

## US retail sales confirm 3Q soft patch is over

A strong performance from retail sales coupled with surging spending on travel and leisure suggests that the economy is re-accelerating after the recent Covid-related slowdown. This should help cement expectations for a November 3rd QE taper announcement from the Federal Reserve



Shopping mall in New York City

# 18.7%

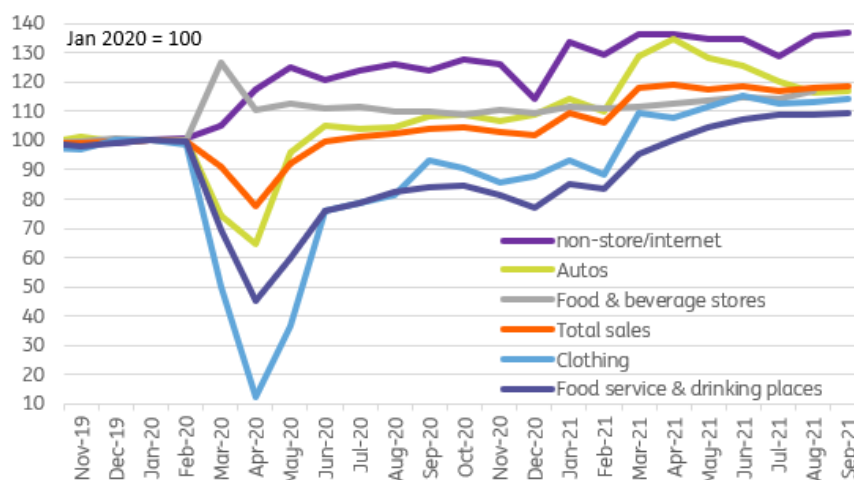
Gain in retail sales from pre-pandemic levels

### Spending surprise

US retail sales numbers for September offer further encouragement that the Covid-related slowdown in activity in July and early August has given way to a more positive macro environment now that case numbers are falling sharply.

Headline sales rose 0.7% month-on-month versus expectations of a 0.2% drop and there were upward revisions worth 0.2 percentage points. We were certainly on the more pessimistic end of expectations given unit auto sales slowed from an annualized 13.06mn rate in August to 12.18mn in September due to the semi-conductor chip shortage that has blighted the industry. Yet somehow the value of motor vehicle and parts sales rose 0.5%. Either prices are surging far faster than as measured by CPI or there are some data problems.

## US retail sales levels versus January 2020



Source: Macrobond, ING

There were mixed performances elsewhere with sporting goods surging 3.7% MoM and general merchandise gaining 2% and gasoline station sales rising 1.8%, but electronics fell 0.9% and health and personal care dropped 1.4%. Nonetheless, the control group, which excludes the volatile autos, food and building materials components and historically is better correlated to broader consumer spending trends, rose 0.8% versus expectations of a 0.5% gain. As such it does indeed look as though we are seeing the economy re-accelerate.

## Rising incomes and wealth to fuel spending

Consumer finances remain in good shape with incomes picking up thanks to rising employment and wages. The really encouraging news is that this is more than offsetting the ending of unemployment benefits and with firms desperate to hire workers and wages being bid higher this looks set to continue.

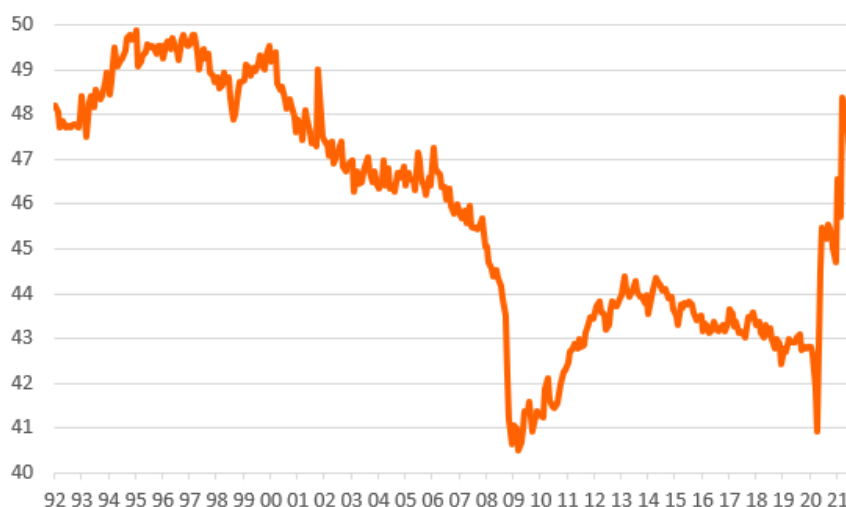
Meanwhile, the Federal Reserve flow of funds data showed that households have seen their wealth surge \$26tn since the end of 2019 with \$3.5tn of that increase in liquid cash, checking and time savings deposits. With some of this likely to be spent in coming quarters we wouldn't bet against consumer spending being a really strong growth driver next year.

## Spending on services will grow even faster

That said, we wouldn't be surprised to see retail sales underperform broader spending over the next 12 months. Remember that retail sales is largely expenditure on physical things rather than services and as the chart below shows, services are now the dominant spending category. Even if we see some falls in retail sales, broader consumer spending can still rise substantially given a

greater number of options on which to spend money.

## Retail sales as a proportion of total consumer spending (%)



Source: Macrobond, ING

Recent high frequency numbers show that hotel, air travel and restaurant dining has increased substantially through mid-September into October. Together with today's retail sales number this points to a firm consumer spending figure and fits with our story that after a 3Q soft patch the economy is re-accelerating as we head to year end. This reinforces the message that there is no need for the Fed to delay on "normalising" monetary policy with the QE taper decision set for November 3rd.

### 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>.