

## US growth re-accelerating after 3Q Covid speed bump

Personal income and spending numbers confirm the economy experienced a slowdown in 3Q, but with Covid cases dropping sharply, incomes rising and household balance sheets in fantastic shape, we think the consumer sector will lead a 4Q rebound with the economy set to grow by close to 5% next year



Shoppers at a technology store in Houston

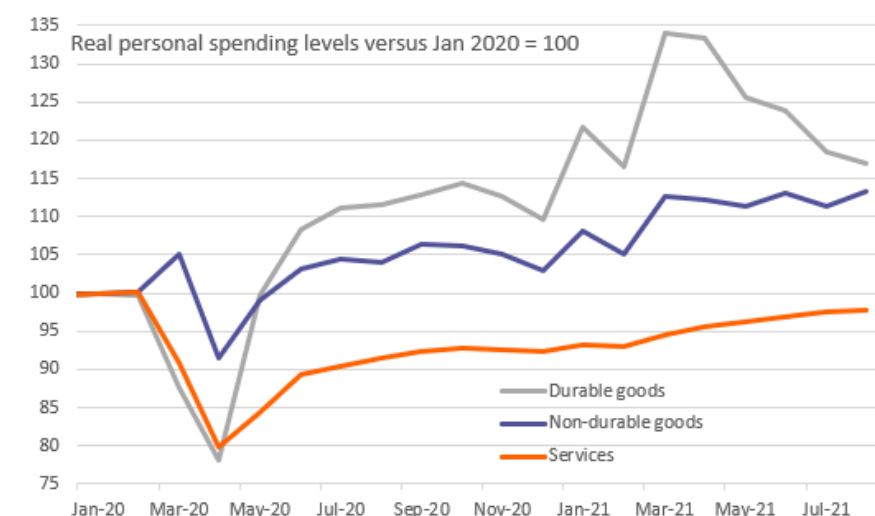
### Slower spending a temporary story

The US personal income and spending report is a little disappointing in that while the consumer spending numbers came in broadly in line with expectations for August (0.8% month-on-month nominal, 0.4% real) there was a sizeable 0.4 percentage point downward revision to the July figures. This means that 3Q GDP growth will end up coming in closer to 4% annualized rather than the 5% rate that is the current consensus.

It is quite clear that the resurgence of Covid over the past few months has slowed the economy with consumers behaving more cautiously. However, this looks set to be more of a speed bump rather than a true slowdown in economic activity. With Covid cases now falling sharply the high frequency numbers for September are looking good, be it air travel, restaurant visits or hotel stays. Given these are a good proxy for broader spending on consumer services we expect to see GDP

growth to re-accelerate back to something around the 6.5% rate for 4Q.

## Real consumer spending levels



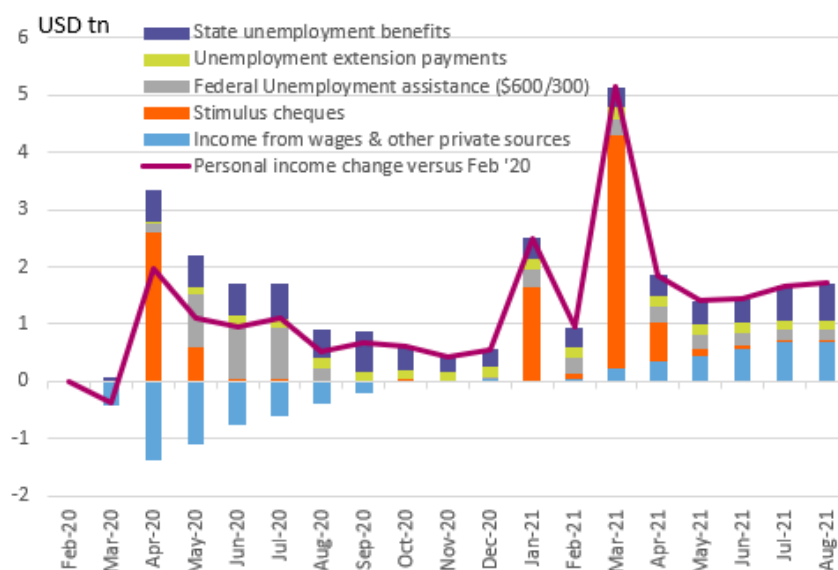
Source: Macrobond, ING

## Incomes continue to rise despite waning government support

The chart above shows that spending on services remains 2.2 percentage points below pre-pandemic levels and this is where we expect the bulk of the growth in consumer spending to come from. Spending on durables is moderating now that we have more options on where to spend our money, but it is important to remember that higher service sector spending does not mean spending needs to fall significantly in other areas.

The chart below shows that incomes continue to grow (up 0.2% MoM in August) with the composition showing that while the ending of support from the government's pandemic programs is a headwind, rising income from wages and other private sources is more than offsetting that decline.

## Household income changes versus the February 2020 level

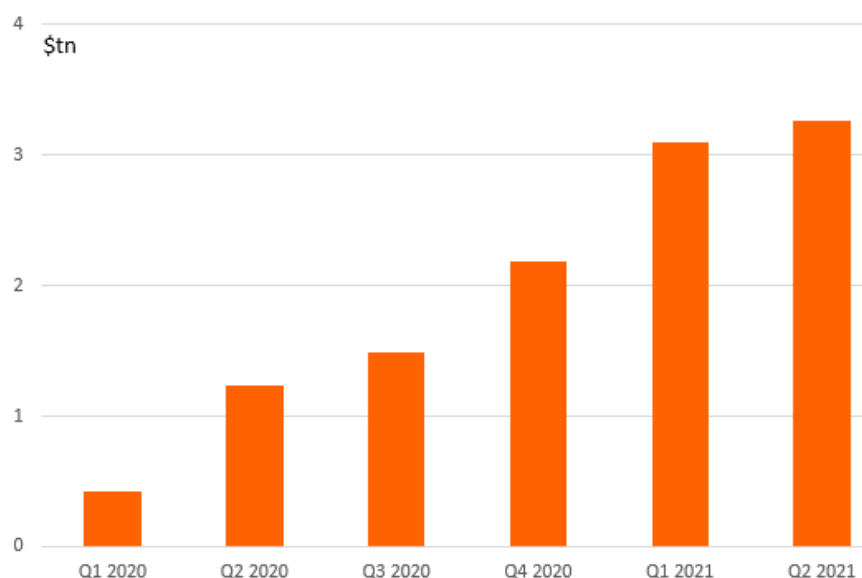


Source: Macrobond, ING

## Household balance sheet improvements provide a strong base for 2022

The economy is creating jobs despite the lack of labour supply right now with rising wage growth further boosting household incomes. We also need to remember that household balance sheets are in great shape too. That \$3tn accumulated in cash, checking and time savings deposits during the pandemic is a huge support for ongoing strong consumer demand. Given consumer spending accounts for nearly 70% of total economic activity we remain confident that the US will continue to post robust growth rates over coming quarters with full year growth forecast at 4.7% for 2022.

## Cumulative increase in household cash, checking and time savings deposits since end-2019

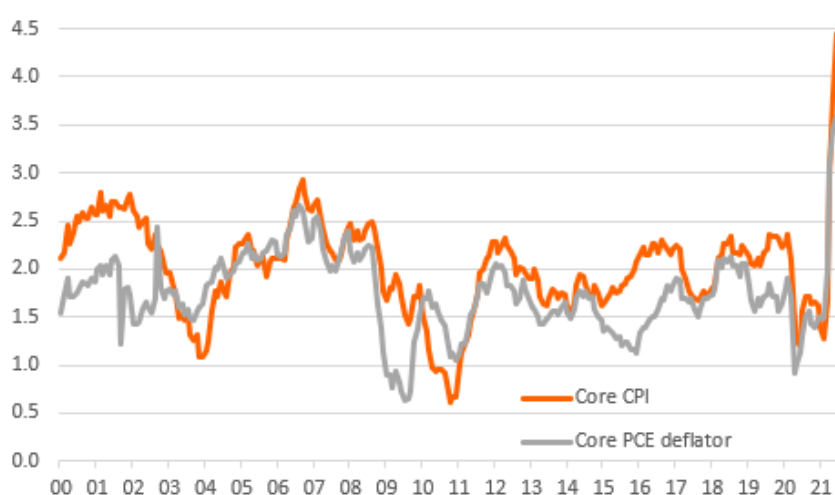


Source: Macrobond, ING

## Inflation at its highest since 1991

Separately, the Federal Reserve's favoured measure of inflation – the core Personal Consumer Expenditure Deflator – held at 3.6% year-on-year rather than dropping back to 3.5%. If you go to the effort of measuring to two decimal places, we see this measure of inflation is actually at a 30-year high. Coupled with a likely rebound in next week's September payrolls report this should be enough to confirm a November QE taper announcement from the Fed.

## US core (ex food & energy) measures of inflation YoY%



Source: Macrobond, ING

## Author

**James Knightley**

Chief International Economist

[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>.