

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.

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 www.ing.com.