

May sentiment slump overstates the negativity of the US consumer

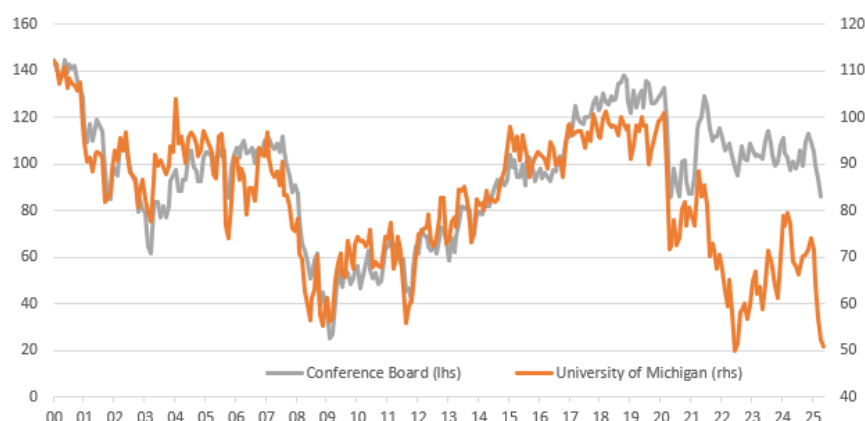
The weakness in the University of Michigan sentiment measure is down to the timing of the survey. The subsequent China-US trade truce and rallying stock markets should mean the final May print is firmer. Nonetheless, the consumer is not in a happy place right now



US consumer sentiment fell on expectations of higher inflation

We have had a softer-than-expected preliminary May University of Michigan consumer sentiment report although it is important to point out that most of the interviews were conducted before the China-US trade truce was announced early Monday morning (survey period was late April-May 13). That likely explains why the 1Yr ahead inflation expectations jumped up to 7.3% from 6.5% and the 5-10Y expectations hit 4.6%, both well above the readings seen when we actually had soaring inflation in the post-pandemic period.

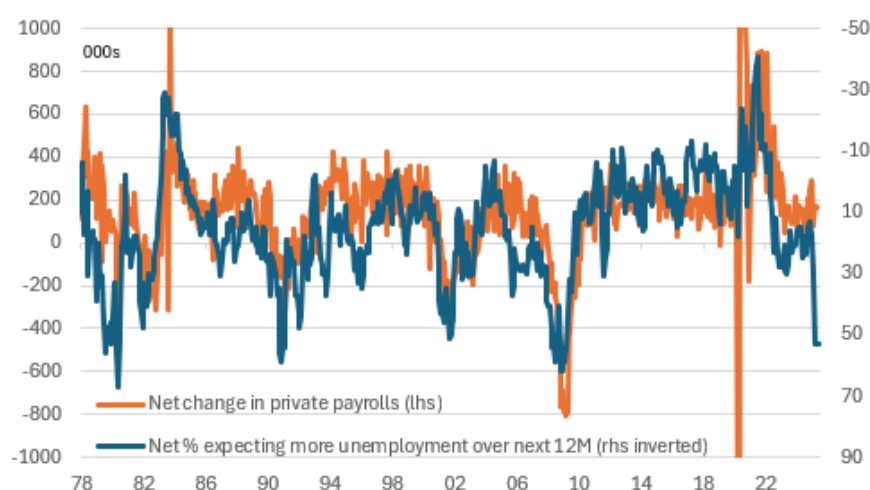
US consumer confidence



Source: Macrobond, ING

The sense of rapid inflation eating into household spending power coupled with job market angst after a period of equity market falls drove the decline in sentiment to new lows today. Both the current conditions and the expectations indices fell, resulting in a 1.4 point drop in the headline reading to 50.8 versus consensus expectations of 53.4.

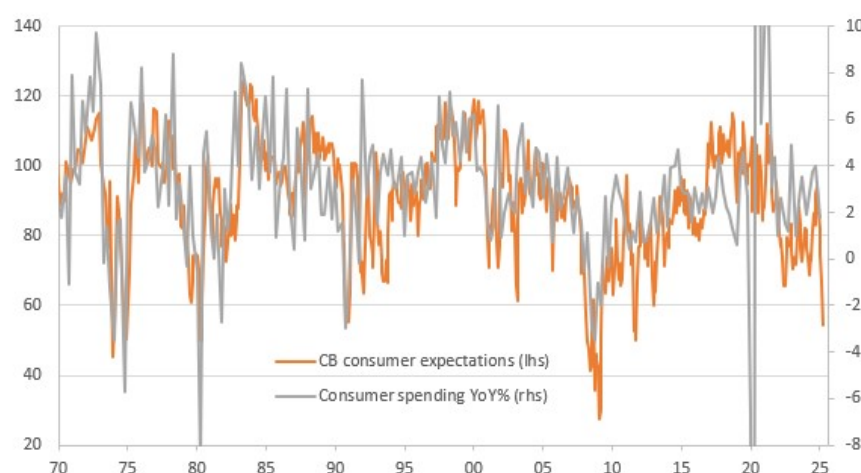
Households expect unemployment will climb



Source: Macrobond, ING

Equities have had a strong run in recent weeks and the de-escalation of US-China tensions may mean that the final reading for May, which will be published in a couple of weeks, will be better than this one. Nonetheless, consumers are right to expect higher prices from tariffs, while government spending cuts and a cooling job market will continue to cause concern. The Federal Reserve believes that there has been a breakdown in the relationship between sentiment and spending, but the chart below of the Conference Board measure suggests it is still pretty good. Moreover, the scale of the falls in confidence are significant and we would have to say the risks to spending are going to be skewed to the downside for a while.

Spending and sentiment link remains robust



Source: Macrobond, ING

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