

US confidence wobbles as costs bite

US consumer confidence is being threatened by the rising cost of living. Thankfully the relationship between spending and sentiment has been weak for a number of years and the strong underlying economic position means spending will continue to grow. Meanwhile, people continue to quit their jobs in record numbers as pay rates rise

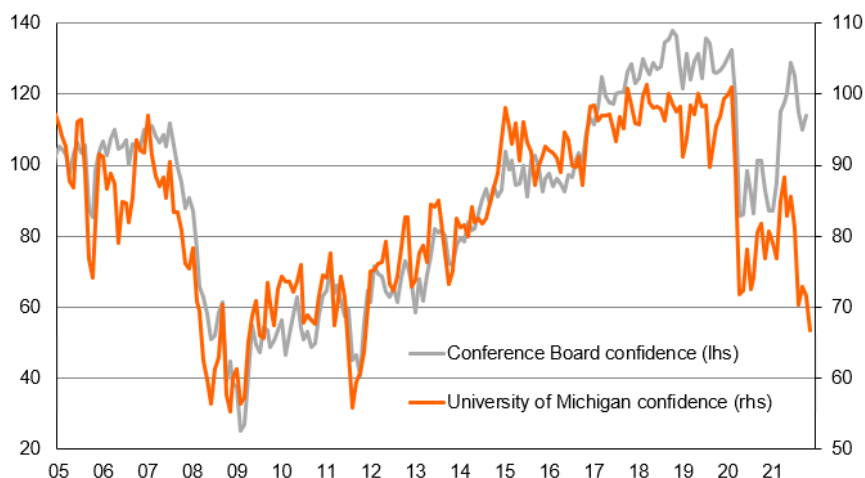


Confidence hits a 10-year low

In a major surprise move US University of Michigan consumer sentiment has fallen to a 10-year low, which underscores how concerned households are about inflation. A rise was expected given the improvement in jobs, wages and wealth, but \$3.50/gallon for gasoline is clearly an issue that households feel strongly about.

The one thing to say in mitigation is that the relationship between sentiment and spending broke down the day Donald Trump was elected President with politics driving a wedge between how households view the economic outlook. Also, the chart below shows a massive disconnect between the Michigan survey and the Conference Board index so caution is warranted in over interpreting today's number.

University of Michigan confidence versus Conference Board confidence measure



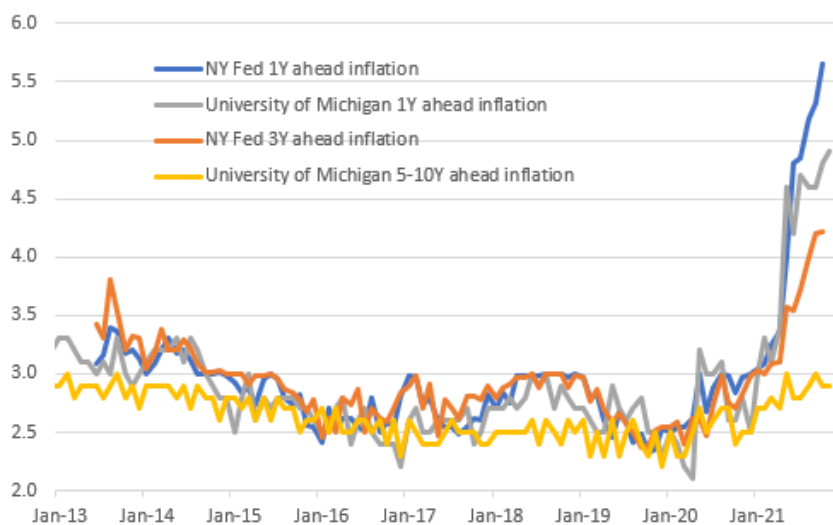
Source: Macrobond, ING

Ignore politics and be happy

For what it is worth, confidence amongst Republicans hit new all-time lows (a 17 point drop), for Democrats there was a more muted 5.3 point drop. However, for people classifying themselves as independents there was actually a 3.4 point rise. Maybe if we all ignored the politics everyone would feel much happier! In any case, all high frequency data suggest that spending has surged late September into early November with GDP expected to grow 6%+ annualised in 4Q 2021.

The details show households are increasingly optimistic on incomes and their financial balance sheet, but feel that none of this will keep pace with the cost of living – just 36% expect incomes to run faster than inflation over the coming 5 years with a declining number expecting their pensions to afford them a satisfactory standard of living. On spending it is universally agreed to be a bad time to buy a car, house or any major household item and a good time to be selling any of those things. This is an issue for the Federal Reserve as much as it is for President Biden and with inflation set to stay higher for longer at a time when inflation expectations continue to rise the case for ending QE swiftly is a strong one.

Inflation expectations not looking quite so anchored at 2%



Source: Macrobond, ING

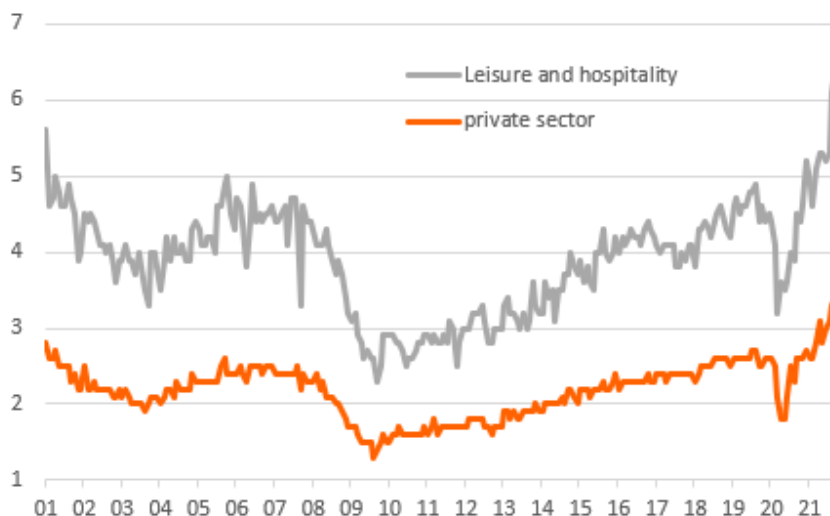
Demand for workers is dwarfing supply = higher pay

As for the job opening and labour turnover statistics (JOLTS) we have a new high for the quit rate – the proportion of people quitting their job to move to a new employer. 4.4 million people quit their job in September, equivalent to 3.4% of workers moving to a new job in the private sector, with 6.4% doing so in the leisure and hospitality industry, 4.4% in retail and 3.6% in trade and transportation.

This feeds the narrative that companies are paying up to compete for staff in an environment where labour supply is tight with firms also increasingly paying staff more to retain them. This has already been seen in the huge jump in the employment cost index in 3Q while the National Federation of Independent Businesses reports record numbers of firms expecting to raise worker compensation in coming months.

Job openings – the number of vacancies – remains extremely elevated at 10.4mn so based on the October's payroll increase it will take 20 months to fill these vacancies. We all remain hopeful that the labour participation rate will increase soon – maybe the expense of Thanksgiving, Christmas etc will incentivize people – but based on the current data wage pressures will intensify.

The quit rate continues to climb – proportion of workers quitting their job to move to a new employer



Source: Macrobond, ING

Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.