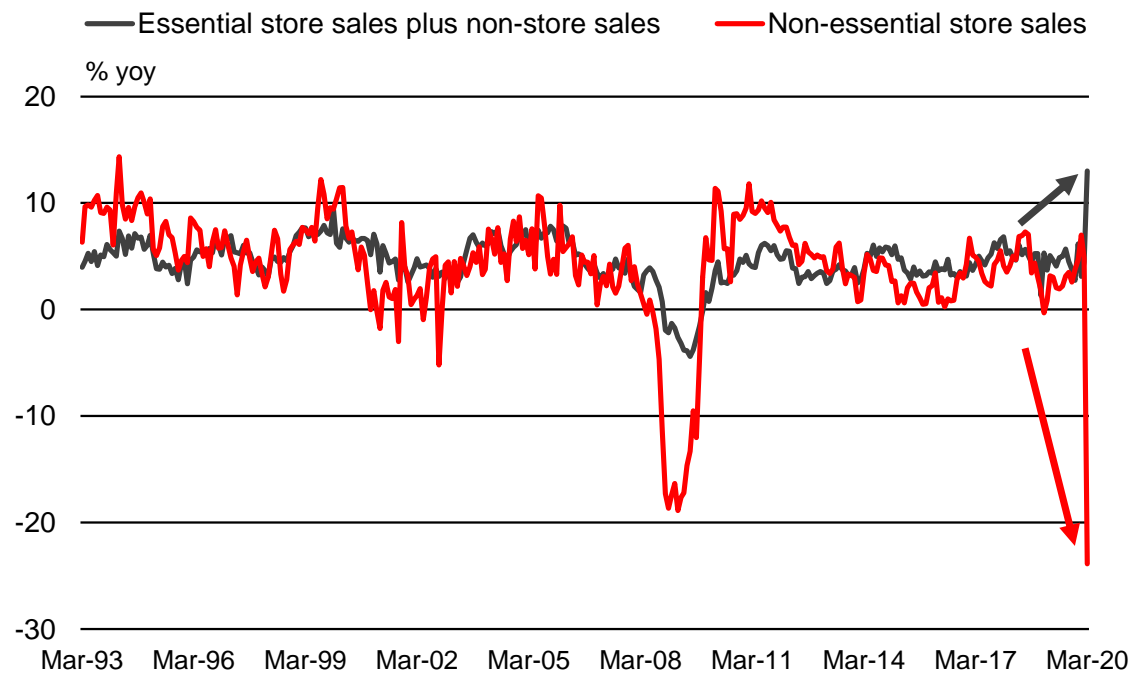


The crisis hits the US retail industry hard



Source: Census Bureau, UniCredit Research

- In the US, this week saw the first hard data for March, and it was historically weak. Retail sales fell 8.7% mom – the largest decline since records began in 1992 – while factory output fell 6.3% mom – the largest fall since 1946. Given the US economy is overwhelmingly driven by personal consumption, the key release was retail sales. Our *Chart of the Week* shows that the headline sales figure masks huge divergence between the sales of essential and non-essential stores. Essential stores include food and beverage, health and personal care, and building material stores. Non-essential stores, which accounted for 52% of total retail sales last year, include clothing, food service and drinking places (i.e. restaurants and bars), furniture, motor vehicles and gasoline stores. A rise in online shopping could not compensate for store closures.
- The worst is still to come since non-essential stores remained open for at least the first half of March, which was not the case in April. Also, the initial surge in household stockpiling of food and other essentials ahead of the lockdown in many US states is likely to ease in April, as stockpiles are run down and the lockdown (including social distancing measures taken in stores) reduces demand. Demand for non-essential items will be further hit by ongoing store closures and plummeting demand as shoppers stay home, joblessness surges and consumer confidence slumps. As social distancing restrictions are eased, possibly as soon as May, sales should pick up somewhat, but the recovery is likely to be only gradual. First, while President Donald Trump announced yesterday a three-phase plan to open the US economy, the authority lies with state governors when to ease restrictions, and that will depend on the path for the coronavirus. Restrictions are only likely to be lifted gradually, and some restrictions are likely to persist (for example, extra spacing between restaurant tables and between shoppers). Second, Americans will be cautious about spending (they are likely to hold higher precautionary savings, in part due to fear of a second wave of the virus), their incomes will take a large hit, and they are likely to continue to take precautions (for example, avoiding busy shops and eating out) for some time.

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