strong due to several factors, including:

- Pent up demand caused by some purchases from March and April being delayed.
- Receipts of refunds for cancelled holidays and other events burning a hole in households' pockets
- Substitution effects from the ongoing closure of some businesses (e.g. restaurant closures boosting food spending), diverting spending to retail.

Needless to say, these supports will be temporary in nature, after which the key issues for the strength of retail spending will be the health of the labour market and income prospects. Although the US and Europe have adopted very different approaches to the spillovers from the economic crisis to the labour market, resulting in differing unemployment trends (**Figure 3**), the broader effects on the labour market have nonetheless been quite similar in many respects.

Despite differing unemployment trends, the reduction in hours worked is estimated to have been fairly similar. In a [report](#) published last week the ILO upgraded the reduction in the total number of working hours lost in Q2 compared to Q4 2019 at 14% for the global economy. The equivalent figures for the US and North, South, and Western Europe were slightly larger but remarkably similar to each other at just over 15% (**Figure 4**).

So far at least, the costs of supporting those in the US and UK whose jobs have been at risk has also been quite similar. We estimate that the US's Federal Pandemic Unemployment Compensation (FPUC) programme has cost almost \$250bn (1.3% of GDP) to date, only a fraction less than the UK's Coronavirus Job Retention Scheme's cost of £25.5bn (1.4% of GDP) to end June.

Looking ahead though we are likely to see greater divergence, reflecting differences in the way that support packages will be phased out. In the US, households' personal incomes have benefitted from the FPUC as well as the one-time \$1200 refundable tax payment received by households in April. Together these have more than offset the negative effects of weaker employment income in April

Figure 2: Evidence points to a nearer-term export bounce

Advanced Economies: Trade indicators



Figure 3: Unemployment has risen far more sharply in the US and Canada

Advanced economies: Unemployment rates

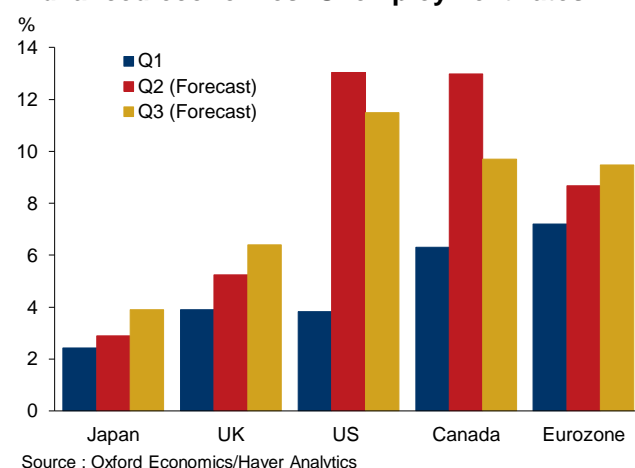
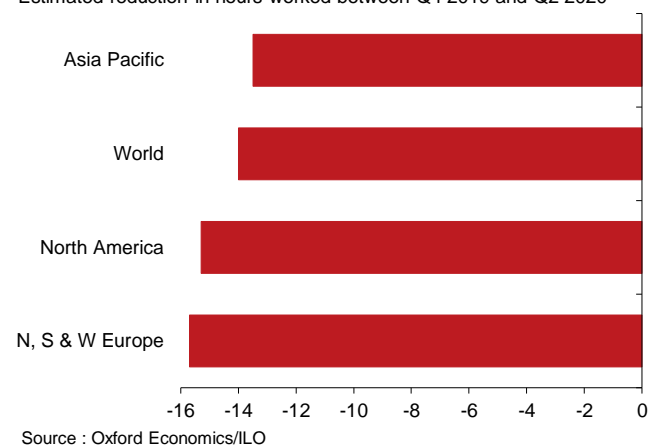


Figure 4: Hours worked are estimated to have fallen 14% worldwide since end 2019

Global: Hours lost to Covid-19 recession

Estimated reduction in hours worked between Q4 2019 and Q2 2020



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and May, meaning households on aggregate are yet to suffer an income hit from the crisis (Figure 5). Indeed, the generosity of the FPUC payments means that lower paid workers that have lost their job may even be receiving more in benefits than they previously earned working.

As things stand, the FPUC payments are set to finish at the end of July and this could trigger a drop in US personal incomes of 3% or more in response.

In comparison, the drop off in support in Europe will be less of a cliff-edge and later. While the UK's job retention scheme is set to begin to place more of the cost on employers from August, support will remain in place until October. Meanwhile, the German *kurzarbeit* scheme can be used for up to two years by firms and the French state subsidy scheme will continue to provide support into 2021, albeit on less generous terms. The employment support schemes in operation in Italy and Spain finish at the end of August and end September, respectively.

The upshot is that after a solid rise in disposable income in Q2, US household incomes are likely to fall sharply in Q3. Along with the rising number of Covid-19 cases in a number of states, this may ensure that any Q3 rebound in household spending is less impressive than in Europe, where support for households has been less front-loaded and will be more long-lasting.

Needless to say, the outlook for spending will also depend on perceptions of labour market strength. In the US, employment began to pick-up in June after a truly dire few months, with leisure and hospitality accounting for 44% of the better-than-expected 4.8mn rise in headcounts. Burning Glass data also show that US job postings are picking up more sharply than in the other economies for which data are available - no data is available prior to the start of the year (Figure 6). In mainland Europe, there are fewer timely employment indicators, but there has been a solid rebound in firms' employment intentions in the eurozone (Figure 7). Similarly, eurozone households' expectations of the labour market situation have also bounced off the lows.

In all, then, while we have revised up our near-term consumer spending forecasts and see sustained quarterly rises from Q3 onwards, we continue to expect spending in both North America and Europe to remain below Q4 2019 levels until at least the end of 2020 in our baseline forecast.

Figure 5: US government transfers have offset falls in labour income caused by lockdowns

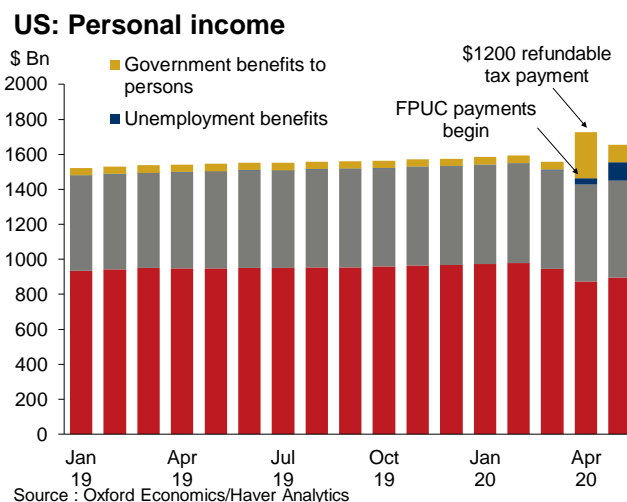


Figure 6: Job postings are creeping up in the US

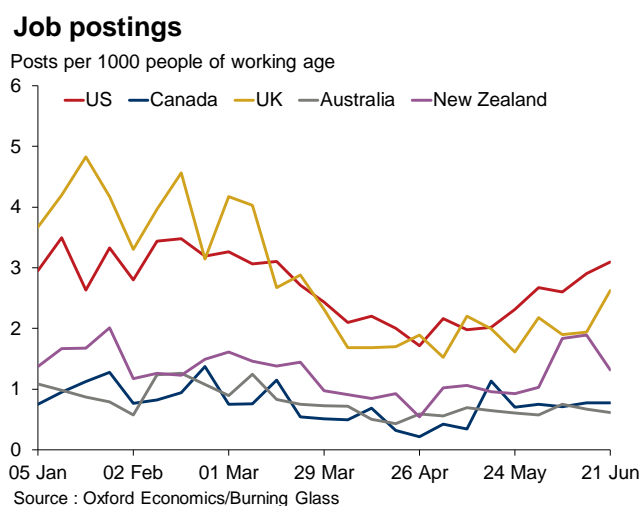
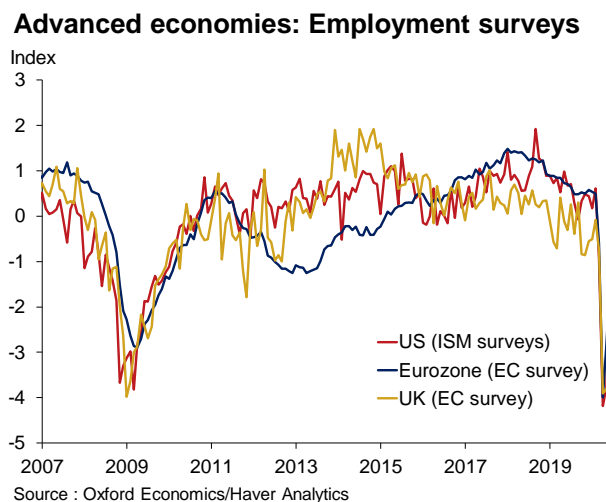


Figure 7: Firms' employment plans have begun to improve



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Appendix

Figure 8

COVID-19 cases

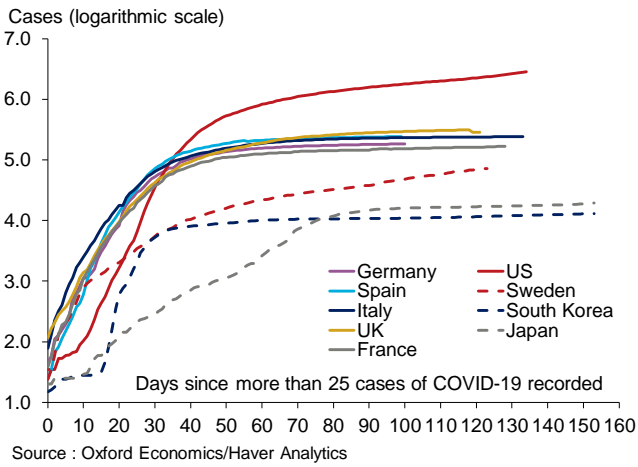


Figure 9

COVID-19 cases

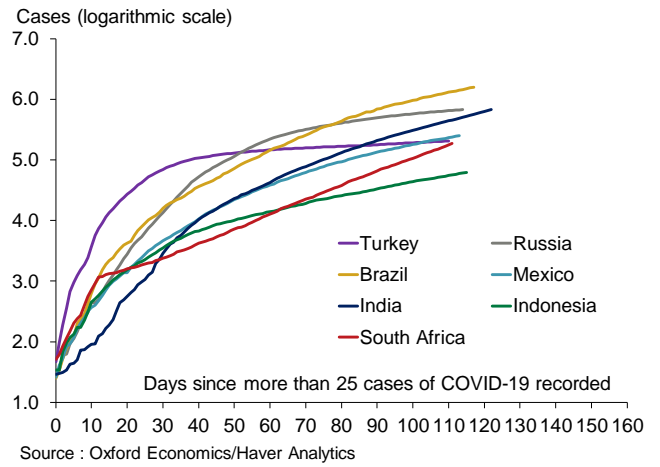


Figure 10

Global: Lockdown stringency index

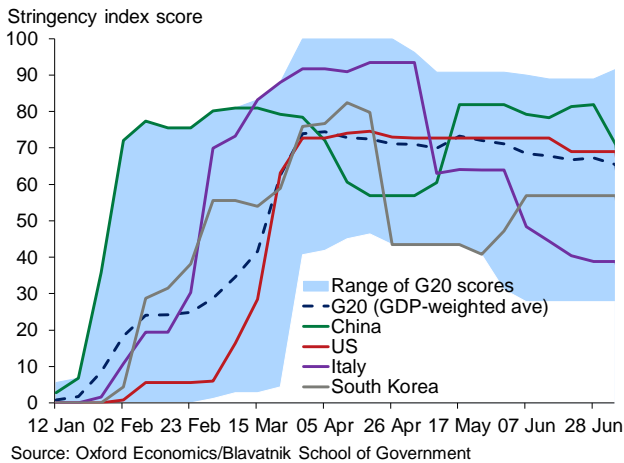


Figure 11

G20: Lockdown stringency scores

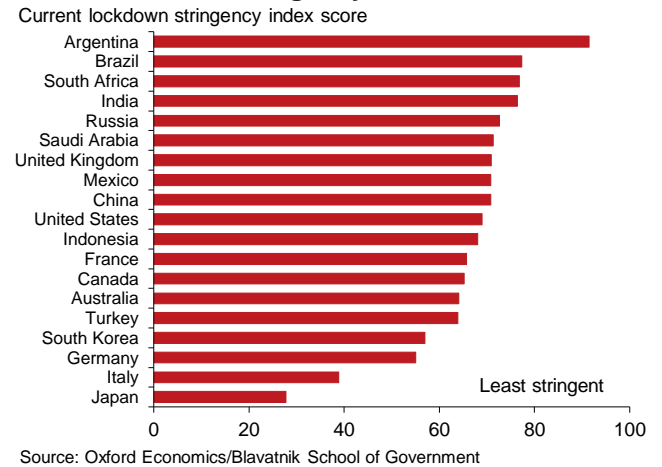


Figure 12

G20*: Google mobility trends

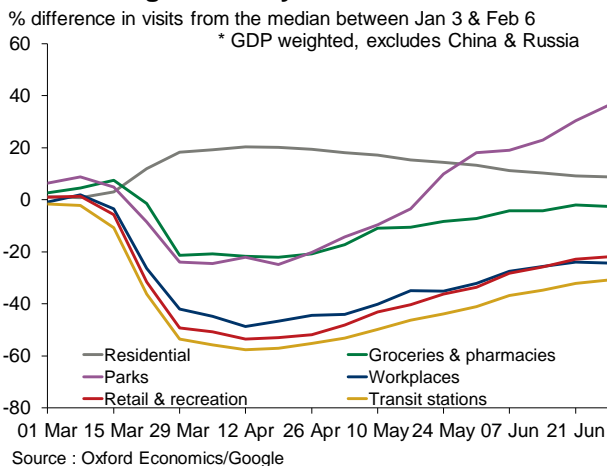
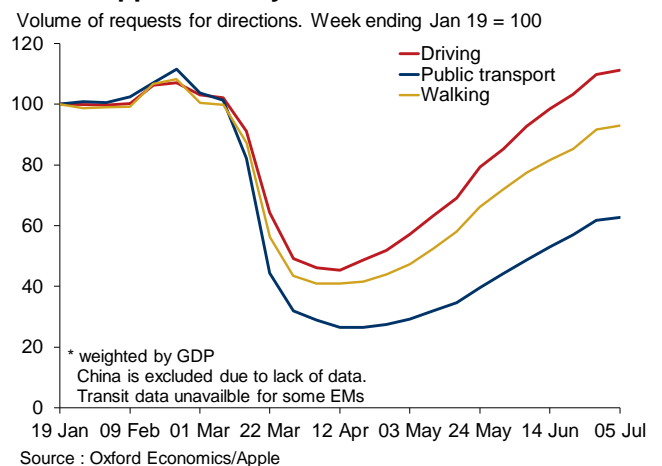


Figure 13

G20*: Apple mobility trends



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Figure 14

G20*: Google mobility trends - residential

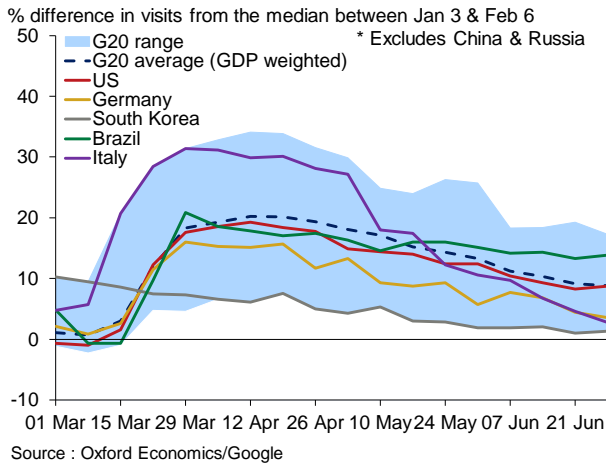


Figure 15

G20*: Google trends - groceries & pharmacies

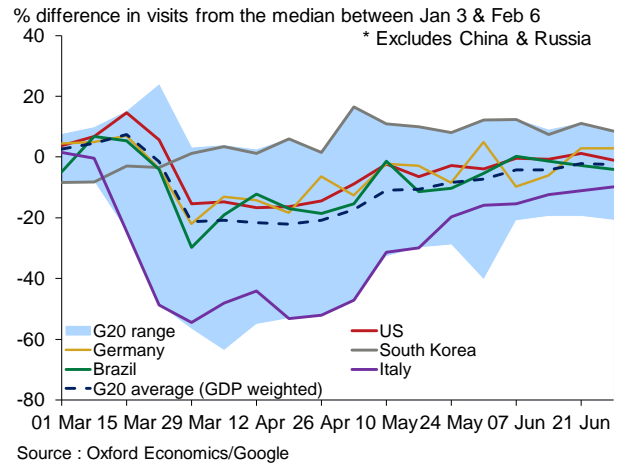


Figure 16

G20*: Google mobility trends - parks

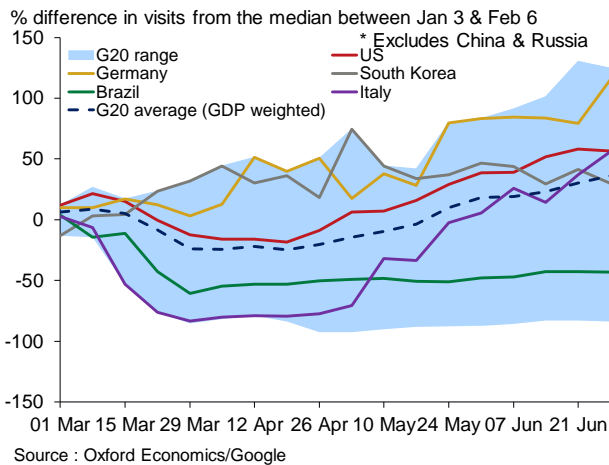


Figure 17

G20*: Google mobility trends - retail & recreation

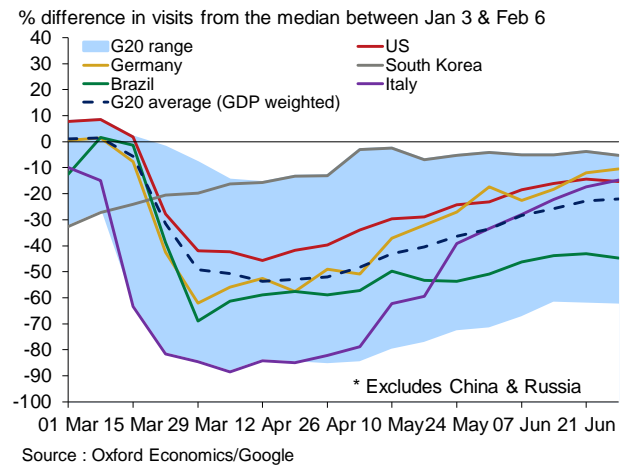


Figure 18

G20*: Google mobility trends - work

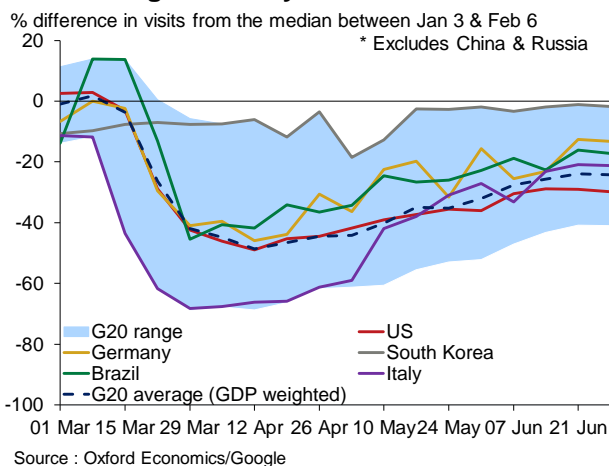
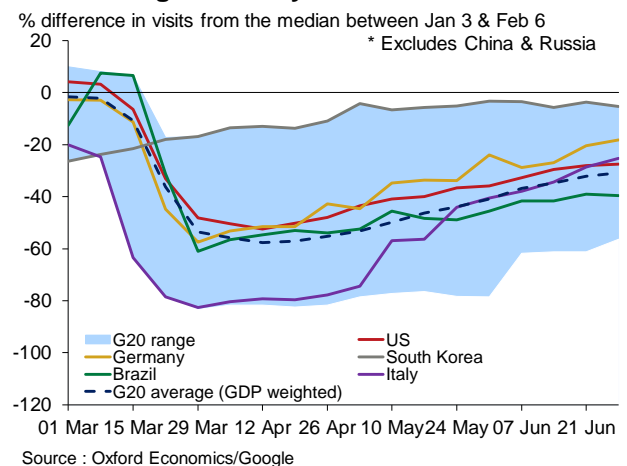


Figure 19

G20*: Google mobility trends - transit stations



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Figure 20

G20*: Apple mobility trends - driving

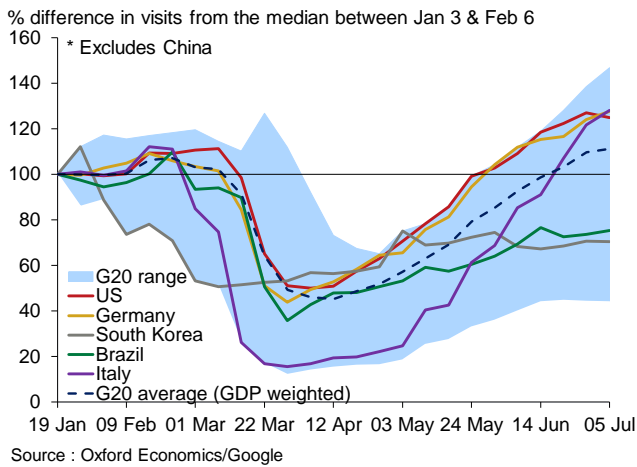


Figure 21

G20*: Apple mobility trends - walking

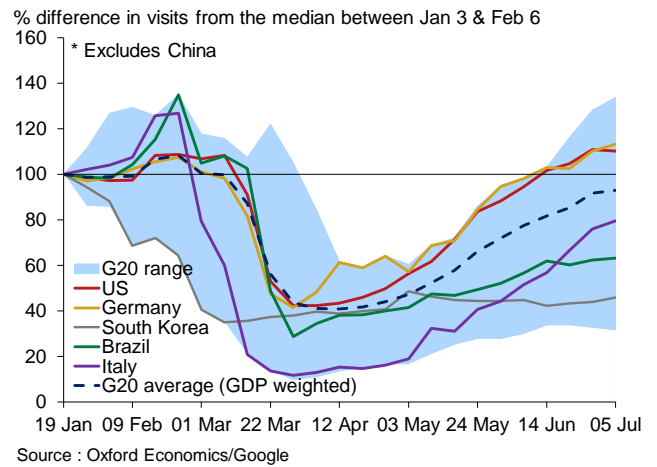


Figure 22

National closures of schools & universities

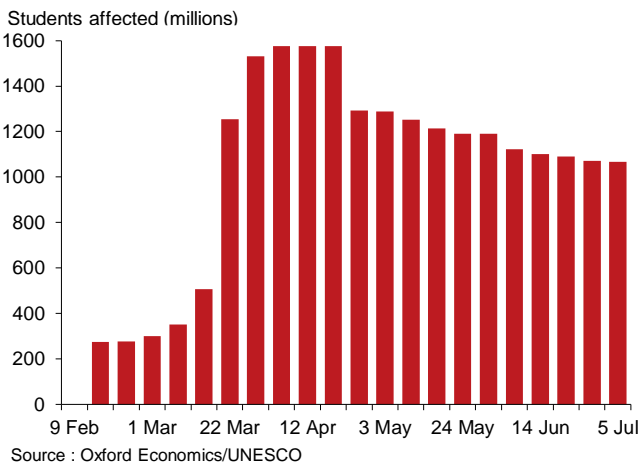


Figure 23

Opentable: Restaurant bookings

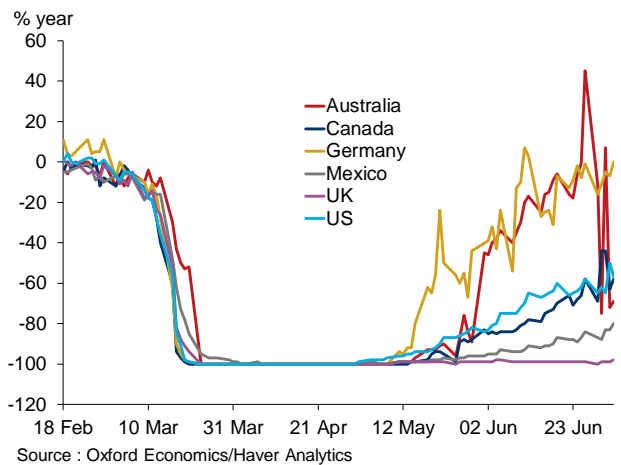


Figure 24

Hotel occupancy rates

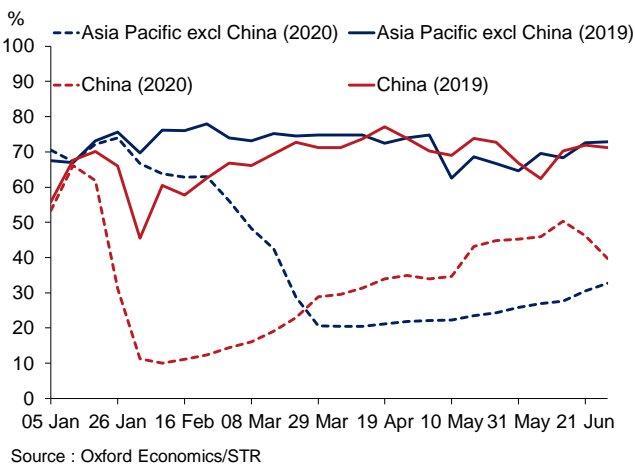
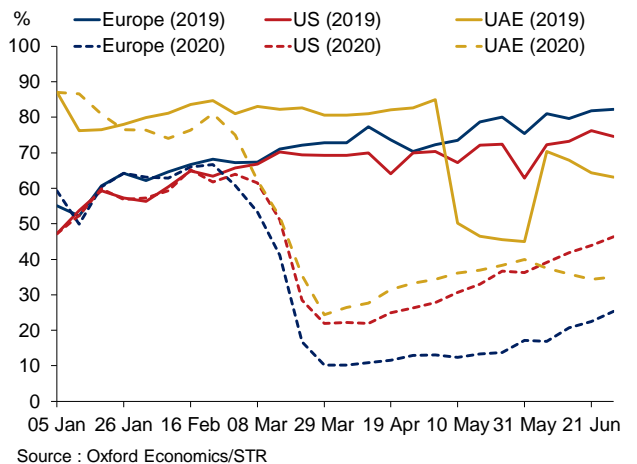


Figure 25

Hotel occupancy rates



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Coronavirus Economic & Financial Impacts																				
Indicator	13-19 Jan (Pre-24 Feb-1 outbreak)	24 Feb-1 Mar	2-8 Mar	9-15 Mar	16-22 Mar	23-29 Mar	30 Mar - 5 Apr	6-12 Apr	13-19 Apr	20-26 Apr	27 Apr - 3 May	4-10 May	11-17 May	18-24 May	25-31 May	1 - 7 Jun	8 - 14 Jun	15-21 Jun	22-28 Jun	29 Jun - 5 Jul
Outbreak metrics (End period)																				
Confirmed coronavirus cases - global	123	88,369	109,808	167,447	336,824	719,794	1,247,879	1,819,532	2,382,053	2,945,441	3,500,813	4,098,391	4,711,648	5,406,766	6,166,995	7,009,345	7,900,924	8,930,664	10,119,155	11,420,483
weekly change	123	9,411	21,439	57,639	169,377	382,970	528,085	571,653	562,521	563,388	555,372	597,578	613,257	695,118	760,229	842,350	891,579	1,029,740	1,188,491	1,301,328
Confirmed coronavirus deaths - global	0	2,996	3,801	6,472	14,821	35,314	73,047	119,807	167,699	209,788	247,344	282,583	315,225	345,060	372,037	402,727	433,391	467,673	501,281	533,781
weekly change	0	527	805	2,671	8,349	20,493	37,733	46,760	47,892	42,089	37,556	35,239	32,642	29,835	26,977	30,690	30,664	34,282	33,608	32,500
China activity indicators																				
Coal consumption for electricity use (relative to a year ago and adjusted for CNY)	120.1	67.0	75.7	78.5	79.7	88.6	86.0	90.1	89.7	103.9	91.9	95.6	107.3	121.5	100.9	91.4	98.4	106.1	99.3	100.3
Steel furnacing operating rate (relative to a year ago and adjusted for CNY)	101.9	99.8	102.0	101.7	100.6	97.3	96.4	97.2	97.3	97.3	100.4	100.0	99.0	98.3	98.8	99.0	99.4	103.0	106.2	106.7
Urban road congestion (relative to a year ago and adjusted for CNY)	103.2	76.5	81.5	84.2	87.7	92.5	91.8	93.8	94.1	102.4	99.4	98.1	101.2	101.7	103.3	102.2	102.7	103.9	98.9	104.4
Residential property sales (relative to a year ago and adjusted for CNY)	133.6	45.0	50.3	48.0	59.8	119.4	78.3	66.2	79.4	172.9	80.2	78.0	104.1	106.9	137.8	91.7	94.7	95.3	115.5	128.8
US activity indicators																				
Bloomberg consumer comfort index	66.0	63.0	62.7	63.0	59.7	56.3	49.9	44.5	41.4	39.5	36.9	35.8	34.7	35.5	37.0	38.7	40.2	41.4	43.3	
Unemployment insurance, initial claims (Thousands)	208.2	218.0	210.7	281.0	3307.1	6867.4	6614.9	5236.9	4441.5	3845.7	3176.4	2687.1	2445.8	2125.9	1897.0	1566.0	1540.4	1482.3	1426.9	
Raw steel production (relative to a year ago)	100.9	99.9	98.0	97.2	95.6	87.1	79.6	65.6	67.1	66.0	59.8	62.4	62.2	63.0	63.7	63.7	64.1	65.3	66.9	
Hotel occupancy rates																				
China (Relative to a year ago)	88.3	21.5	24.2	27.5	31.5	40.5	41.5	42.5	44.0	47.3	48.3	50.1	58.5	61.6	67.6	73.5	71.7	64.3	55.7	
Asia Pacific excluding China (Relative to a year ago)	98.6	75.8	65.9	56.6	38.6	27.6	27.4	27.3	29.1	29.5	29.5	35.5	34.2	36.5	39.9	38.8	40.4	42.0	45.0	
Europe (Relative to a year ago)	99.6	90.6	79.3	57.9	23.3	14.1	14.0	14.1	15.7	18.4	18.1	16.9	17.2	22.7	20.9	26.0	27.5	30.8		
US (Relative to a year ago)	101.0	97.2	92.0	72.9	41.0	31.7	32.1	31.4	38.9	37.7	39.5	45.5	45.8	50.6	57.6	54.2	57.2	57.6	62.1	
Global supply chains & lockdowns																				
G20 lockdown stringency index (0-100)	2	29	35	42	63	74	74	73	72	71	71	70	73	72	71	68	68	67	67	65
National school & university closures (Millions of students affected)	0	300	351	507	1,254	1,531	1,576	1,576	1,575	1,292	1,288	1,252	1,213	1,190	1,190	1,123	1,101	1,091	1,072	1,067
G20* Apple Mobility Data - Driving directions requests (13-19 Jan = 100)	100	103	102	91	64	49	46	45	49	52	57	63	69	79	85	93	98	103	110	111
G20* Apple Mobility Data - Transit directions requests (13-19 Jan = 100)	100	104	101	82	44	32	29	26	27	27	29	32	35	40	44	49	53	57	62	63
G20* Apple Mobility Data - Walking directions requests (13-19 Jan = 100)	100	100	100	87	56	44	41	41	42	44	47	52	58	66	72	77	82	85	92	93
G20* Google Mobility Data - Residential activity v median (Jan 3 - Feb 6)		1	1	3	12	18	19	20	20	19	18	17	15	14	13	11	10	9	9	
G20* Google Mobility Data - Parks activity v median (Jan 3 - Feb 6)		6	9	5	-8	-24	-25	-22	-25	-20	-14	-10	-4	10	18	19	23	30	36	
G20* Google Mobility Data - Groceries & pharmacies activity v median (Jan 3 - Feb 6)		3	5	7	-2	-21	-21	-22	-22	-21	-17	-11	-11	-8	-7	-4	-4	-2	-2	
G20* Google Mobility Data - Workplace activity v median (Jan 3 - Feb 6)		-1	2	-4	-26	-42	-45	-49	-47	-44	-44	-40	-35	-35	-32	-28	-26	-24	-24	
G20* Google Mobility Data - Retail & recreation activity v median (Jan 3 - Feb 6)		1	1	-6	-32	-49	-51	-54	-53	-52	-48	-43	-40	-36	-34	-28	-26	-23	-22	
G20* Google Mobility Data - Transit activity v median (Jan 3 - Feb 6)		-2	-2	-11	-36	-54	-56	-58	-57	-55	-53	-50	-46	-44	-41	-37	-35	-32	-31	
Flightradar24: Average number of flights (13-19 Jan = 100)	100	101	103	93	62	39	34	28	35	38	41	39	53	49	62	55	62	68	64	71
Baltic Dry Index (% difference from pre-coronavirus outbreak)	0.0	-32.0	-24.9	-17.8	-18.3	-23.3	-20.4	-16.8	-8.4	-7.9	-15.9	-25.6	-44.9	-38.5	-34.5	-22.2	3.1	66.4	119.1	138.7
Dow Jones Global Shipping Index (% difference from pre-coronavirus outbreak)	0.0	-22.7	-24.5	-30.9	-40.6	-38.8	-36.0	-35.2	-32.9	-30.1	-27.5	-32.7	-34.0	-32.1	-29.9	-26.6	-23.5	-26.1	-28.4	-29.0
Maersk stock price (% difference from pre-coronavirus outbreak)	0.0	-17.8	-24.3	-29.7	-35.9	-36.1	-32.8	-24.9	-26.9	-26.8	-24.4	-27.9	-27.4	-24.2	-24.2	-24.2	-24.2	-24.2	-24.2	-24.2
Financial markets data																				
S&P 500 (% difference from pre-coronavirus outbreak)	0.0	-6.7	-7.8	-17.8	-27.1	-25.3	-23.1	-17.3	-14.8	-15.2	-12.6	-12.9	-13.1	-10.6	-8.8	-5.7	-5.1	-6.0	-6.8	-6.1
EuroStoxx 50 (% difference from pre-coronavirus outbreak)	0.0	-7.0	-11.5	-26.4	-34.6	-28.2	-28.1	-24.4	-24.3	-24.9	-22.4	-24.2	-25.4	-22.9	-19.8	-14.6	-13.9	-14.5	-14.5	-13.7
Shanghai SEE (% difference from pre-coronavirus outbreak)	0.0	-2.4	-1.2	-4.4	-12.2	-12.4	-11.4	-9.6	-8.8	-8.3	-7.2	-5.8	-5.5	-6.3	-7.6	-4.5	-3.6	-3.5	-1.1	2.0
US 10-year Treasury yield (%)	1.8	1.3	1.0	0.8	1.0	0.8	0.7	0.7	0.7	0.6	0.6	0.7	0.7	0.7	0.7	0.8	0.8	0.7	0.7	0.7
German ten-year government bond yields (%)	-0.2	-0.5	-0.7	-0.7	-0.3	-0.4	-0.5	-0.3	-0.4	-0.4	-0.5	-0.5	-0.5	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Italian 10-year government bond spread (bps)	162	157	173	229	245	184	200	197	223	246	229	244	239	212	196	184	183	179	180	177
US Bloomberg Barclays High Yield OAS (bps)	320	439	494	673	913	1017	910	850	728	757	759	737	736	696	648	579	580	574	593	614
US Bloomberg Barclays Investment Grade OAS (bps)	95	112	130	190	295	329	279	251	208	210	205	208	211	190	179	160	153	148	150	148
VIX	12.3	31.9	36.8	57.8	74.6	62.8	53.1	43.7	39.6	41.7	33.9	32.6	32.1	29.1	28.0	26.2	31.6	33.9	32.8	29.6
Commodity price: Brent Oil (\$ per barrel)	64.5	53.5	50.0	35.0	28.1	26.7	28.4	32.3	29.2	21.7	23.5	29.7	30.5	35.3	35.9	40.0	40.0	41.0	41.4	42.1
Citigroup economic surprise index	1.7	21.9	11.3	14.6	2.8	-5.1	-7.5	-18.6	-30.6	-51.3	-69.4	-71.8	-64.9	-65.6	-51.9	-21.4	0.5	-4.0	14.1	18.4

* Subject to data being available

Source: Oxford Economics / Apple / Blavatnik School of Government, Bloomberg / Datastream / Flightradar24 / Google / Haver Analytics / STR / UNESCO / WIND