

US retail sales face intensifying headwinds

US retail sales fell sharply in July, but it isn't necessarily a disaster. The resurgence in Covid and anxiety over inflation's impact on spending power has certainly hurt sentiment, but the re-opening, a rebalancing of priorities from goods to services and rising household incomes still means broader spending can continue to grow



17.2%

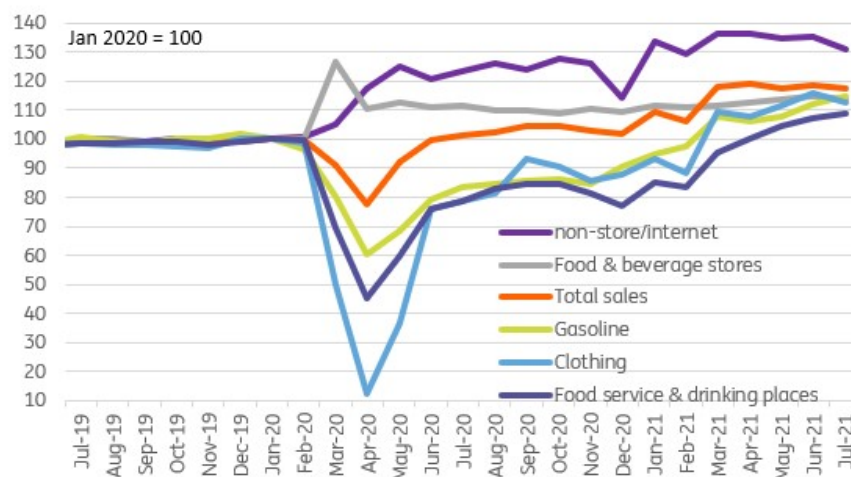
increase in retail sales versus pre-pandemic levels

Retail sales fall, but it's not a calamity

July US retail sales are softer than expected, falling 1.1% month-on-month, primarily because of weaker auto sales. Excluding autos, sales were down 0.4%. Consensus was looking for growth of -0.3% and +0.2% respectively.

There were some upward revisions, but it is still a modestly disappointing outcome, although not a calamity. With the economy having re-opened there are more options on which to spend money. Retail sales only makes up 40-45% of total consumer spending and they are still up 17.2% on pre-pandemic levels. A bit of rebalancing towards services is to be expected and so doesn't mean consumer spending overall will inevitably fall.

Level of retail sales versus January 2020



Source: Macrobond, ING

Autos, internet and clothing the main drags

The details show the value of motor vehicle and parts sales fell 3.9% MoM – the third consecutive monthly fall. This is broadly in line with expectations given we already knew unit volume sales declined from an annualised rate of 15.36mn in June to 14.75mn in July while prices did rise. Nonetheless, softness in auto sales is largely because of the lack of available vehicles to buy given production/supply chain issues, rather than weak demand.

Elsewhere, clothing sales fell 2.6%, sporting goods sales declined 1.9% and non-store retailers (internet) saw sales decline 3.1%. There was also a fourth consecutive decline in building materials while food and beverage sales also fell. On the positive side gasoline station sales rose 2.6% on the back of higher prices and people driving more. Miscellaneous stores saw sales rise 3.5% while electronics rose 0.3% and eating and drinking out rose 1.7%.

Services to take more of the pie, Covid permitting

With the economy re-opening there are a greater number of options on which to spend money. We will increasingly see a rebalancing of consumers' total spend away from "things" that are picked up in retail sales, towards "experiences", such as travel, entertainment and leisure, which are not.

While we suspect retail sales will underperform wider spending patterns, both goods and services can continue to grow. Consumer finances remain in good shape with incomes picking up thanks to rising employment and wages. Meanwhile, the Federal Reserve flow of funds data showed households have seen their wealth surge \$20tn since the end of 2019 with \$3tn of that increase in liquid cash, checking and time savings deposits.

Admittedly, last Friday's plunge in consumer sentiment is a worry, likely reflecting the Covid resurgence and anxiety over surging inflation's impact on household spending power. So far, evidence of a moderation in high frequency tracking data, restaurant bookings and air travel is only tentative at this stage. Nonetheless, it is something we will need to keep an eye on and already presents downside risks for August activity readings.

Author

James Knightley

Chief International Economist, US

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 www.ing.com.