

US retail sales confirms 4% GDP growth is on the cards

A robust US retail sales report for September plus upward revisions to August's report reinforce the view that the US economy likely expanded at a 4% annualised rate in the third quarter. Headwinds are set to intensify, but for now the US consumer continues to defy the odds

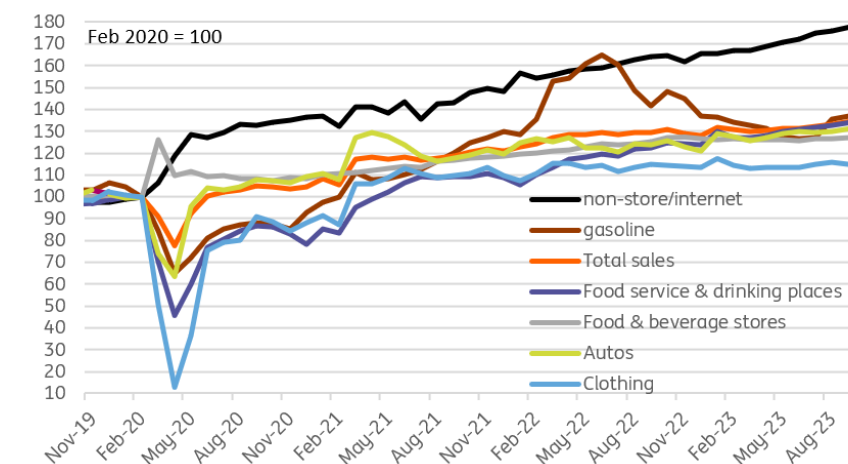


Strong auto sales contributed to robust September retail sales

Strong sales underscores consumer resilience

The September US retail sales report was significantly better than expected, posting a month-on-month gain of 0.7% versus 0.3% expected while retail sales growth for August has also been revised higher to 0.8% from 0.6%. It is a dollar value figure and higher gasoline prices have helped, but not hugely so (gas station sales up 0.9% MoM). We knew auto volume sales were up healthily and this is reflected in a 1% MoM gain in autos and parts. Miscellaneous was where there was considerable strength, rising 3% MoM, but this is a volatile series having been down 3.6% in August and down 1.4% in July. Non-store retailers also had a good month with sales up 1.1%. Labor Day weekend discounts probably helped support activity here with excess inventory shifted out of warehouses.

US nominal retail sales levels versus 2020



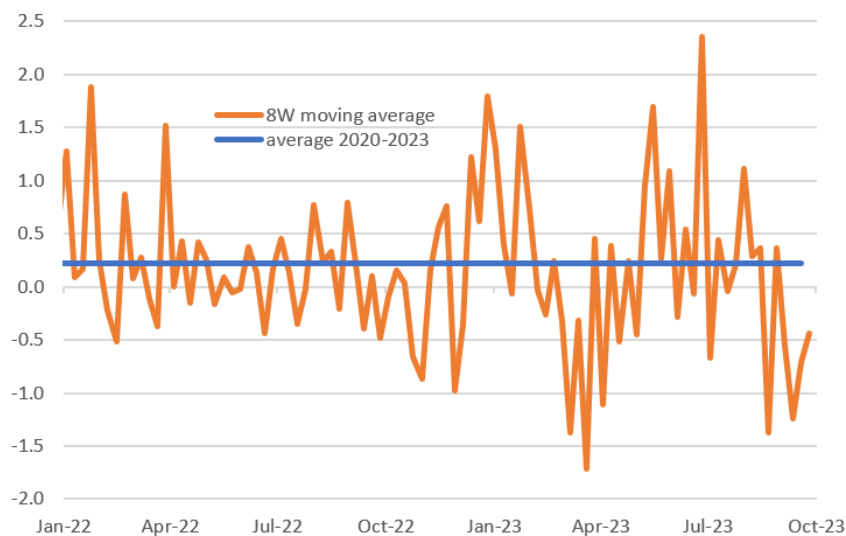
Source: Macrobond, ING

With the control group also looking strong at 0.6% MoM and this sub-set historically moving more in line with broader consumer spending trends, it indicates we should be looking for third quarter GDP growth to be in the region of 4%. Coupled with the recent strong jobs numbers and hot inflation it is no surprise that Treasury yields push higher. While Fed officials may be coalescing around the view that further policy rate hikes may not be needed, the prospect of interest rate cuts is in the far-off future and the yield curve needs to continue repricing for that.

Data surprises keeps the upward pressure on borrowing costs

So why have economists got it so wrong, yet again? Well, the weakening trend we are seeing in consumer confidence is one factor as households continue to worry about the economic outlook and what might happen in the jobs market at a time when spending power is under pressure from lingering inflation. Another reason is that the Bureau of Economic Analysis now publishes weekly credit card spending transaction usage and this was down sharply in September. Given this is how most people typically spend money, especially on-line, this should give a good read through for general spending patterns. For auto sales it will obviously be different, but this discrepancy is surprising as it is doubtful we will all suddenly be using cash again.

Retail trade consumer credit card spending (week over week % change)



Source: Macrobond, ING

We continue to think that the constraints facing the household sector of falling real household disposable income, reduced credit availability, more and more households running down accrued pandemic era savings and the resumption of student loan repayments will eventually lead to weaker consumer spending numbers. It isn't happening yet though and will mean market rates continue to move higher with mortgage rates, car loans and credit card borrowing rates inevitably following suit, which will only add to the headwinds for consumer spending as we move into 2024.

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>.