Article | 30 June 2022

US spending breakdown fuels recession fears

US consumer spending has been revised sharply lower through the first four months of the year, and with May now reporting an outright contraction it is clear that the trajectory of the US economy is not looking good. Further interest rate rises and an ongoing squeeze on spending power mean that growth forecasts are likely to be cut with recession risks rising



Services data is disappointing given the figures on people movement from Google which suggests people have been on the move and spending money

Inflation slows, but spending downturn warrants the headlines

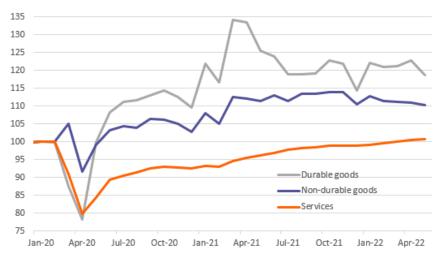
The May personal income and spending report offers some good news in that the Federal Reserve's favoured measure of inflation – the core PCE deflator – slowed from 4.9% to 4.7% year-on-year versus the consensus forecast of 4.8%, but the activity front is not pleasant viewing.

Real consumer spending fell -0.4% month-on-month rather than -0.3% as the consensus predicted, while April's reading was revised down sharply from 0.7%MoM growth to 0.3%MoM. Following the large downward revisions to first-quarter consumer spending data yesterday, it is clear that the consumer sector is not as resilient as we had hoped.

Article | 30 June 2022

The details show the bulk of the weakness was in durable goods – products that last more than three years, such as cars. This component fell 3.5%, while non-durable goods, such as food and clothing, fell 0.6%. Services spending grew 0.3%, but it wasn't enough to offset the damage elsewhere.

US real spending breakdown (Jan 2020=100)



Source: Macrobond, ING

Second-quarter GDP forecasts set to be slashed

The chart above shows that goods spending is well above pre-pandemic levels while services spending is fractionally above. We knew that the goods number was going to be poor given the vehicle and retail sales numbers already published, but we are a little disappointed that services didn't put in a better performance given the data on people movement from Google and air passenger data that had suggested people where on the move and spending money.

Given the weaker consumer spending trajectory seen in the first-quarter GDP revisions, and today's update and revisions to the monthly numbers, it is clear we are going to have to revise down our second-quarter GDP growth forecast. Last month we had been hoping for something close to 3% annualised, but we now think we will be lucky to get something close to 1%. Indeed, even if we see real spending growth of 0.1%MoM in June, this will mean that consumer spending will only have grown 1.1% annualised in the second quarter, which would be the weakest performance since the plunge seen in the immediate aftermath of the pandemic in the second quarter of 2020.

Article | 30 June 2022

Core inflation measures (ex food and energy YoY%)



Source: Macrobond, ING

Recession risks are on the rise

The dip in core inflation is encouraging, but at 4.7% it is still more than double the 2% target. The Fed has made it clear it is willing to sacrifice activity to get a grip on inflation so the prospect of aggressive rate hikes is undimmed. Consumer confidence is already fragile while the housing market is making creaking sounds, and with more interest rate hikes to come and the squeeze on spending power from gasoline prices unlikely to be eased anytime soon, the prospects for second-half consumer spending are deteriorating. There is a very clear threat that the prospect of recession is a late 2022 scenario rather than early 2023.

Author

James Knightley

Chief International Economist, US <u>james.knightley@inq.com</u>

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

Article | 30 June 2022 3

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.

Article | 30 June 2022