US retail sales highlights consumer caution

US retail sales have fallen for two consecutive months, unwinding most of the 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

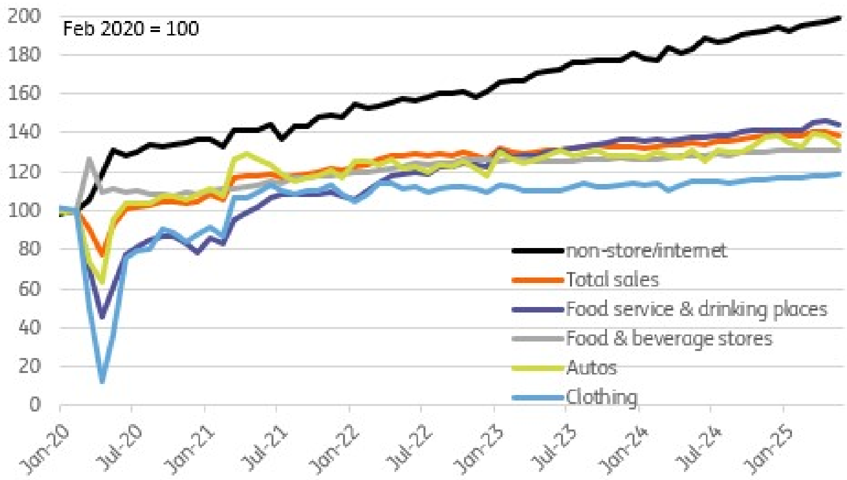
Worse than expected

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.

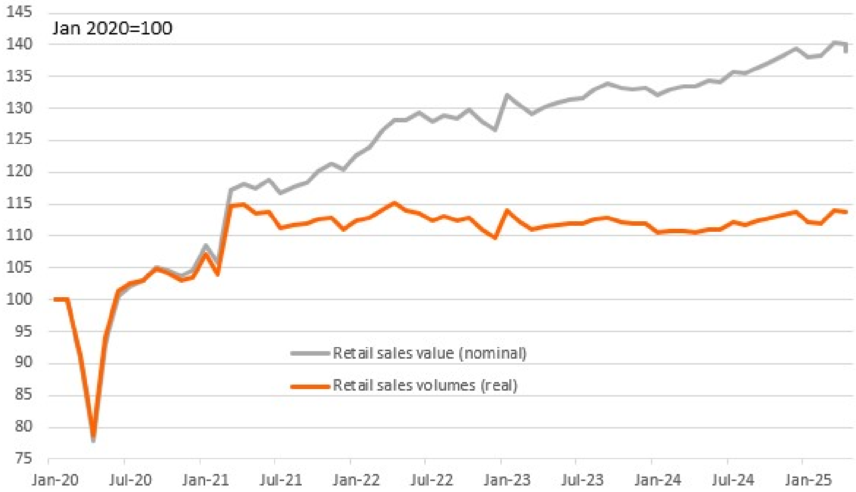
Retail sales as a % of total consumer spending

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

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