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UNITED STATES

US retail sales suggest resilience in the face of cost pressures

Higher gasoline prices lifted retail sales in April, but so far there is little sign that higher fuel costs are forcing consumers to cut back spending on other things, even though confidence is supposedly at rock bottom levels

US retail sales rose 0.5% month-on-month in April

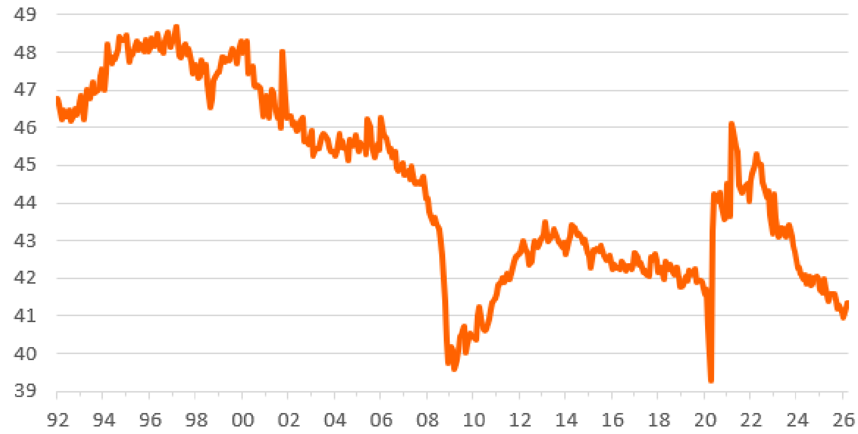
Broader spending remains resilient despite higher energy costs

Inflation data has been the main focus so far this week, but today it is retail sales. Consumer spending accounts for around 70% of all economic activity in the US and retail sales are responsible for a little over 40% of consumer spending. As such, this report is an important barometer of how the Middle East situation is impacting the real economy.

Retail sales rose 0.5% month-on-month in April, which was broadly as expected, but the details show big swings in key components. It is important to remember that these are nominal dollar figures with higher prices lifting gasoline station sales by 2.8% MoM. There were also decent monthly gains of 1.4% for both sporting goods and electronics. However, auto sales dropped 0.4%, furniture sales fell 2% and clothing dropped 1.5% MoM. Non-store retailers continue to post decent gains of 1.1%.

It is a mixed outcome, but so far there is little sign that higher fuel costs are forcing consumers to cut back spending on other things, despite consumer confidence supposedly being at all-time lows. Nonetheless, we expect that pressure to build.

Retail sales as a proportion of total consumer spending (%)



Source: Macrobond, ING

But the pressures will build, even if a Middle East deal is struck

Even if we get a deal that allows a reopening of the Strait of Hormuz soon, we suspect energy prices will remain elevated throughout 2026. On the demand side, inventory rebuilding in Europe and Asia will keep a strong bid in the market, while on the supply side we still don't really know the scale of damage to infrastructure. Then we must consider the willingness of ship and tanker owners to send their vessels back to the region, given legitimate concerns about the resilience of any peace. In an environment of weak jobs and wage growth, high energy costs will continue to eat away at spending power and this runs the risk of softer retail and consumer spending growth numbers in the second half of the year.

In terms of other data releases, there was a 1.9% MoM surge in import prices, led primarily by energy costs, but even outside those we saw a 0.7% increase in non-petroleum import prices. A 6.7% increase in industrial supplies was the main cause and may in part reflect higher shipping rates due to fuel costs. Meanwhile, initial jobless claims came in a little higher than predicted at 211k from 199k the previous week (consensus 205k). Continuing claims increased from 1758k to 1782k, but in the great scheme of things, these are low numbers and point to a continuing low hire, low fire economy. While not a terrible situation to be in, this isn't helpful for a rebound in consumer sentiment and spending.

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