Gasoline price surge hits broader US spending

The gasoline price surge has hit consumer sentiment hard as households worry about what it means for their finances. Strip out gasoline, and retail sales fell 0.3%MoM in March. On the positive side, there are signs of resilience within the data and in any case, spending was unlikely to keep pace with January's post-Omicron surge

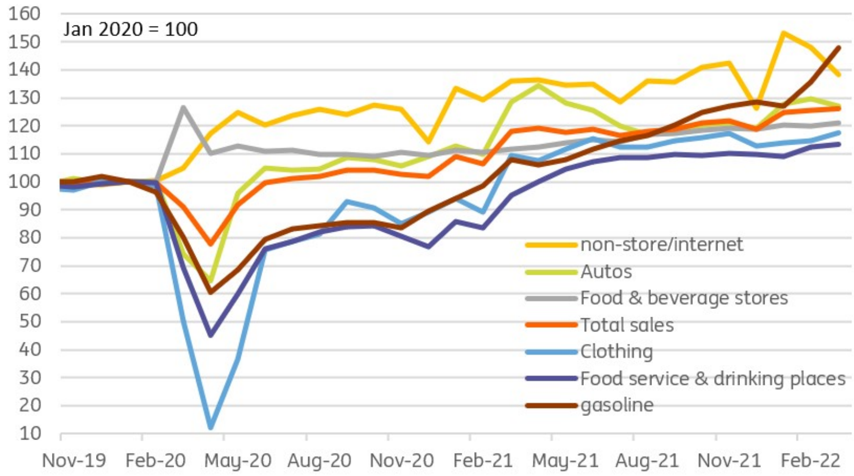
Gasoline prices have risen sharply in the States

Gasoline price jump lifts overall spending

US March retail sales are OK. Headline sales grew 0.5%MoM versus 0.6% consensus, but there was a substantial 0.5pp upward revision for February to 0.8%MoM from 0.3%. Gasoline didn't impact the numbers as much as we thought likely, with sales from gas stations up "only" 8.9%, despite the huge jump in price from $3.50/gallon in February to a peak of $4.33 on March 10. Nonetheless it is still the biggest growth contributor with gasoline station sales accounting for 9.6% of all retail spending in March.

Retail sales by component

February 2020 = 100



Source: Macrobond, ING

Weaker internet and car sales dragged down spending elsewhere

The details show electronic sales rose 3.3%, food was up 1%, clothing up 2.6% and general merchandise up 5.4%. On the negative side, car sales were down 1.9%, with the major weakness being in non-store retailers (internet only) which saw sales fall 6.4%. However, as the chart above shows, sales are still up 40% on pre-pandemic levels.

The "control" group, which excludes volatile components such as auto dealers, food service, building materials and gasoline, and has a stronger correlation with overall consumer spending patterns, fell 0.1% month-on-month versus expectations of a 0.1% gain. However, there were upward revisions that mean on a 3M annualised basis sales were up 13% and this underscores the point that consumer spending has bounced back strongly following the Omicron wave.

Signs of resilience off some positives

Given the data revisions, this report is not a bad outcome and shows the consumer remains resilient despite feeling the squeeze from higher inflation which has been dragging down consumer sentiment. While incomes aren't rising as rapidly as inflation at the moment, they are still on the up with a tight labour market set to continue supporting higher wages. At the same time, household wealth has increased by $35tn since the end of 2019, which should provide a strong underpinning for spending. Gasoline prices have also dropped back, and this too might, at the margin, help relieve some pressure on households.

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