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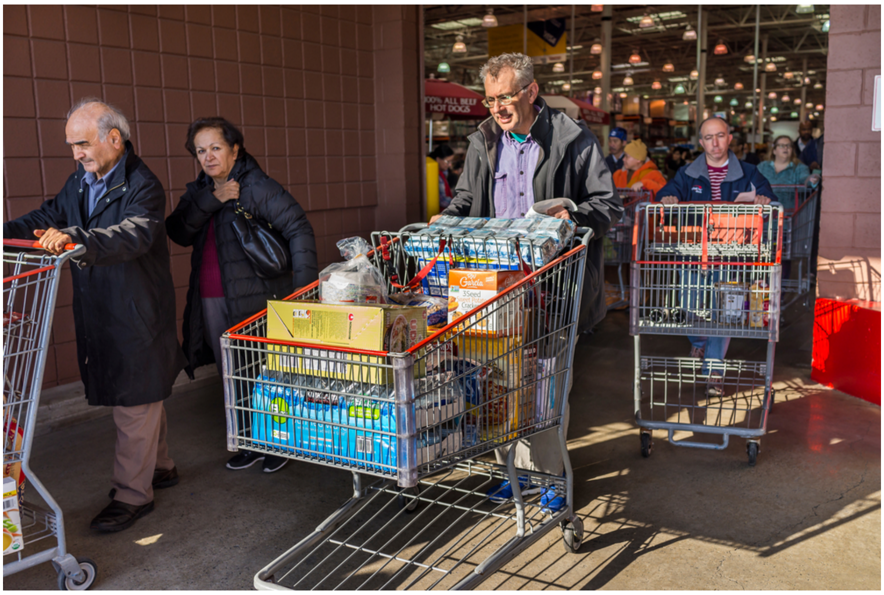
# US: spend, spend, spend

Manufacturing may be weakening, but the consumer sector remains as firm as ever. Rising wages and employment mean households have the confidence and the cash flow to keep spending. It also means that the Fed will stick with its "mid-cycle adjustment" line when cutting rates 25bp next week



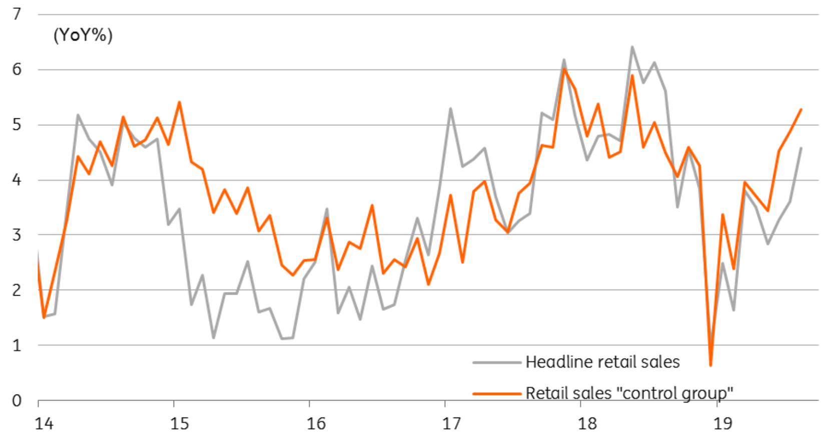
Shoppers in Fairfax, USA

## Confidence & cash flow

US retail sales rose more strongly than expected in August, posting a 0.4% month-on-month gain versus the 0.2% consensus expectation. July's growth rate was also revised up by a tenth of a percentage point. The report again underlines the point that while not everything is rosy in the US economy, overall it remains some way off recession and market expectations for aggressive Federal Reserve policy stimulus may be misplaced. Together with yesterday's inflation data, it takes the already remote prospect of a 50bp rate cut next week firmly off the table.

The main positive contributing sectors were motor vehicles and parts, which were up 1.8% MoM. Building materials posted their third consecutive strong gain, this time 1.4%, while health spending rose 0.7%, sporting up 0.9% and non-store retail was up 1.6%. Gasoline station sales were the main drag, reflecting recent price falls, declining 0.9%. Department store, furniture, apparel and restaurants also experienced weakness. Overall the data suggest that consumer spending will make another decent contribution to GDP growth in the third quarter. The "control" group that better correlates with consumption rose 0.3% MoM after increasing 0.9% in July. As such we remain on course for a 3Q US GDP figure just above 2%.

## Retail sales surge back




Source: Macrobond, ING

## Fed dissenters

This report once again highlights the fact that while the manufacturing and internationally exposed sectors of the US economy are clearly struggling, the domestic and consumer-orientated parts are doing very well. The consumer is buoyed by the fact unemployment is low, wages are rising and asset prices are firm. The fall in gasoline prices is also boosting consumer cash flows and helping to support spending on other areas.

Given the two speed nature of the US economy and the fact wage and core inflationary pressures are rising, the Federal Reserve will stick with the “mid-cycle adjustment” mantra when they cut rates 25bp next week. There is little room to move in a more dovish direction, particularly with the recent optimism on trade and the rebound in equities. Indeed we expect Esther George and Eric Rosengren to again oppose any policy easing.

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