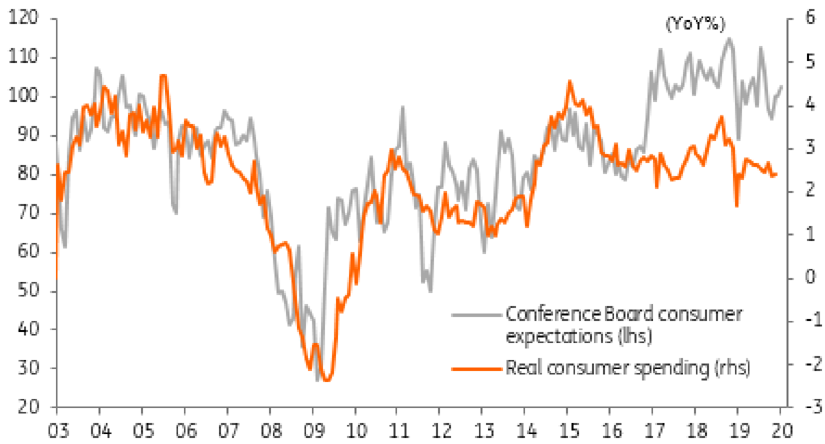
US consumer riding the wave

The conference board measure of confidence is excellent, rising to 131.6 - close to all-time highs. This is understandable given record low unemployment, record high home and equity prices and the lowest national gasoline prices since last March. Weak wage growth and global health worries may limit the transmission to spending

The Conference Board measure of consumer confidence rose to 131.6 in January's preliminary report, up from 128.2 in December (initially reported as 126.5). This is the best reading since August and is not far from the cycle high of 137.9 seen in October 2018. The details show strong gains for both the present situation component and expectations with the Conference Board stating that improvements were “driven primarily by a more positive assessment of the current job market and increased optimism about future job prospects”.

To be fair, the fact that the report has come in so strong shouldn't be too much of a surprise given the US has the lowest unemployment rate since the late 1960s, record high home and equity prices and the lowest national gasoline prices since last March. As such, households have job security, their balance sheets are in a great position and they perhaps a bit more cash in their pocket after filling up at the gas station.

Spending has undershot sentiment since President Trump's election victory



Source: Macrobond, ING

The one area of weakness remains wage growth, which has dropped back to 2.9% year on year, having flirted with the prospect of breaking above 4% early last year. Therefore, to get the kind of substantial increases in real consumer spending growth that this level of confidence has historically been consistent with, we are going to need to see households run down more of their savings. As the chart below shows, the correlation between confidence and spending hasn't been great since the latter part of 2016 and we see little reason for this to change in the near term. As such we are only cautiously optimistic on consumer spending for 2020 - we are likely to see growth closer to 2% rather than 4%.

We are also somewhat cautious due to the uncertainties surrounding the coronavirus outbreak - the cut-off for the Conference Board survey was January 15 so there is no reflection of very recent events. So far it has merely translated into a small US equity market correction, but should health worries start to increase this runs the risk of altering consumer sentiment and behavior. As such today's report may well be a high water mark.

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