

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

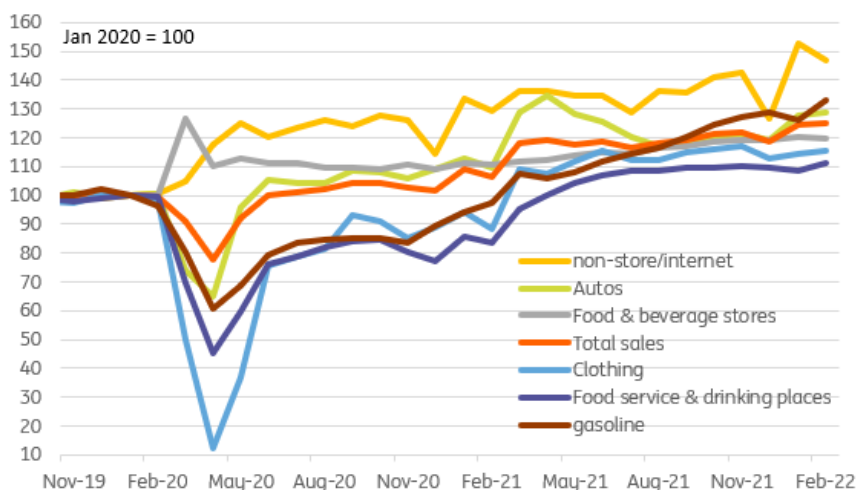
US retail sales rose 0.3% month-on-month in February, a little below the 0.4% consensus. However, January's already huge 3.8% jump has been revised up to 4.9% as shoppers returned with greater vigour than originally thought after the Omicron wave depressed spending in December.

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.

Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.