US sentiment holds firm despite banking stresses

US consumer confidence improved in March despite concerns about bank failures and what it might mean for deposits. It supports a narrative of near-term spending strength, but higher borrowing costs and reduced access to credit are major headwinds while falling house prices and the potential restart of student loan repayments are additional challenges

US consumer confidence strengthened in March despite unsettling news surrounding banks

Consumers shrug off banking worries

The Conference Board measure of US consumer confidence strengthened in March, rising to 104.2 from an upwardly revised 103.4 (consensus 101.0). The present situation index dropped from 153 to 151.1 while expectations rose from 70.4 to 73.0. This is a positive surprise given the unsettling news surrounding the banks and concerns about the safety of deposits within them. The decline in equity markets was also expected to drag the index weaker. Instead sentiment improved, which may be a function of lower fuel costs, the ongoing tight labour market and rising wages.

This Conference Board's consumer confidence index has historically reflected labour market strength more than the University of Michigan measure, which seemingly is more sensitive to cost of living/inflation issues. Nonetheless, it is an encouraging sign that households are prepared to shrug off the bad news from the banks (the cut-off for survey responses was March 20, which was just over a week after Silicon Valley Bank failed). Assuming stability returns to the banking sector, the improvement in sentiment points to ongoing healthy consumer spending growth in the near term.

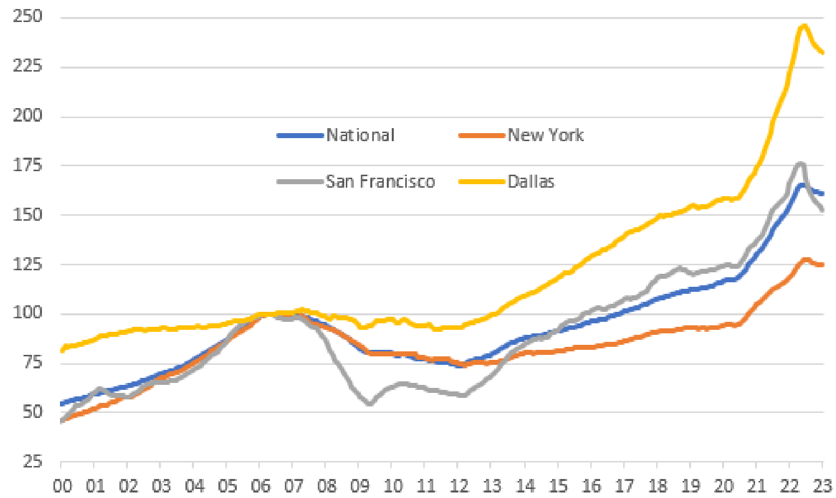
But pressure on household finances will likely grow

Longer term, the lagged response to higher borrowing costs together with the likelihood that credit availability will become more restricted due to the fallout from recent bank turmoil means we retain a cautious bias on the prospects for consumer spending in the second half of 2023. In this regard the current deliberations in the Supreme Court surrounding student loan repayments is also an important story. Before the pandemic struck the average monthly payment was nearly $400, so if the challenge to President Biden's debt forgiveness plans succeeds and repayments restart from September, the hit to the household finances for millions of Americans would be very hard indeed.

Falling house prices are another challenge

We also had US house prices data earlier. The S&P Case Shiller house price index fell 0.4% month-on-month nationally in January, the seventh consecutive monthly fall. This leaves prices 2.6% higher than in January 2022. Out of the 20 major cities in the US, only Miami experienced a MoM price rise in January (0.09%). Every other city experienced a fall with Las Vegas, Seattle, San Francisco, Phoenix and Dallas all experiencing price falls of 1% or greater. In fact, San Francisco prices are currently 13% below their May 2022 peak while Seattle prices are down 11%. Cities on the Northern and Eastern side of the US are holding up better, with New York experiencing a 2.3% decline from the peak so far, Chicago and Cleveland down 1% and Atlanta down 1.7%.

US house price index level, 2006=100



Source: Macrobond, ING

Further price falls to come

With mortgage rates having doubled over the past 12 months, resulting in mortgage applications halving, we expect the gradual downtrend in prices to continue. We see little reason for a turnaround in demand anytime soon given that this time last year a monthly repayment of $1750 would finance a $400,000 30Y fixed rate mortgage. Today a monthly mortgage payment of $1750, would only get you a mortgage of $280,000. Only a lack of housing supply prevents a more rapid correction in prices. Should the economy slow and unemployment start to rise the risk of more pronounced price declines will obviously increase. Moreover, to return the US to the long-term house price-to-income ratio for 4.2 times income, prices need to fall by around 20%.

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