

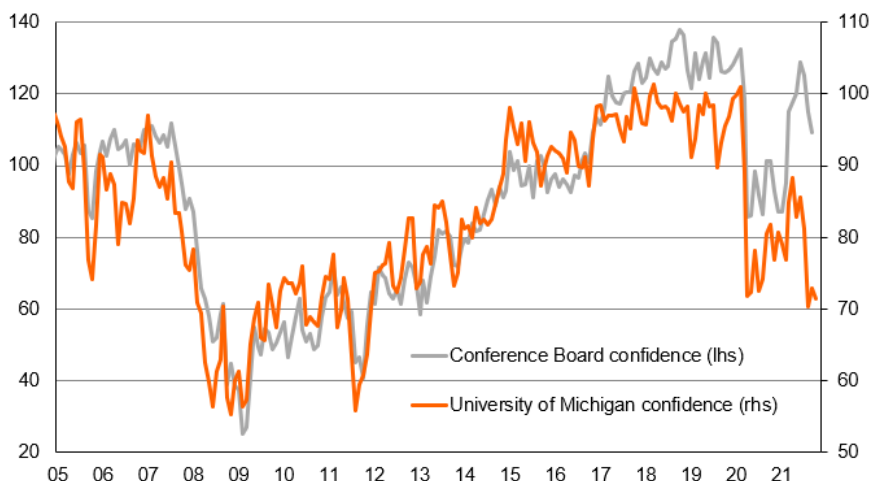
US confidence softens as energy costs bite

We had been hoping that the University of Michigan consumer sentiment index would recover now that Covid cases are falling sharply. Unfortunately it seems as though the spike in energy costs is now top of households' minds. Nonetheless, rising incomes and wealth should keep the spending story robust while tentative falls in gas prices are encouraging



The University of Michigan sentiment index has unfortunately softened in early October despite Covid case numbers falling sharply and incomes and wealth rising. Nonetheless consumers are clearly out there spending.

Consumer confidence indices



Source: Macrobond, ING

We have to assume it is related to the spike in energy costs given that gasoline prices have increase from a national average of \$3.18 a gallon in September to \$3.31 today. Remember too that this time last year gasoline was less than \$2.20 a gallon so there is certainly a hit to spending power. Meanwhile the surge in natural gas prices has received a lot of media attention given the implication for winter heating bills.

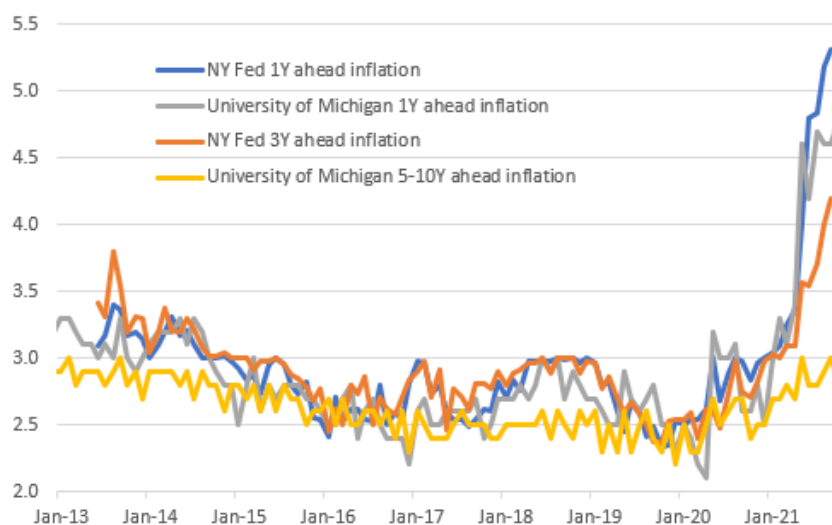
Gasoline prices \$/gallon



Source: Macrobond, ING

We can at least take comfort from the fact that the relationship between confidence and spending isn't great at the moment and as we wrote following the retail sales numbers, the income and wealth drivers provide strong support for spending while the fact Covid is abating means that more people are out and about travelling and doing leisure activities. As such we continue to expect much stronger consumer spending numbers for 4Q than we likely got in the third quarter.

US household inflation expectations



Source: Macrobond, ING

Separately, the inflation expectation series shows 1-year ahead inflation is at a 13-year high of 4.8%, but the 5-10Y inflation expectations actually slowed to 2.8% from 3%, which will provide some comfort to the Fed, but doesn't alter the QE taper story for November.

Author

James Knightley

Chief International Economist

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>.