U.S. CONSUMER CONFIDENCE DROPS IN JUNE

*The sharp decline in the Conference Board Consumer U.S. Confidence Index in June takes on high importance in light of the U.S. and global industrial slump, and weaker global conditions. As usual we caution that one month does not make a trend, but a sustained deterioration in confidence would dent consumption growth.

*The Conference Board Consumer Confidence Index declined by 9.8pts to 131.5 in June (consensus: 131.0), the lowest since September 2017 (Chart 1). June’s decline was probably exacerbated by the trade tensions with Mexico early in the month and the resulting turmorn in financial markets. Note that the index posted large declines in December and January during the heightened financial market volatility and the government shutdown, but rebounded in subsequent months.

*The present situation index declined by 8.1pts to 162.6 and the expectations index fell by 10.9pts to 94.1 (Chart 2).

*Consumers became less optimistic about employment and current and future business conditions in June, lowered their income expectations, and downgraded future buying plans. The share of consumers expecting lower interest rates increased and a greater share expected stock prices to decline in the next 12 months.

Consumers’ perceptions about labor markets softened in June (Chart 3). The share of consumers that believe jobs are “plentiful” fell to 44.0% from 45.3%, and those that view jobs as “hard to get” jumped to 16.4% from 11.8%, the largest share since November 2017. This suggests that nonfarm payroll growth likely remained well below the 2018 monthly average (223k) in June. We expect monthly job growth to slow to -125k-150k going forward, similar to other economic indicators that reflect slowing momentum after robust performance in the last couple of years.

The elevated consumer confidence since 2016 has been driven by very optimistic assessments of the labor market. If consumers’ perceptions about labor market prospects were to soften further, the strong consumer confidence would become a thing of the past.

The share of consumers expecting incomes to increase over the next six months fell to 19.1% from 22.2% and consumers downgraded their buying intentions for major appliances (46.6% of consumers in June from 52.6% in May) and autos (11.3% in June from 15.1% in May). See Chart 4. However, more consumers now plan to buy a home, presumably because of the decline in mortgage rates.

Consumption accounts for nearly 70% of GDP and our forecast for continued U.S. GDP growth is based on our expectation for continued employment gains (although at a slower pace than recent years), low unemployment, rising wages and strong consumer confidence. A sustained deterioration in any of these metrics would signal trouble for consumption and the broader U.S. economy.

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Chart 1: U.S. Consumer Confidence Index

Source: The Conference Board/Haver Analytics

Source: Monthly data. Source: The Conference Board and Haver Analytics

Chart 2: Consumer Confidence – Present Situation and Expectations Indexes

Source: The Conference Board/Haver Analytics

Source: Monthly data. Source: The Conference Board and Haver Analytics
Chart 3: Share of Consumers Viewing Jobs as Plentiful vs. Hard to Get

Source: The Conference Board/Haver Analytics

Source: Monthly data. Source: The Conference Board and Haver Analytics

Chart 4: Consumer Expectations for Income Within the Next Six Months

Source: The Conference Board/Haver Analytics

Source: Monthly data. Source: The Conference Board and Haver Analytics
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