

US retail sales highlights consumer caution

US retail sales have fallen for two consecutive months, unwinding most of the pre-tariff spending splurge. Households are worried about what tariffs may mean for spending power and are increasingly cautious on the jobs market outlook. This points to an ongoing cooling in consumption



US retail sales fell 0.9% month-on-month in May as auto sales were down 3.5%

-0.9% MoM change in retail sales

Worse than expected

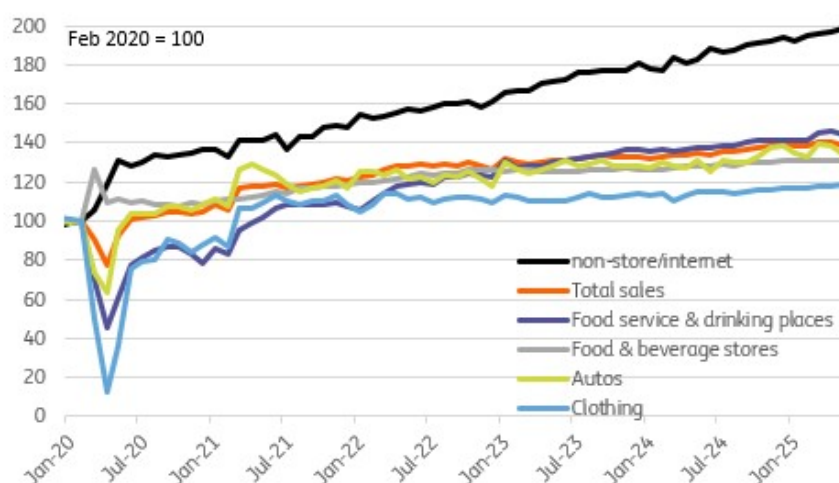
Retail sales reverse after pre-tariff jump

US retail sales fell 0.9% month-on-month in May, a weaker outcome than the -0.6% MoM figure

predicted by the market. April's figure was also revised lower to a -0.1% MoM contraction from the initially reported +0.1% MoM outcome.

This was largely a weak autos (-3.5%), building materials (-2.7%) and gasoline (-2%) story with clothing (+0.8), miscellaneous (+2.9%) and non-store retail (+0.9%) performing better. Tariff front running led to a surge in auto sales in March, but this has now completely reversed. The chart below shows different retail sales component levels indexed to 100 for February 2020 and highlights how dominant non-store (internet) retail has become in terms of being the source of retail spending growth.

US retail sales levels Feb 2020 = 100



Source: Macrobond, ING

The control group, which excludes volatile items such as gasoline, autos, food service and building materials wasn't as bad, posting a 0.4% MoM increase after a 0.1% decline in April. This metric has historically been more aligned with broader consumer trends, including services, and offers some hope that the second quarter won't be a write-off for consumer spending – note the chart below shows that retail sales accounts for only 42% of total consumer spending.

Retail sales as a % of total consumer spending

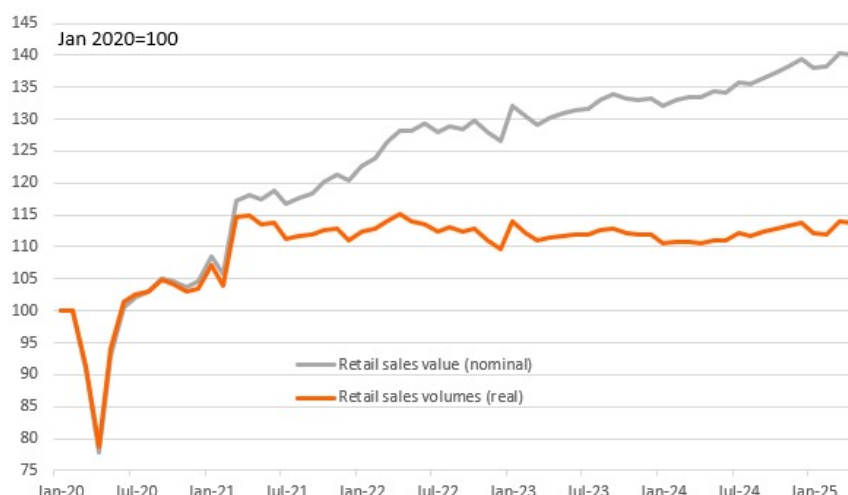


Source: Macrobond, ING

Consumer caution to weigh on growth

In aggregate today's report is disappointing since we have to remember that these are all nominal dollar growth rates. In price adjusted volume terms (which is what GDP is measured in) it paints a weak picture that reflects subdued consumer confidence readings. Households are nervous that tariff-induced price hikes will squeeze spending power while respondents have become much more cautious on job prospects and this suggests that consumer spending will continue to cool through this year.

Retail sales value versus volume



Source: Macrobond, ING

Author

James Knightley

Chief International Economist, US

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 www.ing.com.