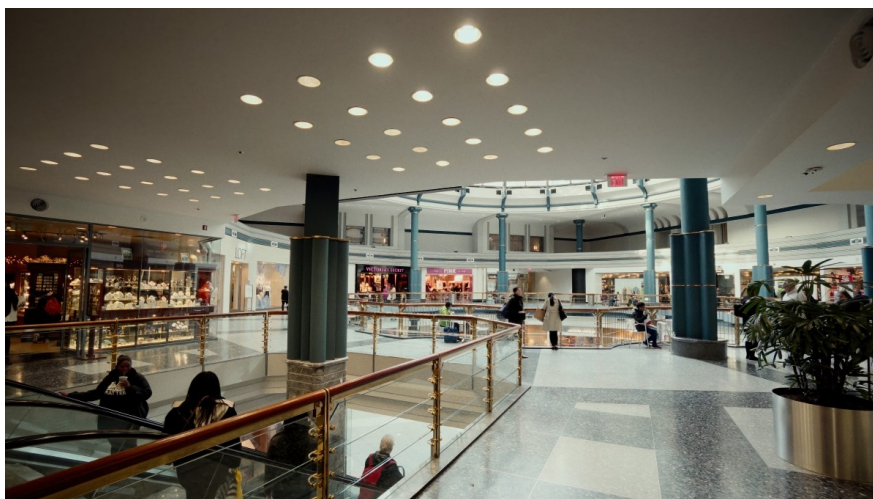


Spending stalls as US consumers feel more pressure

US consumer spending has dropped 0.2 percentage points since the start of the year as households worry about tariff-induced price hikes, the outlook for the jobs market while experiencing big swings in their wealth. Inflation fears surrounding tariffs is likely to keep the Fed on hold for now, but the case for rate cuts is building



US consumer spending remains weak on tariff-induced price hikes

Anxious households become more reluctant to spend

Real consumer spending fell 0.3% month-on-month in May versus expectations of a 0.1% gain. Following big downward revisions to first quarter consumer spending growth yesterday, this is concerning. The MoM changes so far this year have been: January -0.6%, February -0.1%, March +0.7%, April +0.1% and May -0.3%, so the only decent report was March when people went and bought cars to get ahead of the 25% tariff hike. That means spending in real terms has fallen 0.2% since the start of the year. Consumer spending is 70% of the economy and if that is no longer contributing to growth we have got a problem.

In terms of the outlook, consumer confidence is weak. Households are anxious about what tariff-induced price hikes will do to their spending power, while concerns about the robustness of the jobs market are on the rise. The volatility in household wealth has also been significant. Equity markets have recovered and are at all-time highs, but house prices nationally are starting to come under downward pressure thanks to rising inventory of properties for sale. Housing is where the

bulk of middle America’s wealth is stored. Even if the One Big Beautiful Bill is delivered the bulk of the tax cuts are merely an extension of the 2017 Tax Cuts and Jobs Act, meaning there is little new fiscal impetus to support household incomes.

Level of real consumer spending Dec 2024 = 100



Source: Macrobond, ING

Inflation fears to keep the Fed on hold until at least September

At the same time incomes fell 0.4% MoM. That is because of weaker farm income and one-time social security payments to public sector workers have ended - they had boosted incomes markedly in March and April. Inflation is muted at 0.1% MoM, but that was expected. In our view, the inflation numbers are going to start rising 0.4% MoM imminently due to tariffs.

That is likely to keep the Federal Reserve somewhat cautious on cutting interest rates in the very near-term – they want to make sure any inflation is temporary and not more permanent such as the post-pandemic period when inflation kept on rising all the way up to 9%. We think we are in a very different jobs and wages environment to 2021/2022 and energy costs remain contained even after the Iran bombing raids so we agree that inflation will be short-lived. However, the Fed will be wary given the stinging criticism it faced after saying 2021 inflation would be “transitory” when it turned out to be much more persistent. As such we think the Fed will be on hold until at least September, but the likelihood of meaningful rate cuts is growing.

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