

# Cooling US consumer spending points to weakening inflation threat

US retail sales were softer than hoped in May and with April revised to show a contraction we are seeing more evidence of a cooling consumer spending story. With inflation pressures seemingly moderating and unemployment ticking higher a September Fed rate cut will be on the table for discussion



US retail sales for May were weaker than expected, indicating cooler consumer spending and the likelihood of Fed rate cuts starting in September

**0.1%** MoM increase in US retail sales

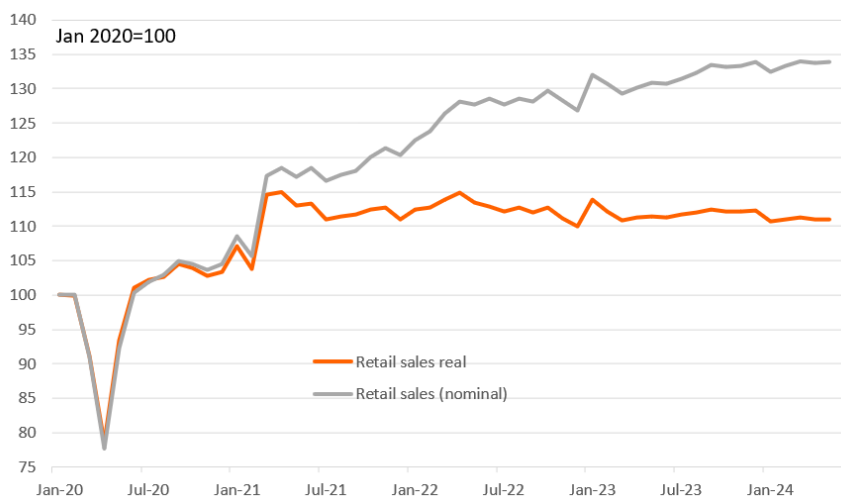
Lower than expected

## Softer spending growth highlights intensifying consumer pressures

US retail sales for May are disappointing, rising 0.1% month-on-month versus the 0.3% consensus

while April was revised to show a 0.2% contraction rather than the 0% outcome initially reported. We focus more on the "control group" which strips out volatile items such as autos, building supplies, food service and gasoline; therefore it better aligns with broader consumer spending trends as measured within the GDP report. It reported growth of 0.4% versus the 0.5% consensus while April was revised down to a -0.5% MoM contraction from the -0.3% MoM initially reported.

## Retail sales levels in nominal and real terms



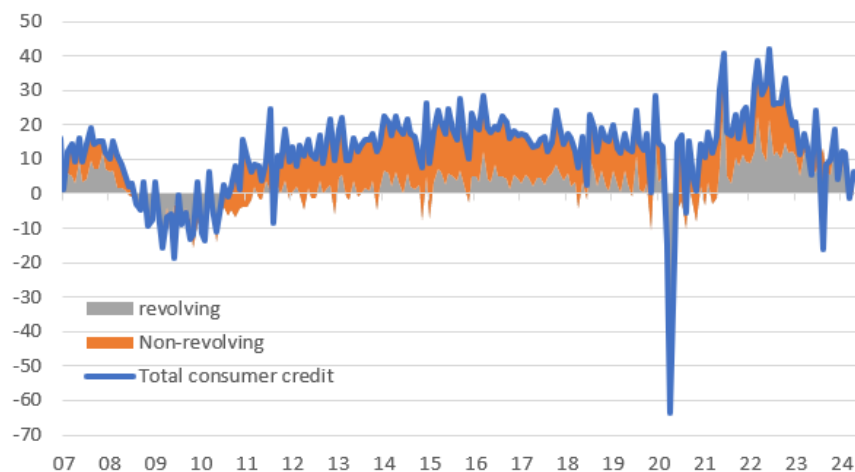
Source: Macrobond, ING

The details show a very mixed performance – sporting goods up 2.8%, clothing up 0.9%, non-store retailers up 0.8% and autos up 0.8%. However, eating and drinking out fell 0.4%, gasoline station sales fell 2.2% (lower gasoline prices) while furniture fell 1.1% and building materials declined 0.8%.

## Constraints on spending will likely intensify

We expect consumer spending to continue cooling through this year as flat real household disposable incomes constrain spending power while the exhaustion of pandemic-era accrued savings means there are fewer resources from this pot to keep spending going. High consumer credit costs make borrowing to fund spending painfully expensive too, with net credit card lending actually contracting in April. Throw in declining consumer confidence readings and it all points to a consumer sector that is set to become more cautious, especially if unemployment continues to rise.

## Consumer credit changes (\$bn)



Source: Macrobond, ING

If we see more evidence of this consumer cooling, coupled with further rises in the unemployment rate and MoM core inflation prints tracking at 0.2% MoM or below then a September rate cut will clearly be on the table for discussion. Should the Federal Reserve pull the trigger then we doubt very much they would stop at one cut. We favour three cuts this year with the Fed funds target rate getting down to the 4% level in the second quarter of 2025.

**0.9%** MoM increase in industrial production

Higher than expected

## Manufacturing bounce needs a rebound in orders to be sustained

US industrial production is much stronger than expected, rising 0.9% MoM versus the 0.3% consensus forecast. Manufacturing output rose 0.9% led by a 2.3% surge in machinery production. Utilities output increased 1.6%, which is a function of the weather while mining output increased 0.3%. Manufacturing payrolls and hours worked did increase in the month, hence expectations for a rise, but this outcome is more than anyone was forecasting. Nonetheless, in year-on-year terms output remains only 0.1% higher and for today's manufacturing output bounce to be sustained we need to see manufacturing orders rebound. Unfortunately, the ISM manufacturing report has shown a contraction in orders for the past two months with the May reading the weakest for 12 months. At the same time, the durable goods orders report is growing at perhaps a 1% annualised rate so far this year. This doesn't suggest we are about to break out of this flat trend anytime soon.

## Author

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).