US confidence slides, but consumers keep spending

US consumer confidence fell in April, but the jobs market is strong and tax cuts mean consumers have cash to splash

97.8

US consumer confidence drops in April

Consensus: 100.4

Worse than expected

The preliminary reading of the University of Michigan sentiment index for April has underperformed expectations, coming in at 97.8 versus the consensus forecast of 100.4 and March's reading of 101.4. The details showed that the current conditions index fell 6.2 points to 115.0 while the expectations component fell a more modest 2 points to 86.8. The weakness was probably due to softer equity markets and rising gasoline prices, but we have to remember the report remains very strong by historical standards.

In terms of where we go from here, on the one hand, equity markets have stabilised, but remain vulnerable to bad news on trade talks and geopolitics. Gasoline prices have spiked back again and mortgage rates have been pushed up by the move in government bond yields. On the other, a tight jobs market suggests upside potential for wages, while the economy continues to create jobs in significant numbers and tax cuts are putting more money in households' pockets.

We suspect the cash flow story will win out for now, implying a positive outlook for consumer spending. Next week's March retail sales numbers should also be good after a disappointingly soft February trading period. That surprise weakness was likely caused by delays to tax refunds, which have subsequently been released. This is why we think there could be some upside risk to the consensus forecast of a 0.4%MoM rise in total retail sales.

Obviously, there are risks, such as an escalation of trade tensions, but the underlying story of strong US growth, a tight jobs market and rising inflation pressures means we remain in the camp expecting the Federal Reserve to continue raising interest rates gradually. We forecast three further 25bp moves in each remaining quarter of 2018.

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