June 25, 2019

US Trade Fights Drag Down 3 Macro Readings

US consumer confidence, new home sales and the Richmond Fed factory gauge all disappointed expectations. While not truly top shelf readings, they play into a nearer term Fed rate cut bias pending greater developments such as movement toward the G20 on Saturday, Friday's core PCE reading, Monday's ISM-manufacturing and next Friday's nonfarm payrolls report. There was a small rate reaction after the releases and the USD largely shook them off.

Conference Board's consumer confidence index, June:

Actual: 121.5
Scotia: 130.0
Consensus: 131.0
Prior: 131.3 (revised from 134.1)

- Consumer confidence deteriorated by much more than expected this month. The nearly ten point drop returns confidence to about where it stood in January after the post October slide (chart 1). The nearly eleven point drop in the expectations component combined with an 8.1 drop in the present situation subindex to drive weakness across the details.
- This may be an over-correction owing to the sample period that positions the cutoff date for responses at mid-month. Hence the sample period might have been more skewed toward the period of Trump's Mexican stand-off than the relative improvements since. Still, deteriorations in sub-gauges like employment conditions likely reaffirm the effects of the disappointing nonfarm payrolls report for the prior month. Further, consumers are likely increasingly aware of the deterioration in US-China trade frictions.
- Consumer impressions toward labour market conditions did indeed deteriorate. The spread between jobs plentiful minus jobs hard to get fell by seven points for the lowest reading since a year ago. Consumers also said that business conditions were not as good during the month and said they would be worse in future.
- Plans to buy autos and major appliances slipped. Plans to purchase homes were roughly stable.
- Consumers' inflation expectations climbed half a point to 5.1, but this is probably the most heavily discounted of the measures of inflation expectations.

U.S., New Home Sales SAAR (000s), May:

Actual: 626
Scotia: 693
Consensus: 684
Prior: 679 (revised from 673.0)

- US new home sales sharply disappointed expectations. May's 7.8% m/m decline was nearly ten points lower than consensus expectations and only partly due to a modest upward revision the prior month.

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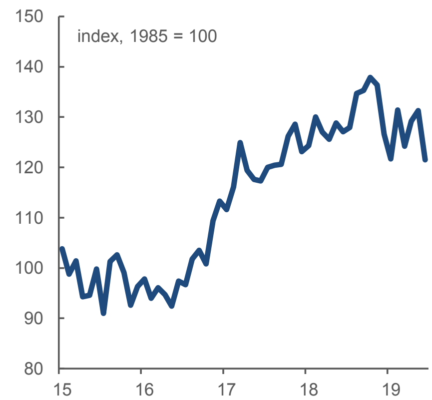
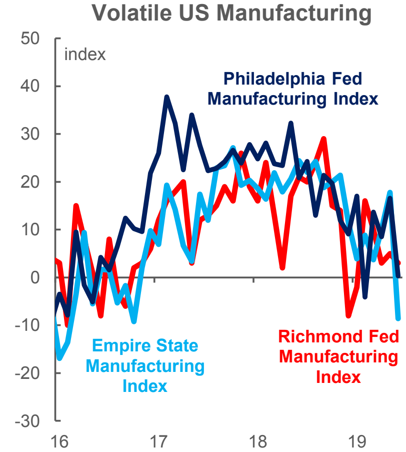
Waning US Consumer Confidence



Sources: Scotiabank Economics, US Conference Board.

Volatile US Manufacturing



Sources: Scotiabank Economics, Bloomberg.

More Downside To Come

Sources: Scotiabank Economics.

- Always be careful with the first stab at new home sales. They can be subject to large revisions. In fact, the Commerce Department said it all by noting that the 90% confidence interval on the print is between 545,246 and 706,754. Sales have been within that range pretty much since mid-2016.
- Sales fell especially hard in the west (-36% m/m) but also fell by 18% in the northeast. Sales increased by 5–6% in each of the Midwest and South.
- Months' supply climbed to 6.4 from 5.9 the prior month. That's the second consecutive rise.

Richmond Fed manufacturing index, June:

Actual: 3

Consensus: 2

Prior: 5

- While manufacturing conditions in the area around the Richmond Fed's district deteriorated this month, the report is the best of a bad lot of regional gauges. Each of the Philly, Empire and Dallas metrics fell by more, but a synchronous deterioration is evident (chart 2). The overall combination is likely to drive ISM lower on Monday and one cannot rule out a contractionary reading that would continue the deteriorating trend (chart 3). **A contraction signal would spook the Fed that has a history of explicitly pointing to ISM readings.**
- What drove the slippage were weaker hiring activity, softer wage growth and softer prices. New orders and shipments slightly improved.