

US spending momentum continues as price risks mount

US retail sales dipped, but remain at incredibly strong levels even as the re-opening means there are an increasing number of options on which to spend money. Meanwhile, inflation pressures continue to rise as economic frictions show little sign of easing

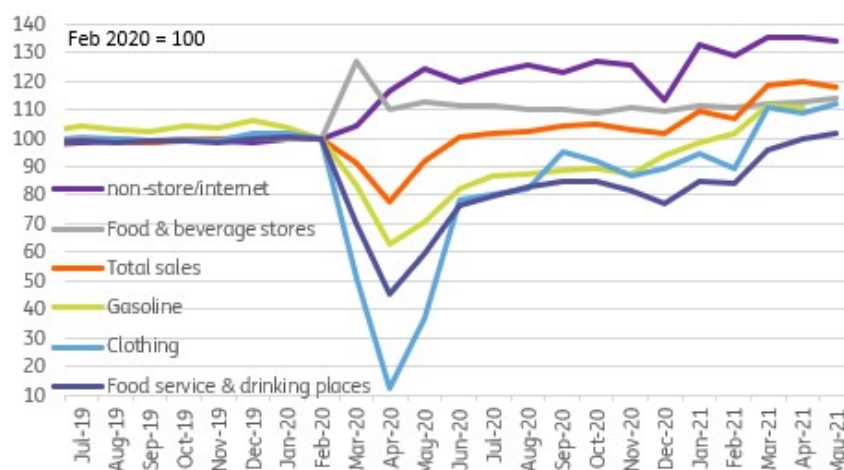


Spending softens, but from record levels

US retail sales were down 1.3% month-on-month in May, but it is important to point out we saw some significant upward revisions. April's initially reported 0% MoM figure has been revised up to 0.9% growth, so in dollar level terms the May spending number is actually a bit better.

The details show auto sales were down 3.7% MoM, which comes as no surprise. We already knew that vehicle sales slowed in May to unit sales of 17mn from 18.5mn in April. As with the housing market, it may well be the lack of supply of available vehicles that is causing the slowdown given production/supply chain issues rather than any drop off in demand.

US retail sales levels



Source: Macrobond, ING

There were broad-based falls with furniture (-2.1%), building materials (-5.9%), general merchandise (-3.3%), miscellaneous (-5.0%) and electronics (-3.4%) all reporting declines. This was partially offset by gains in clothing (+3%), health and personal care (+1.8%), food (+1%) and gasoline station sales (+0.7%). Eating and drinking also continued to make a recovery (+1.8%), the third consecutive monthly gain.

Robust foundations for continued spending strength

Coming after the significant April upward revisions and March's stimulus fueled 11.3% MoM surge this isn't a bad outcome. Moreover, retail sales is typically "only" 40-45% of total consumer spending, which in turn is usually around 65-70% of GDP. Clearly it is a very important component of overall economic activity, but with the economy re-opening there are a greater number of options on which to spend money. We will increasingly see a movement away from "things" that are picked up in retail sales, towards "experiences", such as travel, entertainment and leisure, which are not.

Consumer finances remain in great shape with incomes showing increasing signs of picking up and credit card borrowing having been paid down. Meanwhile, last week's Federal Reserve flow of funds data showed households have seen their wealth surge \$20tn since the end of 2019 with \$3tn of that increase in liquid cash, checking and time savings deposits. That is a huge amount of financial ammunition that could support strong consumer spending over the next few years let alone the next few months.

PPI indicates broadening pipeline price pressures

We have also had the producer price inflation report. It showed a pick-up in inflation with MoM price rises hitting 0.8% versus the 0.5% consensus while ex food and energy came in at 0.7% versus 0.5% predictions.

Food showed the second consecutive 2%+MoM reading while transportation and warehousing rose 1.9% MoM after 2.1%, 1.5% and 1.4% MoM increases. Other components also posted sizeable gains, which is indicating a broadening out of inflation pressures.

US YoY inflation measures (%)



Source: Macrobond, ING

Moreover, the manufacturing sector is experiencing growing corporate pricing power. The ISM reported order books continue to grow strongly, but production is struggling to keep pace. This means the backlog of orders has risen to new all-time highs while at the same time customer inventories are at record lows. This suggests pipeline price pressures will continue to build, which is another reason for us to believe consumer price inflation could stay higher for longer.

Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

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