

Resilient US households brush off Covid fears

Retail sales jumped in August with households seemingly brushing off concerns of the resurgence of Covid. Confidence may have plunged, but rising incomes, employment and accumulated savings mean that people continue to spend



17.4% Gain in retail sales from pre-pandemic levels

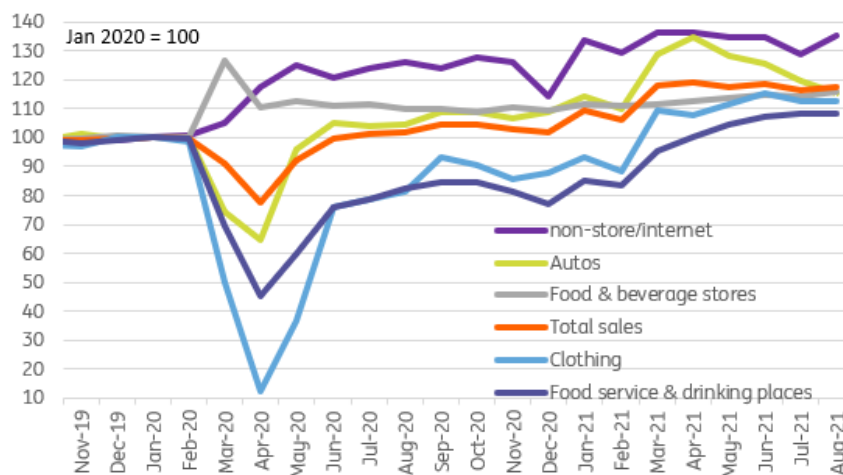
Retail sales confound expectations

Rather than fall 0.7% as the consensus expected – we forecast an even larger fall – retail sales grew 0.7% in August. Admittedly, there was a sizeable 0.7ppt downward revision to July's data, but this is still a much better-than-hoped-for report given the steep falls in consumer confidence reported by both the University of Michigan and the Conference Board.

In fact, the University of Michigan report posted the seventh largest fall of all time, leading to fears that the resurgence of Covid and worries over the impact of surging inflation on household spending power were making consumers far more cautious. That doesn't appear to have

happened although there are a few aspects of the report that are difficult to explain.

Retail sales levels



Source: Macrobond, ING

Too good to be true?

Firstly, auto sales fell "only" 3.6%, which seems odd given an 11% or so decline in unit sales. The only way to reconcile that is massive price increases, but we didn't see that in the CPI report. Meanwhile, food service was flat on the month despite Opentable data showing sharp falls in restaurant diner numbers. We are also a little surprised about the 3.7% jump in furniture sales and the 0.9% gain in building materials given they are normally strongly correlated with housing activity, which has waned in recent months.

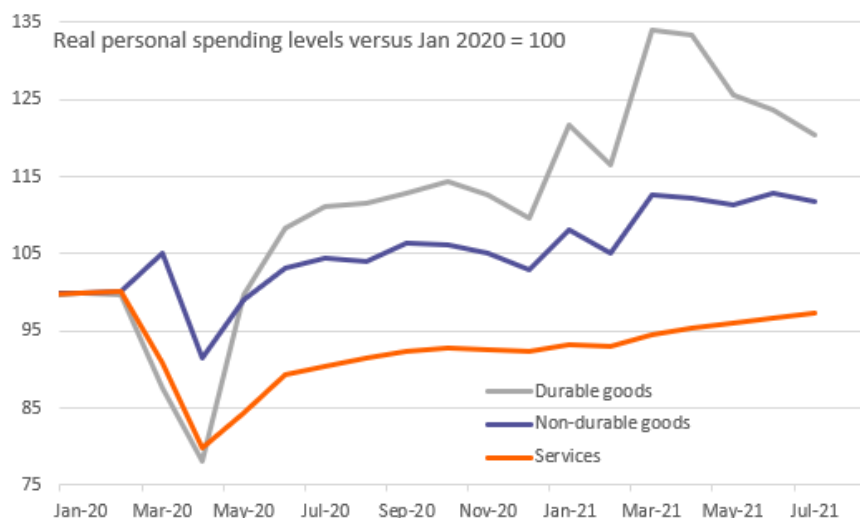
The 5.3% surge in non-store retailers (mainly internet) is more understandable after a weak July while general merchandise and food sales were decent. Overall, this means total retail sales are up 17.4% on pre-pandemic levels and suggests that our concerns that we could see a negative 3Q consumer spending number may be misplaced. However, we still have another month in the quarter and we have to remember that retail sales are only 40-45% of total consumer spending.

Services are key to the outlook

With the economy reopening, there are a greater number of options on which to spend money than 12 months ago, but the recent Covid resurgence has seemingly impacted travel and hospitality through July and August. Early numbers for September suggest we may be seeing a peaking out in Covid cases and there is evidence to suggest at least a stabilisation and, in some instance, a re-strengthening in activity around air passenger numbers and restaurant dining. Consequently, we remain upbeat on consumer activity in 4Q and through 2022.

The chart below suggests we should increasingly see a rebalancing of consumers' total spend away from "things" that are picked up in retail sales, towards "experiences", such as travel, entertainment and leisure, which are not.

Consumer spending components



Source: Macrobond, ING

Consumer finances remain in good shape with incomes picking up thanks to rising employment and wages. Meanwhile, the Federal Reserve flow of funds data showed that households have seen their wealth surge \$20tn since the end of 2019 with \$3tn of that increase in liquid cash, checking and time savings deposits. Given this situation, while we suspect retail sales will underperform wider spending patterns, both goods and services can continue to grow.

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