

## US: A consumer conundrum

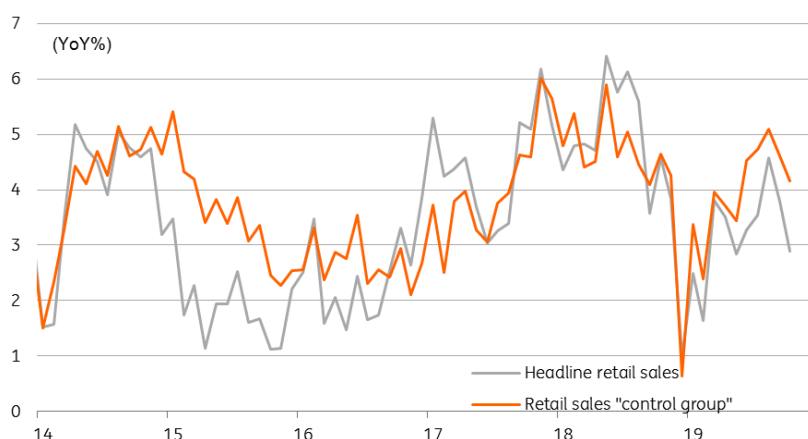
The strong jobs market and rising wages offer support to spending, but the latest retail sales numbers suggest growth is slowing



Shoppers at a technology store in Houston

US retail sales grew 0.3% month-on-month in October, a tenth of a percentage point better than expected – although when you look to two decimal places that was by the narrowest of margins (0.26% MoM). Moreover, the headline only tells part of the story. The year-on-year rate has slowed again to the slowest rate since February while the details show that the strongest component was gasoline station sales, which rose 1.1% MoM on higher fuel prices, while auto sales rose 0.5%. Strip these two components out and retail sales were only up 0.1% after falling 0.1% last month.

## Retail sales peaking out?



Source: Macrobond, ING

In fact, seven of the thirteen components experienced declines, which offers further evidence of a broader softening in activity. Clothing was particularly weak, falling 1%, while furniture sales were down 0.9%, sporting goods fell 0.8% and miscellaneous was down 0.6%. The “core” control group, which strips out some of the volatile components and has a better match with underlying consumer spending growth did rise 0.3% as expected, but September’s figure was revised down to -0.1% from 0%, so on balance we have to say it is a mildly disappointing outcome.

Overall the report is consistent with other US figures in that it suggests growth is slowing, but it certainly isn’t collapsing. The Federal Reserve is happy to wait and see the effects of the three rate cuts enacted in July, September and October, and today’s numbers suggest there is no pressing reason to act again in the near future. Spending should continue to be supported by high employment and rising wages, but the key question is whether it will be strong enough to offset weakness in business investment and net trade? We are somewhat nervous given the ongoing global weakness and a sense that the phase one trade deal may not be as broad as initially hoped. As such we continue to have a bias towards expecting more “insurance” policy easing from the Federal Reserve being implemented in early 2020.

### Author

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

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