Gasoline price surge hits broader US spending

The US consumer started the year strongly, spending with more exuberance than initially thought in January. However, gasoline prices are rising sharply, which leaves less cash in consumers' pockets to spend on other goods and services. Household consumption could become a drag on economic growth in the coming months unless pump prices drop quickly

Surging gasoline prices will leave less cash in the pockets of consumers to spend on other goods

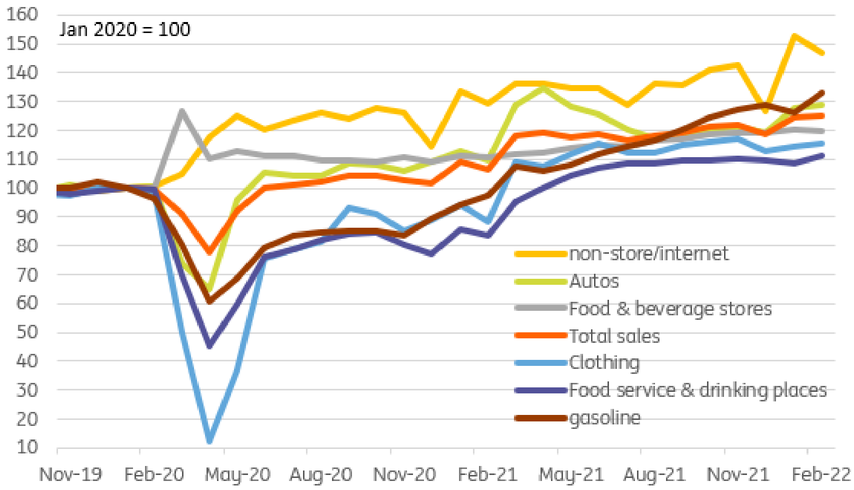
Strong start to 2022, but the gasoline spike is starting to hurt

US retail sales rose 0.3% month-on-month in February, a little below the 0.4% consensus. However, January's already huge 3.8% jump has been revised up to 4.9% as shoppers returned with greater vigour than originally thought after the Omicron wave depressed spending in December.

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 1.2% month-on-month, but this is versus an upwardly revised growth rate of 6.7%. Consequently, we can safely say that the consumer sector has started the year on a very firm footing and likely means some upward revisions are required to first-quarter consumer spending forecasts.

The details of the February report show gasoline was the main positive contributor (rising 5.3% month-on-month) on higher prices. Excluding gasoline, retail sales fell 0.2% with the main weakness in furniture (-1%), electronics (-0.6%)and non-store retailers (-3.7%). Decent gains were seen in clothing (1.1%) and sporting goods (1.7%). The chart below shows a more detailed breakdown of the path of components.

Level of retail sales by component (Jan 2020=100)



Source: Macrobond, ING

Gasoline critical to the outlook

Looking ahead, the March report will show an even more marked divergence between gasoline station sales and non-gasoline. Surging gasoline prices – the national average for gasoline is currently $4.30/gallon versus an average of $3.50 in February – will leave less cash in the pockets of consumers to spend on other goods and services. This will weaken household consumption's contribution to GDP growth in the second quarter so we have to hope that the 25% fall in oil prices seen in the past week will quickly translate into lower pump prices.

That said, rising wages and employment will boost incomes, while the build of household savings provides a solid backstop that can keep consumers spending. Consequently, we are thinking it will be more of a slowdown rather than an actual contraction story.

On balance though, the US consumer started the year very strongly, and in an environment of strong jobs growth and 40-year highs for inflation, this fully justifies a series of rate hikes from the Federal Reserve, starting today.

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