

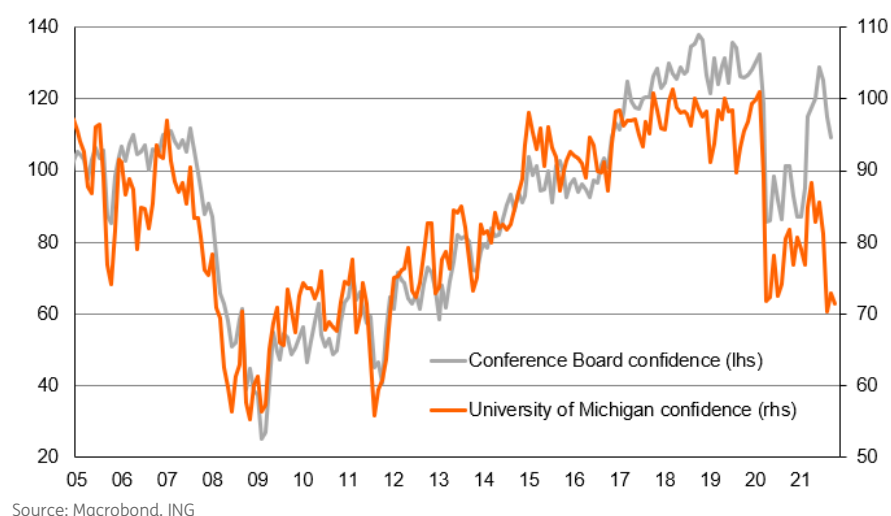
US confidence softens as energy costs bite

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



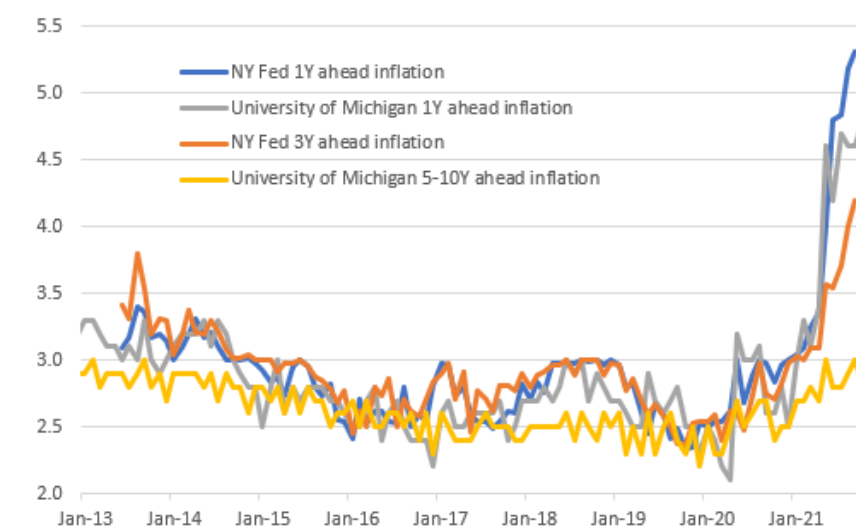
We have to assume it is related to the spike in energy costs given that gasoline prices have increase from a national average of \$3.18 a gallon in September to \$3.31 today. Remember too that this time last year gasoline was less than \$2.20 a gallon so there is certainly a hit to spending power. Meanwhile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

Gasoline prices \$/gallon



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.

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