

## US consumer spending points to 3%+ GDP growth this quarter

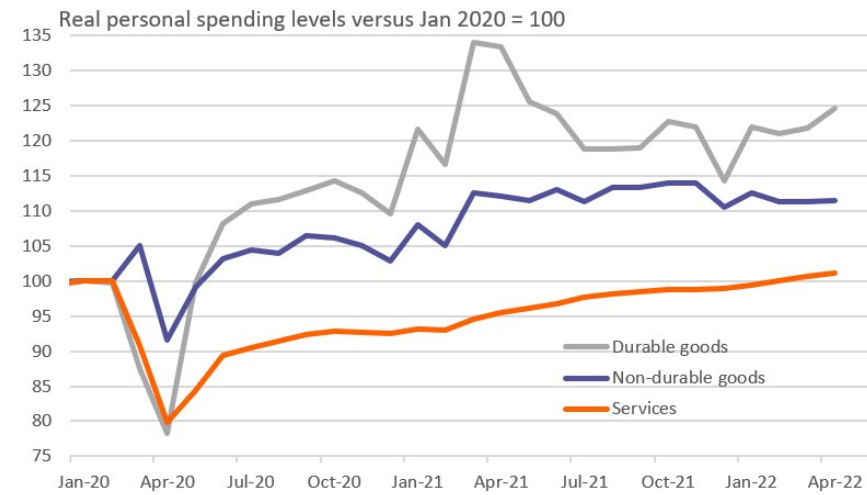
Consumer spending is still the main US growth driver. While incomes are not keeping pace with the rising cost of living, today's data suggests households are prepared to run down some of their accumulated savings to maintain lifestyles. With trade and inventory data also improving from 1Q levels we are firmly expecting 3%+ GDP growth in 2Q



### Spending momentum remains strong

Today's consumer spending numbers are very encouraging, rising 0.7% month-on-month in real terms in April after an upwardly revised 0.5% increase in March. The Omicron wave of the pandemic had been impacting the December-February numbers, but it is clear there is decent momentum in spending right now. Household incomes are rising 0.4% MoM thanks to a combination of higher wages and increasing employment, although admittedly they aren't necessarily keeping pace with the rising cost of living. Nonetheless, for now, it seems that households are prepared to run down some of their savings accumulated through the pandemic to finance spending and maintain lifestyles.

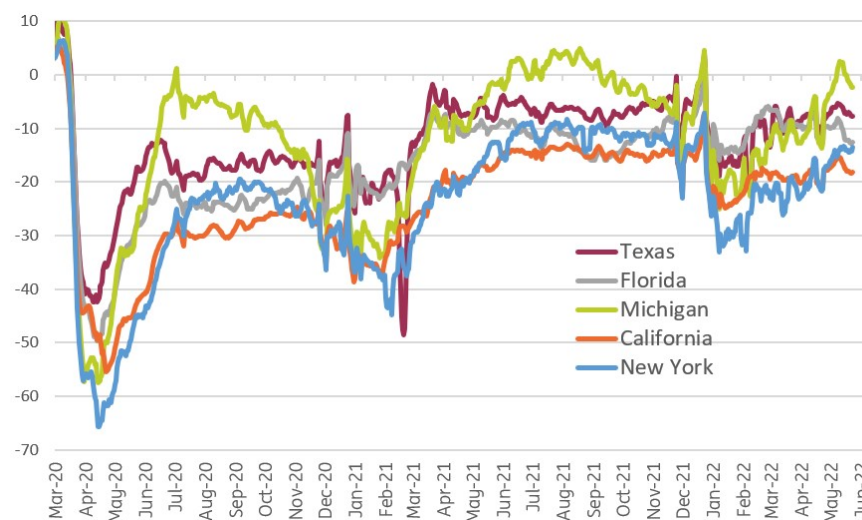
## US consumer spending versus pre-pandemic levels



Source: Macrobond, ING

We are hopeful that the strength of spending will continue. Google mobility data suggests an ongoing rebound in people movement around retail and recreation while restaurant dining numbers and air passenger numbers also point to a strong desire to get out and about and spend money. This leads us to expect a strong contribution from consumption within 2Q GDP growth.

## Google mobility data suggest households are out and about spending



Source: Macrobond, ING

## 2Q GDP set to bounce by more than 3%

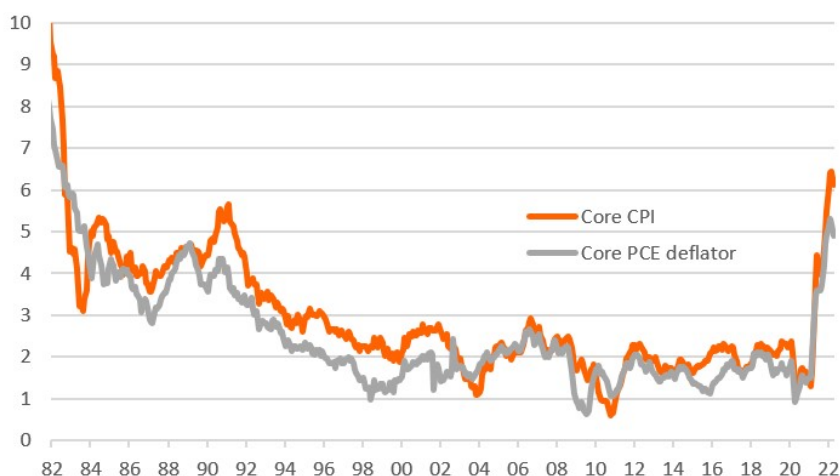
Yesterday's revised GDP data showed the economy contracted at an annualised 1.5% rate in the first quarter. That was due to a huge hit from net trade and an inventory run down, which should be far less of a drag in 2Q – today's trade and inventory numbers were very encouraging on that front with the goods deficit narrowing by \$20bn in April. Consumer spending was actually already

pretty good in 1Q. Capex improved and the outlook for capital investment remains good given robust manufacturing orders. Consequently, we are increasingly confident that we will see a 2Q GDP growth figure of more than 3%.

## Inflation peaks out

There was also some encouraging news on inflation. The Fed's favoured measure, the core personal consumer expenditure deflator slowed from 5.2% to 4.9%, the slowest rate since December. Nonetheless, inflation is going to be slow to fall back to target.

## US core (ex food and energy) inflation readings look to have peaked



Source: Macrobond, ING

## But it will be a long slow descent that requires more Fed rate hikes

We believe we need to see three conditions to get inflation to drop meaningfully quickly. Firstly, an improved geopolitical backdrop to get energy prices lower, which seems unlikely given Russia's actions. Secondly, an improved supply chain environment, which also seems unlikely given China's zero-Covid policy and the potential for strike action at US ports. Then thirdly, we would need to see a big increase in labour supply to mitigate surging labour costs, which again doesn't seem on the cards just yet.

As such, inflation is likely to be sticky and in a decent growth environment, this fully backs the 50bp rate hikes in June and July favoured by the Fed with more rate hikes into restrictive 3%+ territory likely through the year and into early 2023.

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