

US consumer caution lingers on

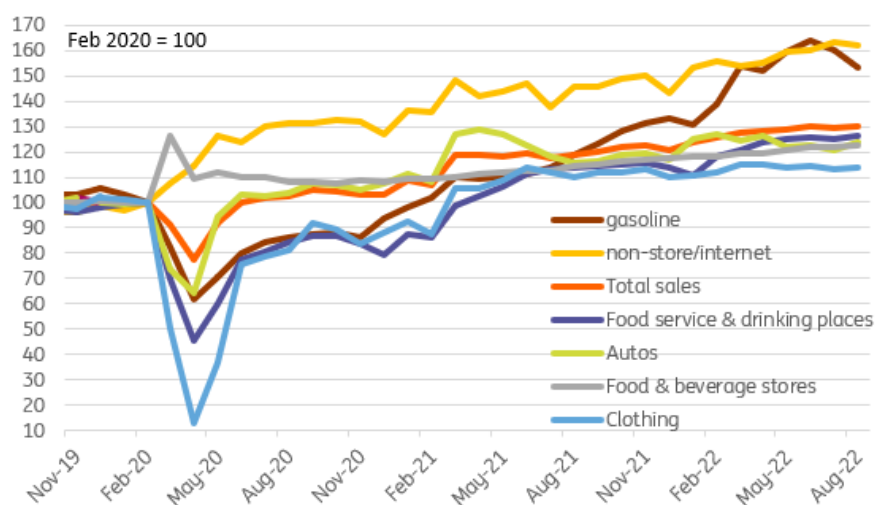
US retail sales, despite beating expectations today, appear to be on a softening trend. The core figure that better matches broader consumer trends was flat and revisions were unfavourable. Consumer spending is more than retail and there is scope for rebalancing towards services, but the report still favours a 75bp hike from the Fed next week over 100bp



Core retail activity hints at a softening trend

US retail sales rose 0.3% month-on-month in August, much better than the 0.1% fall that was expected, but there have been quite a few revisions to the history that hint of a softer trend in spending. Moreover, the control group, that excludes volatile items such as autos, building supplies and food service, which better matches broader consumer trends as measured within GDP, was considerably softer than predicted. Spending was flat on the month rather than rising 0.5%, while July's figure was revised down to growth of 0.4% having initially been reported as +0.8%.

US retail sales levels versus pre-pandemic



Source: Macrobond, ING

The detail show gasoline station sales falling 4.2% given the steep price falls, but the furniture (-1.3%), electronics (-0.1%) health/personal care (-0.6%) and non-store retail (-0.7%) also fell. On the positive side, eating and drinking out rose 1.1%, in line with restaurant dining data, while building materials rose 1.1% and miscellaneous stores posted a 1.6% gain. Auto sales rose 2.8%, despite lower volumes numbers, underscoring what we saw within the CPI report that vehicle pricing remain robust.

Consumer spending is broader than retail, but 75bp still favoured next week

Looking at the report it is a mixed picture and is likely to see GDP growth expectations for the third quarter revised down a little. Nonetheless, we must remember that consumer spending isn't just retail. Consumer services are a bigger component of overall spending and total spending should outperforming retail. After all retail sales are currently 48% of consumer spending versus 43% before Covid so there is scope for a rebalancing.

Retail sales as a proportion of total consumer spending



Source: Macrobond, ING

Still, with consumer confidence remaining weak as a result of the squeeze on spending power from inflation, falling equity markets and surveys suggesting growing nervousness on the state of the property market, we continue to favour a 75bp hike from the Federal Reserve rather than 100bp.

Author

James Knightley

Chief International Economist

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>.