US consumers remain resilient despite Fed dovishness

US retail sales performed much better than expected in November, suggesting households remain happy to spend despite intensifying financial pressures. The labour market also remains tight, so there is little prospect of an imminet rate cut despite the Fed's dovish shift yesterday

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Retail sales beats expectations

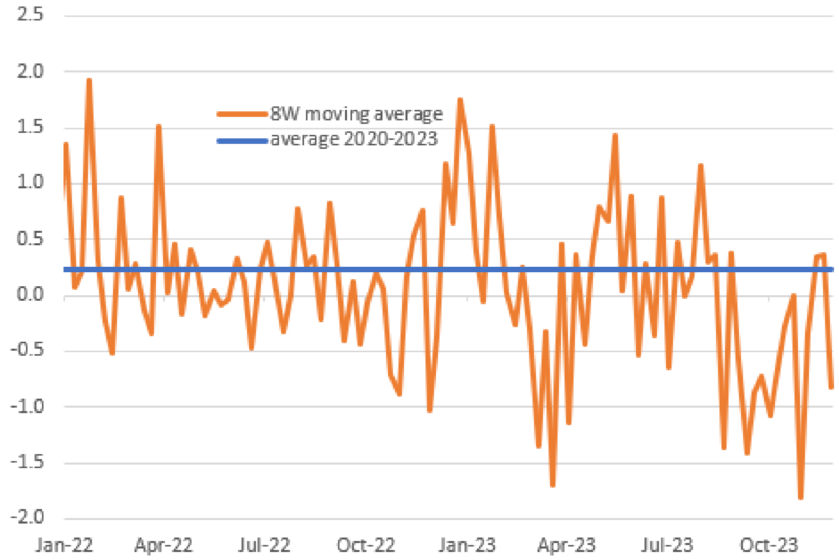
So, the Federal Reserve turns dovish, yet activity numbers continue to look good. Retail sales rose 0.3% month-on-month in November versus expectations of a 0.1% fall. The market expected that the combination of falling gasoline prices depressing nominal gas station sales and falling vehicle sales and new vehicle prices depressing auto sales would dominate in the report. We did indeed get a 2.9% MoM drop in gasoline station sales – yet somehow auto and parts sales managed to rise 0.5% MoM.

It was a mixed performance in the other components, with furniture (+0.9% MoM), health/personal care (+0.9%), clothing (+0.6%), sporting goods (+1.3%), eating and drinking out (+1.6%) and non-store retailers (+1%) performing well. It was a tougher month for electronics (-1.1%), department stores (-2.5%) and miscellaneous stores (-2%). This means that the control group – which strips out volatile components such as autos, gasoline, eating out and building materials – reported a 0.4% MoM increase versus the 0.2% expectation. However, there were some downward revisions to the history, so in dollar value terms, we are broadly in line with expectations.

But challenges are mounting for the household sector

Nonetheless, it seems consumers are still happy to spend, despite the increasing challenges being posed by flat real household disposable income, high borrowing costs, student loan repayments and the exhaustion of savings. Consequently, an imminent rate cut from the Federal Reserve looks unlikely, and we still think the first move is more likely to materialise in the second quarter rather than the first. That said, there continue to be inconsistencies with the credit card transaction data published by the BEA, which as the chart below shows, indicates retail activity being much weaker than reported in today's retail sales report– unless we are all spending with cash!

WoW% change in credit card spending less robust than retail sales



Source: Macrobond, ING

Meanwhile, initial jobless claims dropped to 202k from 221k (220k expected) and initial claims rose to 1876k from 1856k (1879k expected). This report suggests no real deterioration in the jobs market yet, so no need for action from the Federal Reserve just yet.

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