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

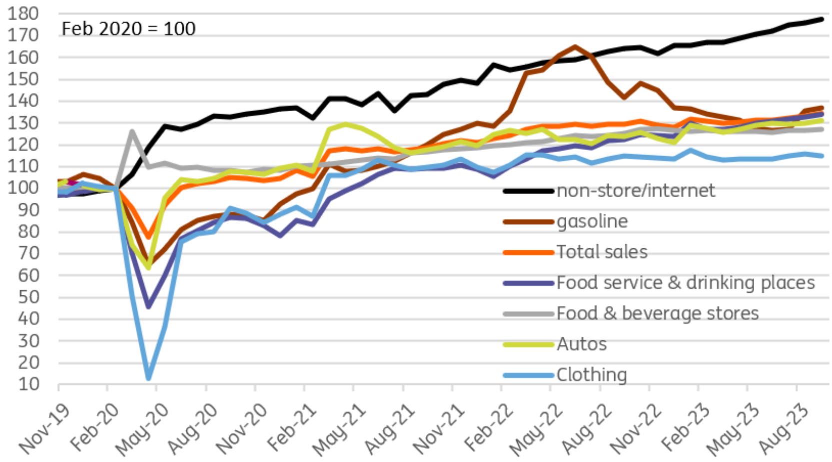
A robust US retail sales report for September plus upward revisions to August's report reinforce the view that the US economy likely expanded at a 4% annualised rate in the third quarter. Headwinds are set to intensify, but for now the US consumer continues to defy the odds

Strong auto sales contributed to robust September retail sales

Strong sales underscores consumer resilience

The September US retails 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



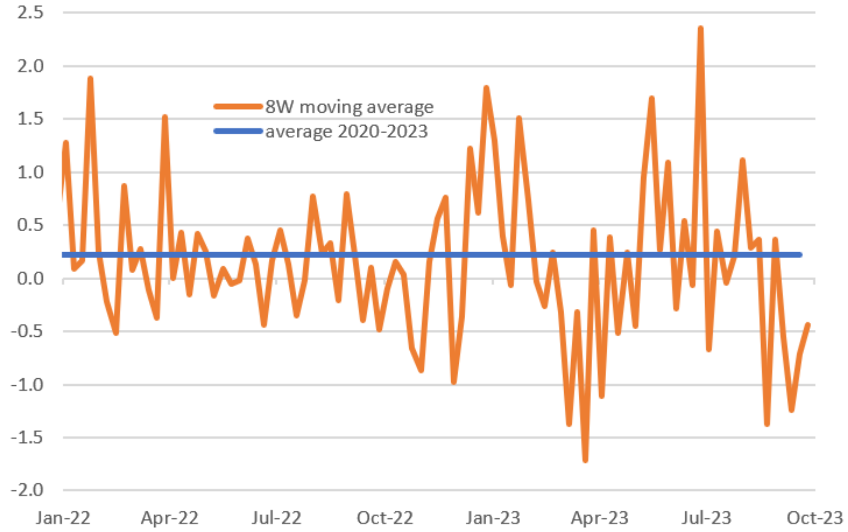
Source: Macrobond, ING

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.

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