US shoppers keep spending despite inflation worries

Last week's big drop in consumer confidence is not translating into weaker spending. Households are of course wary about inflation, but incomes and wealth are rising strongly and this should allow consumers to continue being the main growth driver in the economy with 4Q GDP set to come in around the 6% mark

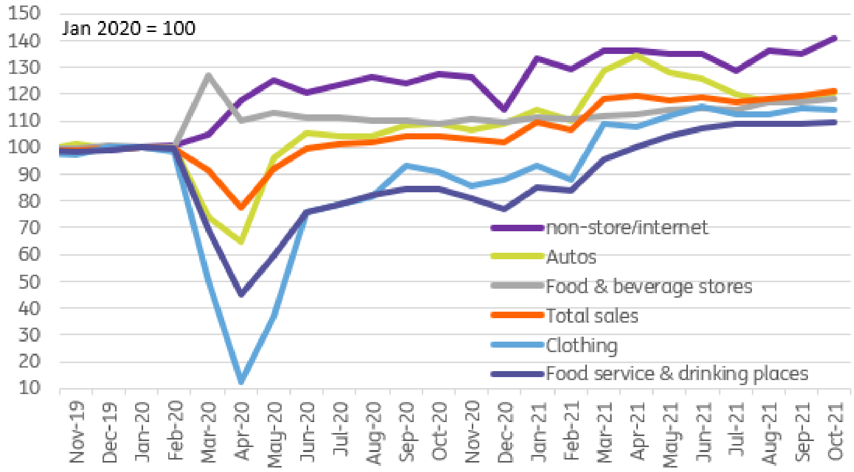
21% Increase in retail sales versus February 2020

3Q soft patch is well behind us

The US has produced another solid retail sales report with spending increasing 1.7% month-on-month in October versus the consensus forecast of 1.4%.

The details show gasoline station sales rose 3.9% due to higher prices while motor vehicles and parts rose 1.8%. This was actually on the weak side of expectations given the 6% jump in unit volume sales. Non-store retailers (mainly internet), had a particularly good month with sales jumping 4%. Most other components posted decent gains aside from clothing (-0.7%) and health/personal care (-0.6%).

Index level of retail sales versus February 2020



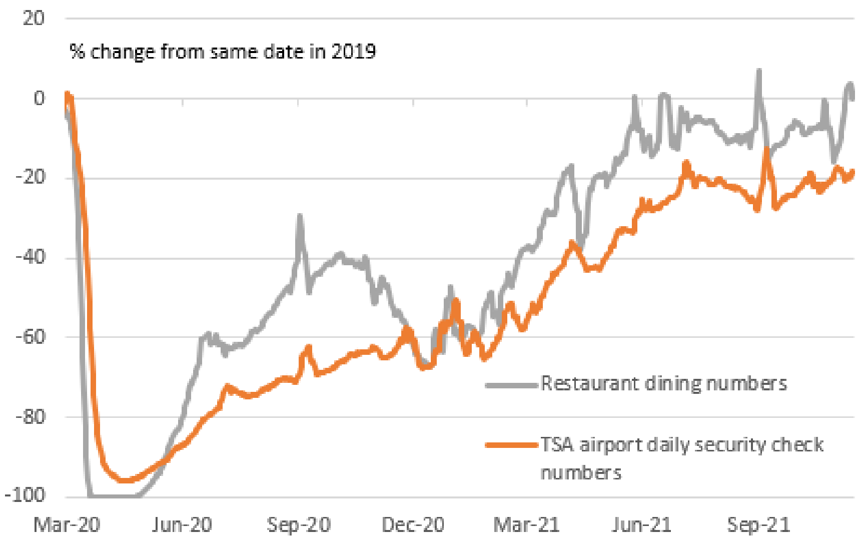
Source: Macrobond, ING

Consumer spending set to be the key growth driver in 4Q 2021

The "core" figures were especially impressive with the control group, which excludes the volatile autos, gasoline and building materials, posting a 1.6% gain versus 0.9% expectations. Admittedly there was a modest 0.3 percentage point downward revision to September's growth rates, which is now recorded as 0.5% MoM.

This metric better tracks broader consumer spending trends and confirms the solid rebound in spending that we have already seen in restaurant dining, air passenger travel and hotel stays.

Restaurant bookings and air passenger travel versus same date in 2019

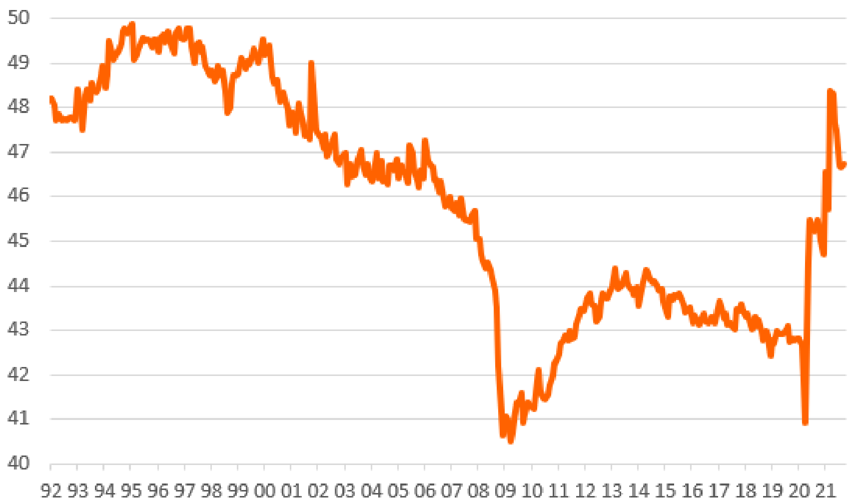


Source: Macrobond, ING

Spending growth will increasingly be focused on services

Rising incomes and household wealth are set to keep consumers spending strongly through 2022 while the return of foreign tourists will provide an additional lift. However, retail sales are likely to underperform broader spending trends over the next 12 months after having increased 21% over and above pre-pandemic levels. With leisure, hospitality and entertainment set to be the big winners in 2022, the value of retail sales as a proportion of total spending should head back towards 43% from the current 47% threshold.

Retail sales as a percentage of total consumer spending



Source: Macrobond, ING

Pressure builds for swifter Fed action

Today's report suggests GDP is on track to grow 6% in 4Q versus the Covid depressed 2% figure for 3Q and with inflation set to average around 6.5% in the current quarter the calls for a swifter end to QE will undoubtedly grow. Currently we are forecasting two Federal Reserve interest rate rises in the second half of 2022, but unless supply chains and labour shortages ease rapidly we are going to have to soon consider changing that to three.

Author

James Knightley
Chief International Economist, US
james.knightley@ing.com