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

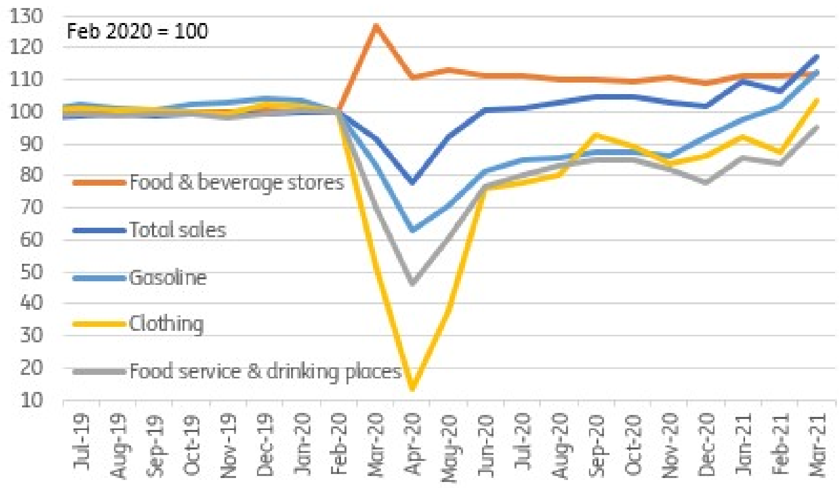
Spring sales surge points to 7%+ GDP growth

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



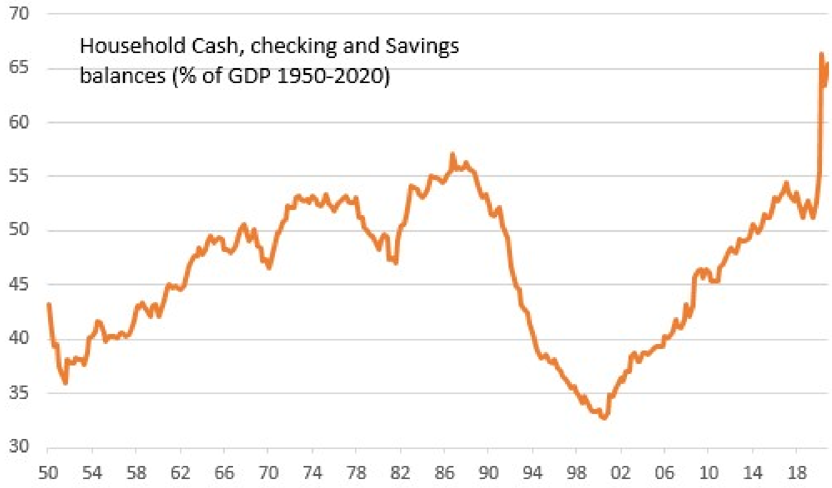
Source: Macrobond, ING

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 switiching 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.

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