US spending strains intensify

Today's retail sales report shows that nominal spending is flat to slightly higher, but with inflation running hot, real consumer spending is barely treading water. Third-quarter GDP growth expectations need to be trimmed further and with the Fed still hiking interest rates aggressively the 2023 recession fears are undoubtedly intensifying

Spending growth not keeping pace with price increases

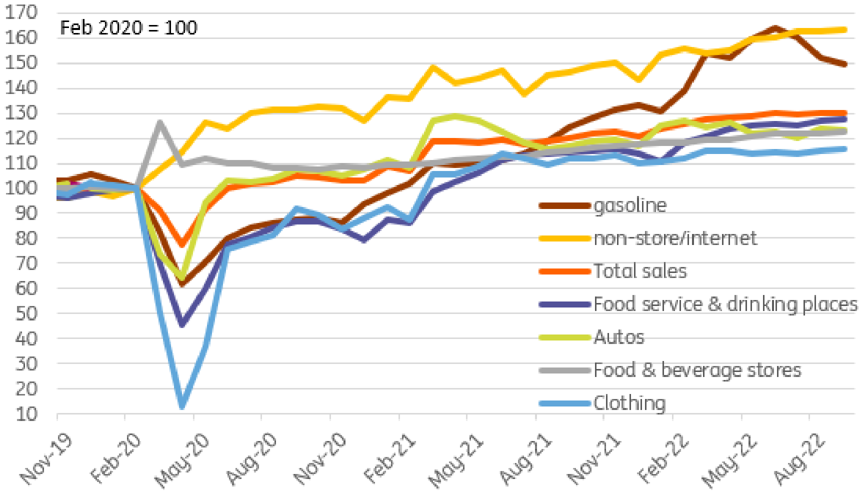
The US September retail sales report is not terrible, but it doesn't exactly instill confidence either. Headline sales came in on the softer side at 0% month-on-month versus expectations of a 0.2% increase, but the "control" group, which strips out some of the volatile series and typically better matches with broader consumer spending trends rose 0.4% MoM (consensus 0.3%) and there were some decent upward revisions. The key point though is that this nominal spending growth is not keeping pace with inflation. It implies that volume numbers are under massive pressure and recession risks are growing well before the full effects of Federal Reserve rate hikes are felt.

Mixed outcomes by sectors

Delving into the details, auto sales fell 0.4% MoM despite volumes rising decently. This is a little odd given this would imply price discounting yet yesterday's CPI report noted a 0.74% MoM increase in the price of new vehicles. We therefore have to assume people are downsizing to cheaper, more economical vehicles.

Miscellaneous stores saw sales fall 2.5%, furniture fell 0.7%, electronics were down 0.8%, gasoline fell 1.4% and sporting goods sales dropped 0.7%. Offsetting this was a 0.5% increase in non-store retail, a 0.5% increase in clothing and health/personal care plus a 0.7% increase in general merchandise.

Retail sales breakdown



Source: Macrobond, ING

GDP expectations continue to be trimmed

Nonetheless, remember today's report is all based on nominal dollar growth figures. Yesterday's inflation number showed prices rising 0.4% MoM (and core 0.6%), so sales growth appears even at the "control" group level to be all down to price rises, implying the real (volume) spending growth is effectively zero. Remember that real consumer spending growth was -0.1% MoM in July, +0.1% in August and if we get a zero for September, this works out at real consumer spending growth of just 0.6% annualised.

This would be the weakest reading since the -32% annualised drop in the second quarter of 2020 as the pandemic led to the shutdown of the physical economy and implies more cuts to third quarter GDP expectations. We will be lucky to get 1% growth at this rate. With the Fed still hiking interest rates aggressively officials are right to warn of more economic pain to come.

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