US: Retail & manufacturing data offer warning of things to come

Activity held up well in October, but there are warning signs that November and December will be tougher periods for US businesses. Covid-19 concerns, squeezed incomes and restricted mobility point to weaker consumer activity in November and December with factory output also potentially coming under pressure

Shoppers at a technology store in Houston

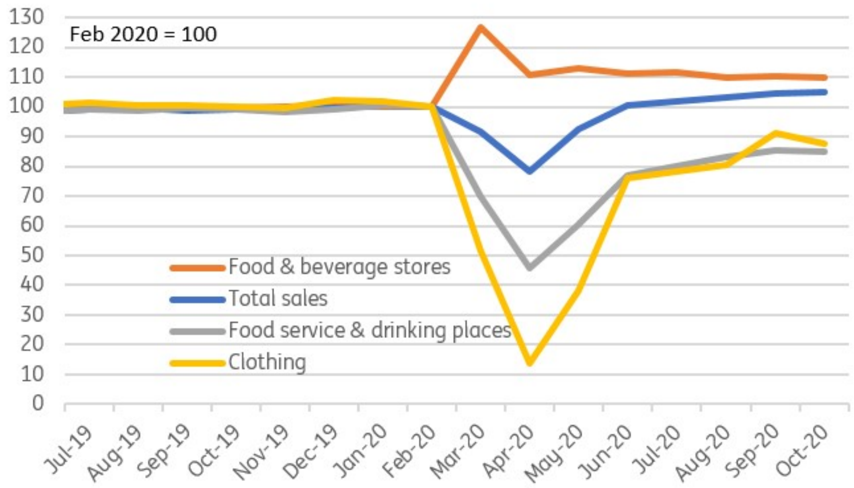
Retail sales buffeted by seasonal adjustment issues

October US retail sales rose 0.3% month-on-month versus 0.5% expected while September was revised down to 1.6% from 1.9%.

It is probably best to look at the two months combined given the ongoing reopening of the economy alongside working from home and remote schooling upsetting the usual seasonal patterns. A 2% gain over the past two months is on the face of it very respectable.

The details show clothing and sporting goods both falling 4.2%, department store sales down 4.6% and furniture down 0.4%. Offsetting this was a 0.4% gain in autos and gasoline, a 0.9% gain in building materials and a 3.1% increase in non-store retailing (internet largely).

US retail sales levels versus February



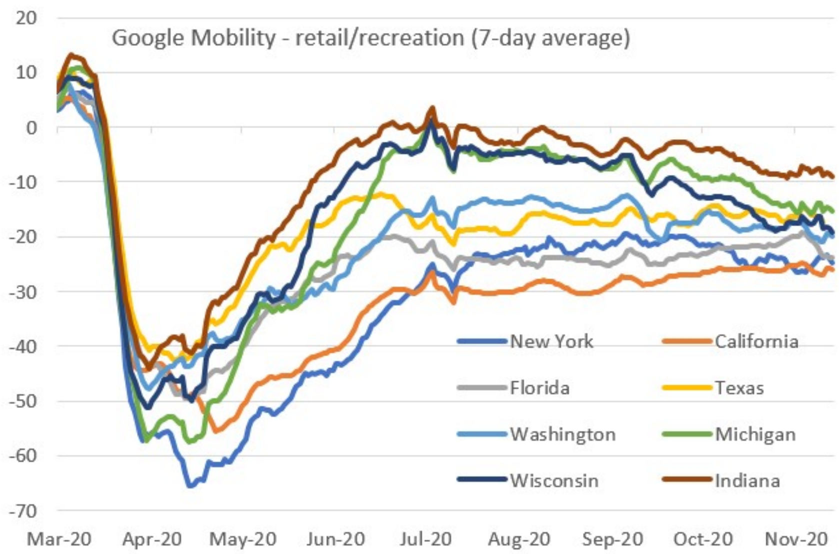
Source: Macrobond, ING

Signs of softness in core sales

That said, we should really focus on the "control" group, which excludes the volatile auto, building material and gasoline sales. This "core" figure has a much higher correlation with broader consumer spending and missed to the downside, rising just 0.1%MoM versus the 0.5% expected while there was a much bigger downward revision to September numbers to 0.9% from 1.4%.

These weaker core figures are a little concerning and tie in with the credit card/debit card spending numbers from www.tracktherecovery.org whereby there has been quite a drop in spending over the last two weeks of October.

US movement around retail & recreation is starting to wane



Source: Macrobond, ING

Covid concerns, mobility issues and squeezed incomes

With more containment measures kicking in - closure of restaurant/bars and gyms in the likes of California, Wisconsin and Michigan - likely spreading elsewhere, there is going to be a bit more downward pressure on upcoming numbers. Already the google mobility data suggest a gradual decline in movement around retail/recreation pretty broadly across US states (NY and California have so far held up well in comparison - see chart above) and this process could intensify if caution relating to the virus builds, as we suspect it will.

Should states take the decision to introduce curfews or even close non-essential retail, as we have seen in Europe, the economic outcome would be even grimmer.

Additionally, there is the tapering of federal unemployment benefits and many millions having seen state benefits expire. There is the argument that savings levels are pretty high and that can support spending, but they are skewed towards high earners who haven't been able to spend on "experiences" such as travel and entertainment.

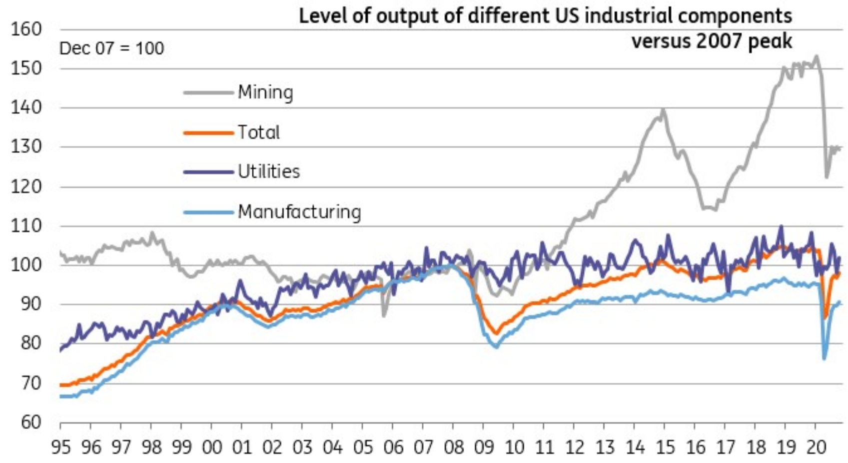
They still can't do that and so it won't offset weaker spending for low-income households.

Manufacturing looks good, but a long way to go...

The news from the manufacturing sector is better with US industrial production rising 1.1% in October, broadly in line with 1% expected figure while manufacturing matched the 1% consensus expectation. These are both good outcomes although total manufacturing output is still 4.8% points below February and total industrial output is 5.6% below February levels given the weakness in oil and gas. As such, there is still a long way to go until a full recovery has been made.

Looking towards November we have only had the Empire (New York region) survey, which dropped to 6.3 from 10.5 (consensus 13.5) so no real clear picture nationally yet, but with targeted Covid-19 restrictions increasing, we suspect gains in November will not be as vigorous as today's numbers.

Industrial production levels by component



Source: Macrobond, ING

Tougher times ahead

While there is a lot of optimism about a vaccine and a fiscal stimulus in the new year, and we certainly back that view, we acknowledge that there are increasing downside risks to near-term activity. The squeeze on household incomes and the prospect of more Covid-19 related restrictions mean that November and December could be much tougher months for retailers with outright contractions distinct possibilities. Manufacturing should hold up better, but certainly is not going to be immune to a weaker, more cautious backdrop.

We are currently forecasting 4Q GDP of 1.6% annualised with an outright 1.5% contraction in 1Q GDP.

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