August 27, 2019

Why Is US Consumer Confidence Holding Up?

- Consumer confidence beat expectations…
- ...on present, not future conditions
- CB and UofM measures are divergent
- Despite confidence, there is no 'Trump bump' to buying intentions
- Three reasons for why confidence remains high
- Consumers' inflation expectations remain absurdly high…
- ...suggesting the Fed's concerns may be exaggerated

Consumer confidence, Conference Board, August:
Actual: 135.1
Scotia: 128.0
Consensus: 129.0
Prior: 135.8 (revised down from 135.7)

We're asked to believe that with all of the escalation of trade tensions and market effects that consumers are still feeling about the best they've felt in about two decades. That's at least according to the Conference Board's measure that nevertheless clashes with the UofM sentiment gauge (chart 1). The CB survey's assessment of present conditions actually increased as an offset to the deterioration in the expectations component to net out to little change in the overall composite reading. The expectations component is still hovering around cycle highs despite the modest drop.

Why is overall confidence relatively elevated? I'll offer three reasons and each of them may very well be combined. One is that consumers can be the last to get the memo when developments are rapidly unfolding. A case in point is that confidence remained high until late 2007 when it was already becoming apparent that troubles were brewing.

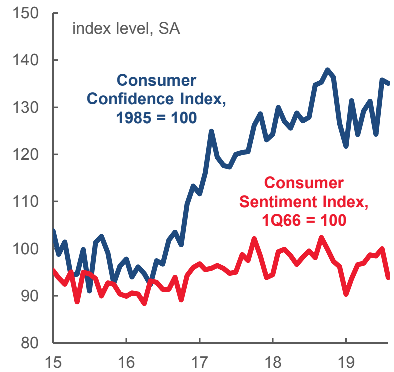
Second is that consumers are dispassionately ignoring the headlines and looking at the somewhat perverse effects upon their finances especially through labour markets that are more heavily weighted in the CB measure. Gasoline prices have tumbled to the lowest since March. The thirty year fixed mortgage rate has fallen from 4.8% in November of last year to a full percentage point lower now. Job growth remains solid. Personal income growth is accelerating to just under 5% y/y in nominal terms. Consumers may be looking at this picture and saying "what, me worry, just because Trump and Xi are going at it??" The danger to this possible approach by consumers is that their fortunes could decline with a lag if the investment-trade-market effects start showing up with the lag on variables like the unemployment rate which would not be unreasonable to fear.

But the root of the problem may be that the cutoff date for the confidence survey was August 16th and therefore the preliminary results only capture a portion of the escalation of trade tensions and market effects. Recall the timeline of developments as follows:

CONTACTS

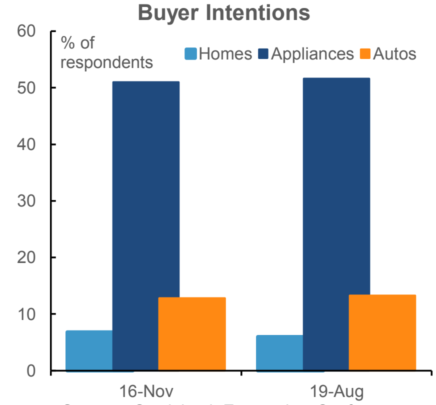
Derek Holt, VP & Head of Capital Markets Economics
416.863.7707
Scotiabank Economics
derek.holt@scotiabank.com

Divergent US Confidence Readings



Sources: Scotiabank Economics, University of Michigan, Conference Board, Haver Analytics.

So Much For A 'Trump Bump' To Buyer Intentions



Sources: Scotiabank Economics, Conference Board.

Conference Board's Consumer Inflation Expectations

Sources: Scotiabank Economics, The Conference Board.

- On August 1st, Trump announced that he would pursue another 10% tariff on Chinese imports starting on September 1st.
- On August 13th, Trump announced he would delay this tariff hike until December 15th for the portion of targeted imports that included a select number of goods like cellphones and laptops ahead of the holiday shopping season. This came toward the end of the confidence sampling period.
- Toward the end of last week and through this past weekend, China retaliated against this US provocation and then Trump lost it and jacked up tariffs again by raising the 25% rate on $250 billion of targeted goods to 30% effective October 1st and then raising the September 1st tariff to 15% from 10%.
- Then we have Trump's apparently false claims yesterday and China's rebuttal through the state press.
- The fuller effects of this escalation may be captured only in revisions to August or in September's preliminary results that land on September 24th. This starts to translate into a dicey time of the year for rocking consumer confidence.

Here are further details behind the overall confidence report:

- Jobs were perceived to be more plentiful with the spread between plentiful and hard to get rising to the highest since November 2000.
- Business conditions were perceived to be good by a wider margin of 42% of respondents than the prior month's 39.9%. That ties the response with November 2018 for the highest reading since, you guessed it, November 2000.
- When asked about expected business conditions six months from now, however, the responses begin to weaken. The share saying they would be better fell by a couple of points but is still fairly elevated.
- Plans to buy readings improved for autos, were little changed for major appliances, slipped somewhat for homes, and increased for vacation plans and mostly for travel within the US. **Chart 2 compares current plans to buy within the next six months with the same measures back in November 2016 and indicates that the election of President Trump did nothing to improve buying intentions.**
- Inflation expectations ~~remain completely absurd~~ increased a touch to 5% y/y one year ahead from 4.6% the prior month as shown in chart 3. **If the Fed is worried about consumers' inflation expectations becoming unmoored and falling too low, then the accompanying chart suggests this fear is misplaced or at least highly premature.**

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