

Strong consumer keeps US on track for 3% GDP growth

Retail sales provided another upside data surprise and indicates a 3% annualised GDP growth rate is possible for the third quarter. However, higher consumer borrowing costs, reduced credit availability, the exhausting of pandemic-era savings and the restart of student loan repayments pose major challenges for fourth quarter activity



Amazon Prime Day helped boost July retail sales

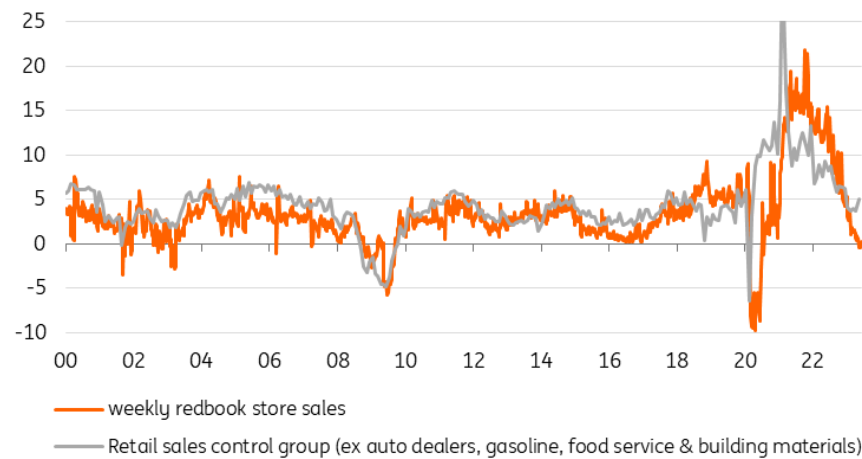
Retail sales lifted by Prime Day and eating out

We have another US data upside surprise from the household sector with retail sales rising 0.7% month-on-month in July versus the 0.4% consensus. June's growth was also revised up 0.1 percentage point to 0.3% MoM. Importantly, the control groups which excludes volatile autos, gasoline, food service and building materials, rose 1% MoM versus 0.5% consensus, but here there was a 0.1pp downward revision to June's growth to 0.5% MoM. This category, historically, has a better correlation with broader consumer spending. Remember retail sales is only around 45% of consumer spending in total, with consumer services taking a greater share.

Amazon Prime Day appears to have been the main driver with non-store sales up 1.9% MoM, but there was also strength in restaurants and bars (+1.4%) while sporting goods rose 1.5%, clothing was up 1% and grocery up 0.8%. Electronics (-1.3% MoM) and vehicles (-0.3%) and furniture

(-1.8%) were the weak spots. All in it points to the US being on track to report 3% annualised GDP growth in the third quarter, which will keep the Fed's language hawkish even if they don't carry through with further rate hikes, as we expect.

Official retail sales growth versus weekly chain store sales growth (YoY%)



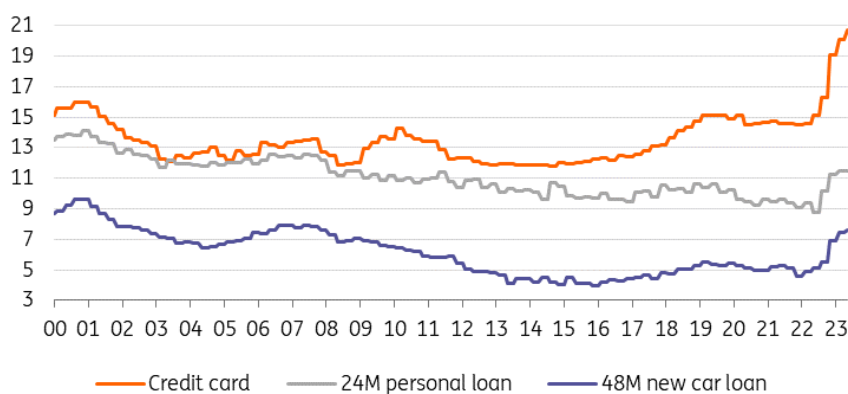
Source: Macrobond, ING

The challenges for spending are mounting

Interestingly, there has been a bit of a breakdown in the relationship between official retail sales growth of the control group and the weekly Redbook chain store sales numbers, as can be seen in the chart above. Maybe this is the Prime day effect playing out and we see a reconvergence again in August. The Retail sales report is a good story for now, but we are expecting weakness to materialise in the fourth quarter.

Higher market interest rates will add to upward pressure on what are already record high credit card borrowing rates and rising auto, mortgage and personal loan rates. With households also continuing to run down pandemic-related excess savings, as measured by Fed numbers on cash, checking and time savings deposits, this will act as a brake on growth.

US consumer borrowing costs (%)



Source: Macrobond, ING

Higher borrowing costs and reduced credit availability will hurt

However, it is important to remember that reduced access to credit is just as important as the cost of credit in taking heat out of the economy. The latest Federal Reserve Senior Loan Officer Opinion Survey (SLOOS) underscores how the tightening of lending conditions will increasingly act as a headwind for activity and contribute to inflation sustainably returning to target. Banks are increasingly unwilling to make consumer loans and as the chart below shows, this has historically pointed to an outright contraction in consumer credit outstanding.

Fed's Senior Loan Officer Opinion Survey points to negative consumer credit growth (YoY%)



Source: Macrobond, ING

Fed to keep rates on hold

Add in the squeeze on household finances from the restart of student loan repayments for millions of households and it means further weakness in retail sales and broader consumer spending remains has to remain our base case. The concern is that it will also heighten the chances of recession, which we believe will discourage the Fed from any further interest rate increases. Instead, we expect interest rate cuts from March 2024 onwards as monetary policy is relaxed to a more neutral footing.

Author

James Knightley

Chief International Economist, US

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 <http://www.ing.com>.