

# Economy

Focus US  
N° 2019 - 44

## American households: confident but not overly

Friday 22 November 2019

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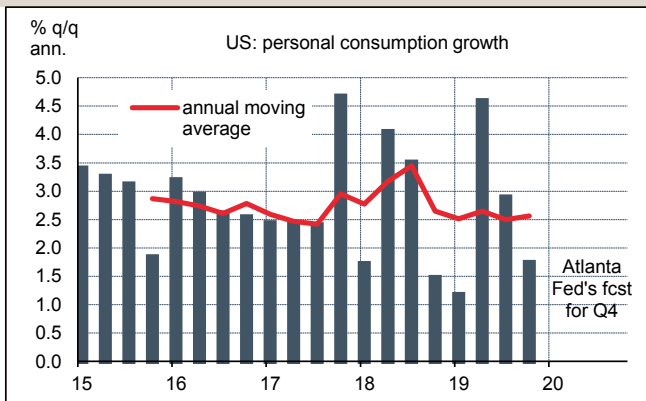
*While businesses are being prompted to cut their spending by uncertainty, households are consuming at a constant rate. This stability is keeping total growth anchored and is reflecting income growth, particularly that from labour. But it is also being driven by a high degree of confidence, which has returned to its pre-financial crisis levels. With more confidence, consumers are better able to smooth income by drawing on savings and credit. That said, households are less optimistic on future conditions than at the end of the 1990s. This is guaranteeing a certain level of caution which reduces the risk of a correction.*

### The week's focus

For the last year, the slowdown in US growth has largely been due to business spending. Household consumption is volatile in the short term but around a solid trend. Again this year, there seems to be a residual seasonality with significant momentum in Q2/Q3, following a soft patch in Q4/Q1. On this basis, we will need to take a cautious approach to interpreting a slowdown in consumption in the next few months. The Atlanta Fed anticipates an increase in personal spending of only +1.7% (annualised) in Q4. But leaving these slip-ups aside, the consumption trend has been fairly stable since 2015 (lhs chart). This reflects a solid increase in income and a high level of confidence. What can be said about this confidence specifically?

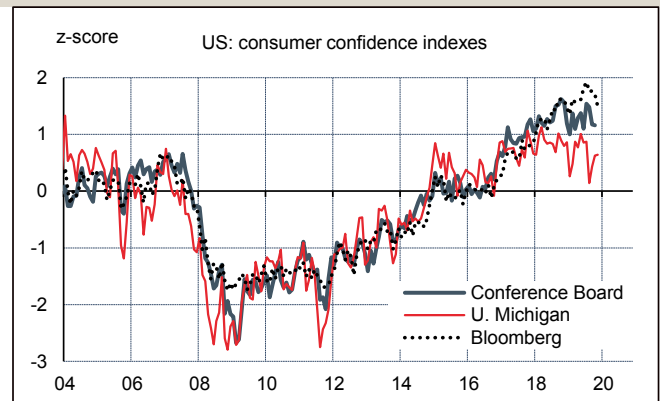
To assess it, we have three key sources, two monthly (University of Michigan, Conference Board) and one weekly (Bloomberg). The three indices, once normalised, are above their historical average (rhs chart). As a rule, they show a similar level but for the last 12 months or more, a dispersion has emerged, which generates a realignment risk (but it is not clear in which direction). The UoM index is currently the lowest and also the most volatile. The Bloomberg index is the highest although it has eroded of late. The CB index, between the two, largely reflects employment conditions. An explanation of the gaps may be found in the weight given to conditions going forward. We note that households are very optimistic on the current situation, but their view of the future, although positive, is below the heights reached in the second half of the 1990s. This may be no bad thing given that this period (it was the time of the "new economy") spawned excessively high expectations, which were then unfulfilled. When confidence is too high, it may signal that households are incorrectly assessing their income prospects and run the risk of reducing their savings too much. This is not the case at the moment. The savings rate is above its average (8.3% vs 7.3%). The solid consumption pace thus stands more chance of being sustainable.

US: growth in private consumption



Sources: Thomson Reuters, Bloomberg, ODDO BHF Securities

US: consumer confidence indices



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## Economy

- In **October**, industrial production saw one of its sharpest contractions in the past five years (-0.8% m-o-m). Year-on-year, the decrease came to -1.1%. In the cold snap in industry in 2015, production hit a low after a contraction of 4.1%. Around half of last month's poor figure is attributable to a negative shock that is now over - the strike at General Motors which lasted around forty days over September and October. After a contraction of 5.5% m-o-m in September, automotive production (5.6% of the total) dropped 7.1% m-o-m in October. After this kind of event, lost ground is generally made up fairly quickly. The industrial sector is contending with a difficult environment for reasons that are both general (trading uncertainty, global production chains) and specific (oil, Boeing, GM), but does not point to an alarming situation. The ratio of inventory to sales, which had risen last year, is no longer deteriorating. This shows that there is no urgent need for destocking and therefore reducing industrial activity. Its level is down compared to peaks reached in 2015 and early 2009.
- The first industrial confidence indices in **November** continued to show stagnation rather than deterioration. The New York Fed's index is, on an ISM-equivalent basis, at 51.3 and the Philly Fed's at 53.7.
- Retail sales in **October** rebounded by +0.3% month-on-month, thereby wiping out September's contraction. Core sales (stripping out cars, gasoline, restaurants and building materials) are increasing at the same rate but the previous months have been revised down slightly. The carry-over at the start of Q4 is only at +1% on an annualised basis while it was at nearly 6% at the start of Q3. A slowdown in consumption is therefore shaping up, but there is nothing significant as yet (see p.1).
- While consumption is slowing, residential construction fared very well in **October** with a +3.8% rebound in housing starts over the month to 1.31 million and +5.0% in permits to 1.46 million. The individual home segment confirmed its recent pick-up with a +2% increase in housing starts (to 936,000) and +3.2% in permits (to 909,000). While homebuilders' confidence as measured by the NAHB dipped slightly in **November** to 70 (-1 points), it is still very high, indicating that favourable momentum in the sector is set to continue.
- Existing home sales rebounded in **October** by +1.9% month-on-month, wiping out much of September's decline (-2.5%).

## Monetary and fiscal policy

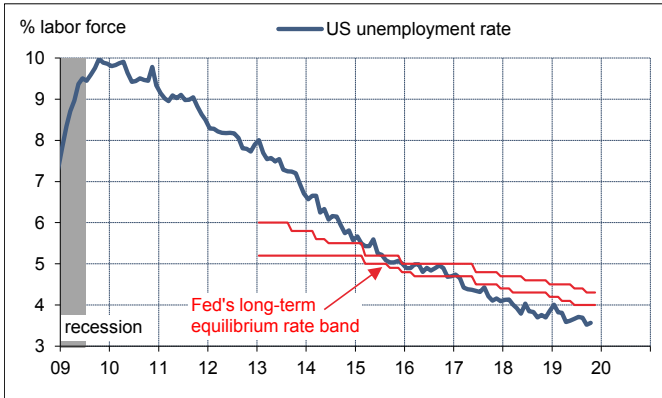
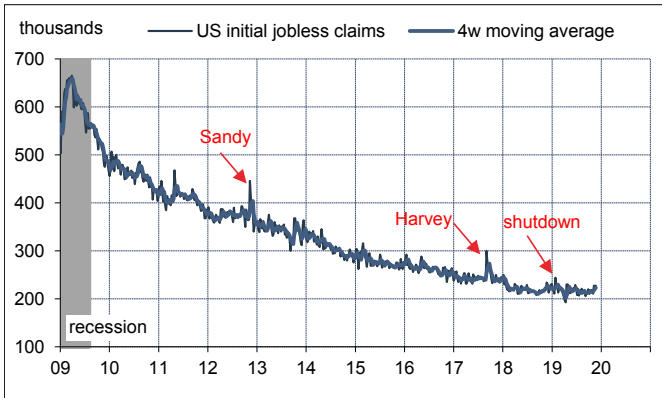
- On **18 November**, president Trump received at the White House one of the worst "enemies" of the United States (to use the term he employed in August), namely the president of the Federal Reserve. According to Mr Trump's tweets, this cordial meeting addressed virtually all the issues: interest rates, including negative interest rates, the dollar, inflation, trade with China, etc. The president is believed to have berated the excessively high level of US rates compared to other countries. His theory is that the US should have the lowest rates in the world. The press release issued by Mr Powell indicates that his comments on monetary policy were in line with his recent hearings in Congress (see last week's US Focus).
- Rumours continue to swirl around the state of the trade negotiations between the US and China. The most recent ones imply that persistently divergent opinions could prevent a "phase-one" agreement from being signed this year but that, in this case, the US could nonetheless suspend the tariff hikes scheduled for 15 December.
- The meetings of the Fed meeting on **29-30 October** clearly confirm that the FOMC members now expect to leave rates unchanged in the next few months, as rate levels are deemed to be "well calibrated".

## The week ahead

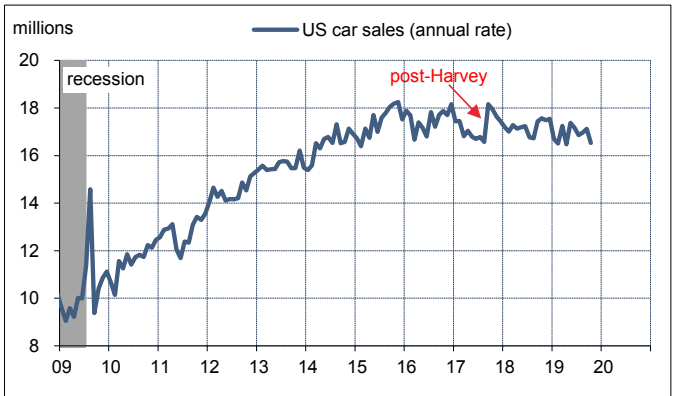
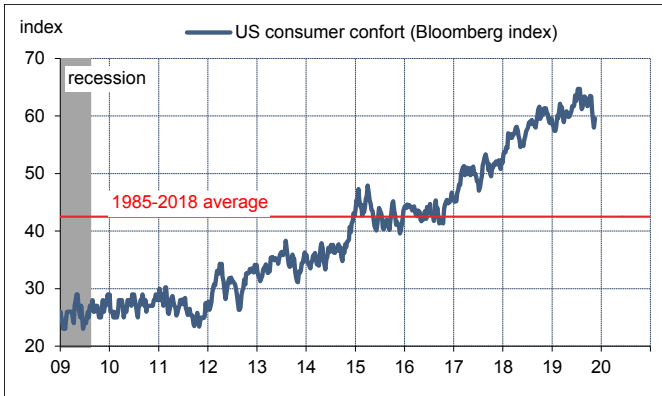
- The week will be shortened by the Thanksgiving holiday on **Thursday 28**. Prior to that, various consumer-related data will be released: the Conference Board confidence survey, the equivalent survey from Bloomberg, which is weekly, consumer spending, with the personal consumption expenditure deflator. The Fed will publish its Beige Book on **27**, ahead of the FOMC meeting on 11 December. At this stage, the implied probability of a status quo is close to 100%.



Appendix 1 - Labour market



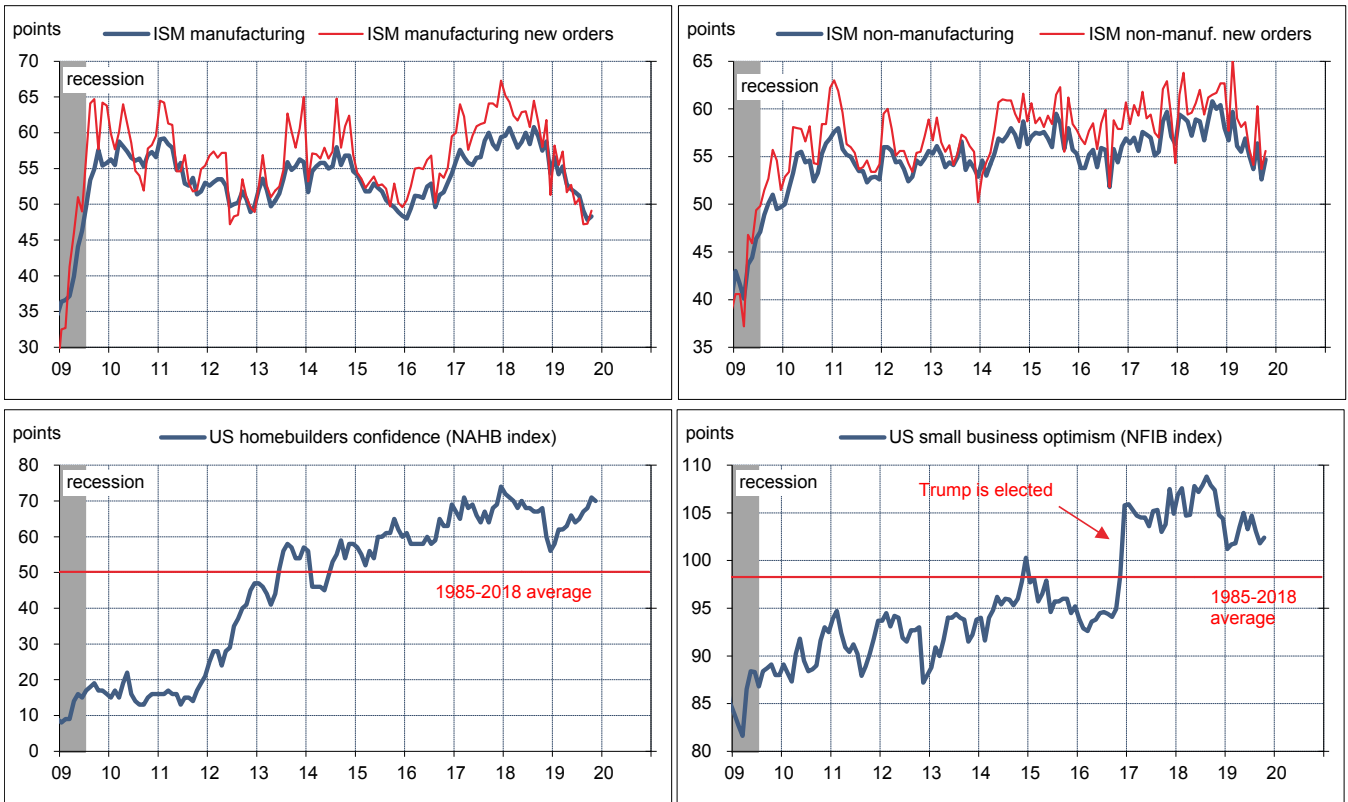
Appendix 2 - Consumer



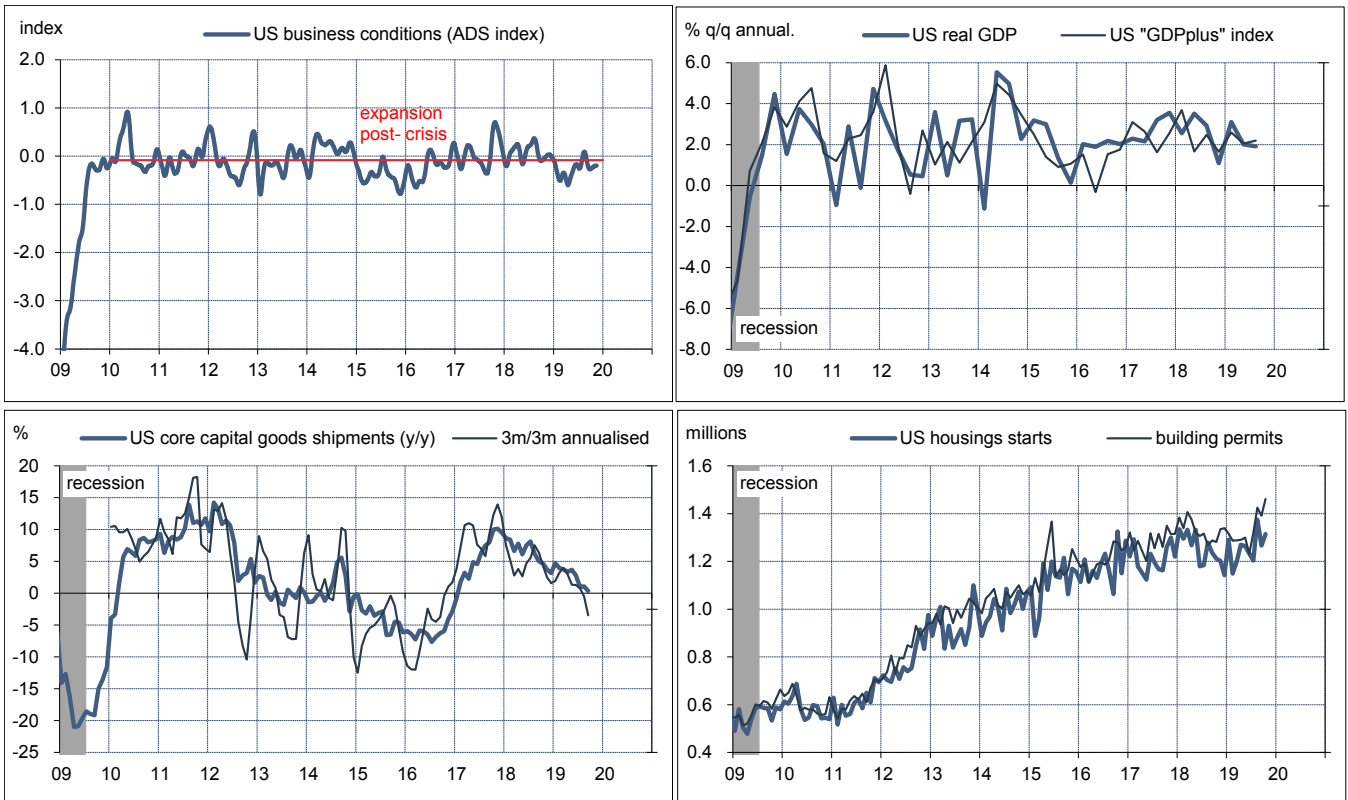
Sources: Thomson Reuters, Bloomberg, Oddo BHF Securities



Appendix 3 - Business climate



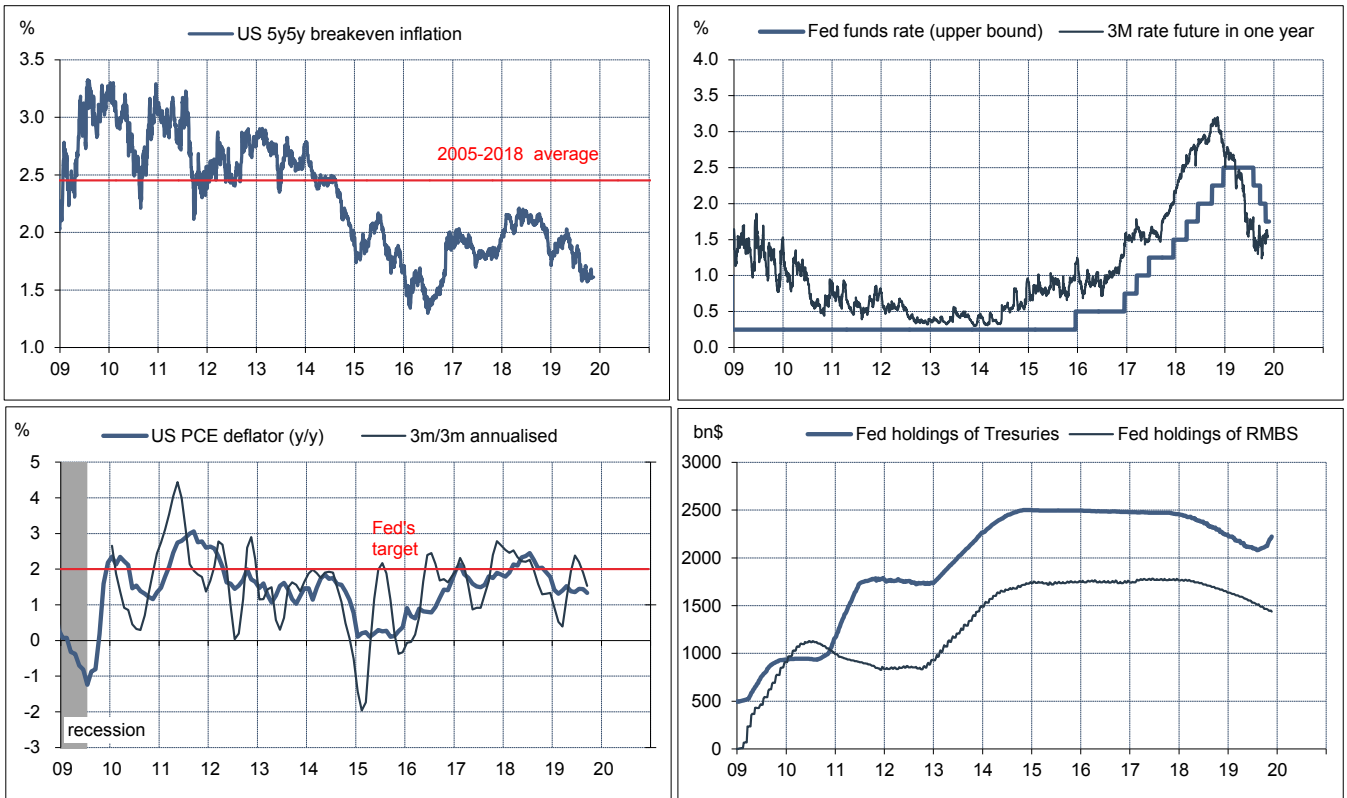
Appendix 4 - Conditions of economic activity



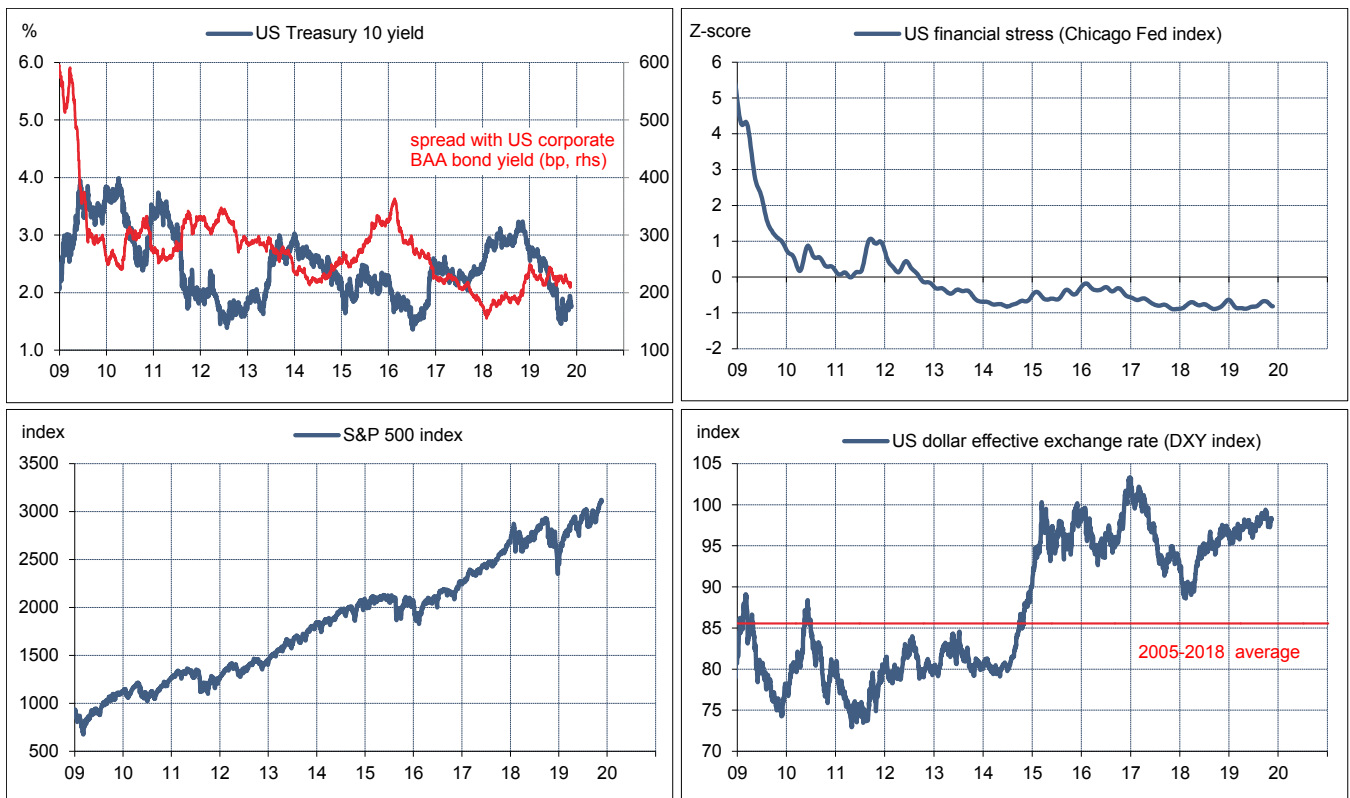
Sources : Thomson Reuters, Bloomberg, Oddo BHF Securities



Appendix 5 - Inflation and monetary policy



Appendix 6 - Financial markets



Sources : Thomson Reuters, Bloomberg, Oddo BHF Securities





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