

## US retail sales flat in July, but August spending set to surge

We hoped falling gasoline prices would lift retail spending in July, but this wasn't the case. Nevertheless, the data still points to a healthy start to the quarter. The cash flow boost from lower gasoline prices will provide a major boost to spending in August, with stronger auto sales also set to lift growth. Third-quarter GDP growth of 3% looks possible

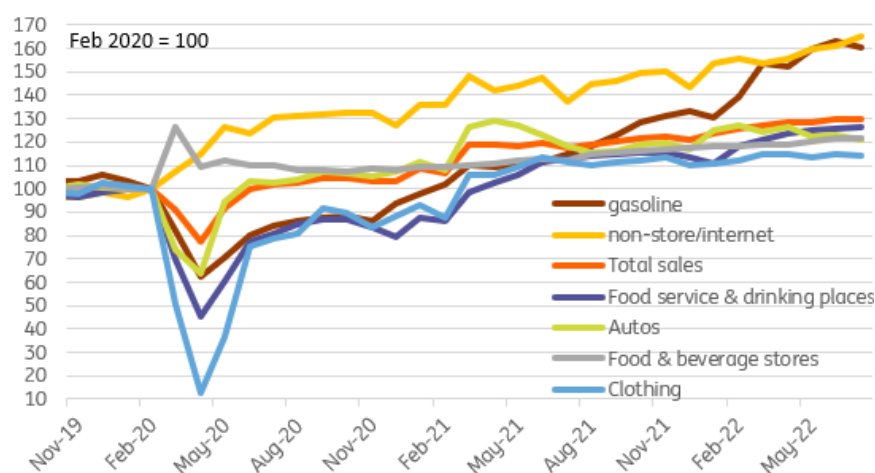


Gasoline station sales fell only 1.8% in July

### Mixed news from the retail sector

July US retail sales are a little softer at the headline level than the market expected (0% growth versus the +0.1% consensus) while June's growth was revised down to 0.8% from 1%. That said, gasoline station sales fell only 1.8% despite big falls and anecdotal evidence of less summer driving, while clothing was down 0.6%, auto sales were down 1.6%, and general merchandise dropped 1.7%. However, non-store retail jumped 2.7%, boosted by a successful Amazon Prime day, miscellaneous rose 1.5%, and building materials increased 1.5%. The net result for the "control group", which strips out the volatile food service, auto, gasoline and building supply components, and historically better tracks broader consumer spending, actually rose a bit more than predicted, up 0.8% versus the 0.6% consensus.

## Level of US retail sales by component



Source: Macrobond, ING

## Lower gasoline prices and stronger auto production should boost August spending

It's important to remember that this is a dollar value figure so falling gasoline prices are dampening the headline, but on balance we are a little disappointed, having hoped to see a larger fall in gasoline station sales that would have led to stronger spending increases in other components. Gas price changes are like tax changes – lower gasoline prices leaves more money in peoples' pockets to spend on other goods and services.

Gasoline prices have now dropped for 64 consecutive days (from \$5.02/gallon on 13 June to \$3.94 today) according to Bloomberg data on national averages, which means Americans are spending \$400m less per day filling up their vehicles' tanks. Consequently, we should expect to see an even bigger shift in spending away from gasoline stations to other components in the August report. The big increase in July auto production reported yesterday, where there is huge unsatiated demand, also points to a very firm August (excluding gasoline) sales number.

## Consumer spending is much broader than retail sales

Moreover, consumer spending is much broader than retail sales alone. Households are spending more on leisure and hospitality as spending reorientates back towards services and away from goods. This still has a long way to go with retail sales set to underperform broader spending trends over the coming quarters – we look for it to drop back from the current 48% of total consumer spending and move towards pre-pandemic levels of 43% of total spending.

## Retail sales as a proportion of total consumer spending



Source: Macrobond, ING

### 3% GDP growth looks possible

Add in the support from ongoing employment gains and accumulated savings through the pandemic, and we should expect a strong contribution from consumer spending in third-quarter GDP. We also have early evidence suggesting that trade will be additive and inventories less of a drag, while yesterday's firm manufacturing data adds to the optimism. Taking everything into account, we think 3% annualised growth is definitely on the cards.

#### 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 [www.ing.com](http://www.ing.com).