



News Analysis: Americans shell out cash on retail, despite record inflation

by Matthew Rusling

WASHINGTON, May 18 (Xinhua) -- After two monotonous years of working from home amid the pandemic, Americans are opening their wallets, going out and spending - despite record inflation. But this may not last.

Retail sales, a measure of how much consumers spend on products including food, automobile and gasoline, increased 0.9 percent in April from the prior month, the U.S. Commerce Department reported Tuesday. "The surprisingly robust jump in retail sales is a very good sign," **Bernard Baumohl, chief global economist at The Economic Outlook Group, told Xinhua.**

"I think it's an indication that Americans are still willing to spend, despite the fact that they have shown to be in a dour mood when confidence surveys are taken," **Baumohl** said.

"The key thing here is to keep an eye on what consumers are actually doing, not how they describe their feelings," **Baumohl** said, referring to recent consumer sentiment polls that do not track actual spending.

The University of Michigan reported Friday that its preliminary reading of consumer sentiment for May fell to 59.1 from a final April reading of 65.2, as concerns about inflation persisted.

Tim Quinlan and Shannon Seery, economists at Wells Fargo Securities, also noted that data released last week showed that the preliminary reading of consumer sentiment dropped to a decade low. "Consumers are contending with multiple problems that are only becoming more pronounced," they said.

Spending has also been up on more expensive items, such as cars, according to the Commerce Department report.

"Auto sales, that's a big-ticket item. People who are nervous about the future you'd think would cut back on expensive purchases. Yet auto sales jumped by a pretty solid 2.2 percent," **Baumohl** said.

While there could be some slippage in retail sales for the month of May, "I don't expect it to be a steep fall," **Baumohl** said.

James Paulsen, chief investment strategist of The Leuthold Group, a U.S. investment research firm, told Xinhua: "I think the consumer is really strong."

While consumer confidence is down due to inflation, job growth is surging and household balance sheets remain "the best they've been in decades," Paulsen said, noting that excess savings stand at around 1.5 trillion U.S. dollars.

Underscoring the increase in retail spending is that Americans are ready to hit the road in record numbers this coming Memorial Day weekend - even despite record inflation - according to American Automobile Association (AAA).

"Based on our projections, summer travel isn't just heating up, it will be on fire," said Paula Twidale, senior vice president at AAA Travel. "People are overdue for a vacation."

Slated for end of this month, Memorial Day weekend will see 39.2 million people travel 50 miles or more from home, according to AAA's forecast. That's a rise of 8.3 percent over 2021, bringing travel volumes almost in line with those in 2017.

Air travel continues to rebound, up 25 percent over last year, the second-largest increase since 2010, according to AAA.

The average lowest airfare is 6 percent more than last year, and mid-range hotel rates have increased about 42 percent, according to AAA.

Record travel also occurs as oil and gas prices have hit record highs.

Still, there are signs that inflation is starting to influence consumers.

Walmart reported Tuesday that profits took a hit in the first quarter, as the retail giant struggled with surging inflation and the disruption of supply chains.

The retail spending report comes amid the worst inflation in nearly forty years, rising 8.3 percent last month from a year ago.

Diane Swonk, chief economist at the major accounting firm Grant Thornton, believes that consumer resilience means headache for the Federal Reserve, as the latest retail sales report "will only reinforce the argument for more aggressive rate hikes."

Noting that there are no doves left at the Fed, Swonk said in a blog that some within the ranks of the Fed, including Chairman Jerome Powell, are admitting "we may need to feel some pain - a rise in the unemployment rate - to douse the flames of inflation in 2022 and 2023."

Moreover, the U.S. economy is not out of the woods yet. There is an ongoing debate among economists over whether the United States will see a recession later this year or next year as Fed moves faster on monetary tightening to curb the highest inflation in four decades.

"As we look out into the rest of this year and beyond, we expect that the apparent superpower of consumers to defy gravity will eventually wear off, particularly when it comes to spending on goods," said Quinlan and Seery.

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