

US: Retail sales ride the wave

US retail sales surged 9.8% in March on a combination of better weather, strong jobs growth and another wave of stimulus payments. These factors will keep momentum very strong for April, but economic re-opening brings opportunities to spend on other things with data to increasingly show a switch towards "experiences" and away from physical items



Shoppers in Fairfax, USA

9.8% Retail sales growth in March

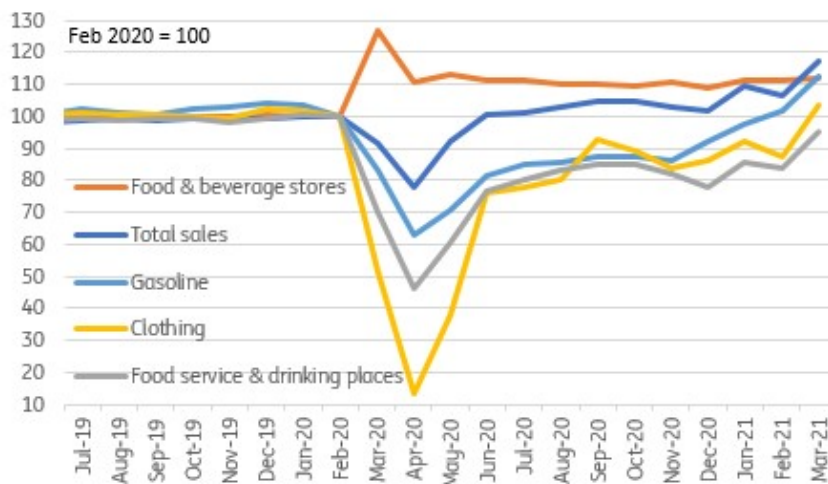
Spring sales surge points to 7%+ GDP growth

US retail sales came in even better than expected in March, rising 9.8% month-on-month versus the consensus expectation of 5.8%, which leaves the year-on-year growth rate at 30.4%. There is strength throughout the report with every single component posting a gain, ranging from 23.5% for sporting goods, 18.3% for clothing and 15.1% for motor vehicles down to the "weak" performers of furniture (up 5.9%), health and personal care (up 5.7%) and food/beverage (up

0.7%).

Stripping out the more volatile components (autos, gasoline, food service, building materials), the so-called “control group” which better correlates with broader consumer spending trends, rose a more modest 6.9%, but even this is still a good outcome. This means we are well set for a 7%+ annualized GDP growth figure for 1Q.

US retail sales levels versus February 2020



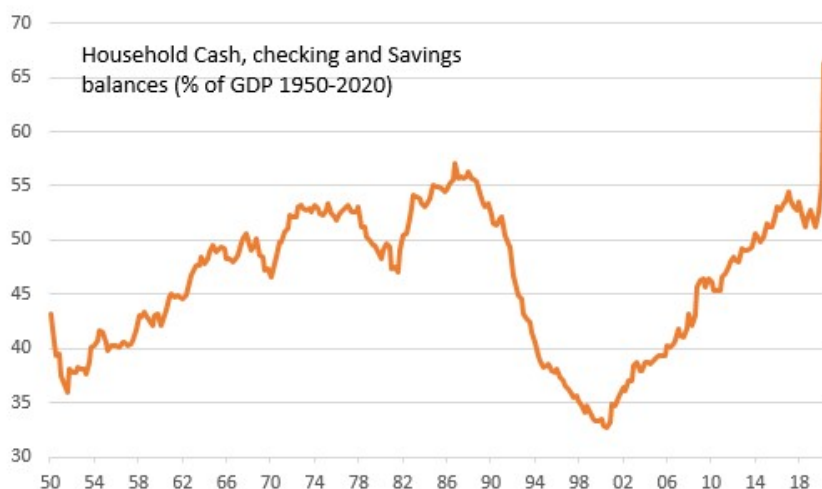
Source: Macrobond, ING

The economy is gathering momentum ever quicker

The \$1,400 stimulus payment will keep retail sales momentum strong for April and with job creation continuing to improve – note the fantastic weekly jobless claim number of 576k for April 10th versus 769k the previous week – the fundamentals underpinning the economy look very robust. Ongoing relaxation of Covid containment measures will increase the opportunities for job creation and spending in the economy with 2Q GDP growth potentially reaching double figures. This would leave the level of GDP above pre-Covid levels, underlining the effectiveness of the US response to the pandemic.

Looking further ahead the story remains very positive although we are increasingly likely to see people switching purchases away from "things" to "experiences" as we make up for lost time. Job opportunities are improving markedly while extended Federal unemployment benefits continue through to September giving the unemployed the guarantee of robust financial support should they fail to find work. Jobs shouldn't be too hard to find though, yesterday's Federal Reserve Beige Book talked of increased bonus payments to recruit and retain staff, suggesting incomes will continue growing.

US cash, checking and savings deposits as % of GDP



Source: Macrobond, ING

Spending ammunition points to an earlier rate rise

This situation should heighten the chances that households use some of their accrued savings for even more spending over coming months – the Federal Reserve Flow of Funds report showed the amount of money households have in cash, checking and time deposit accounts has increased by more than \$2tn between 1Q20 and 4Q20. This underlines our argument that the risks to growth are overwhelmingly to the upside assuming vaccines continue to be effective against any new Covid strains.

Given this remarkable growth backdrop we find it increasingly difficult to believe that the Federal Reserve will wait until 2024 before raising interest rates. Our house view is currently for a 2Q23 move, but with inflation almost certainly hitting 4% in May and likely to stay above 3% for most of the next 12 months on demand/supply imbalances and a greater housing contribution to CPI, we see the risks increasingly skewed towards a December 2022 rate hike.

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.