HIGHLIGHTS

- According to the Conference Board survey, consumer confidence went down in January. The 8.1-point drop takes the index from 66.7 to 58.6. The current situation component went from 64.6 to 57.3, while the expectations component fell from 68.1 to 59.5.
- The S&P/Case-Shiller index of existing home prices in the 20 largest cities rose 0.6% in November, growth similar to that seen in October. The index’s annual change went from 4.2% to 5.5%, its strongest growth since summer 2006.

COMMENTS

Consumer confidence is clearly trending down, probably as a result of the fiscal cliff. While the agreement reached on January 1st helped to mitigate its effects, the way that negotiations proceeded, the reality of tax increases and the possibility of further issues with the budget in coming months all harm household sentiment. The Conference Board index hasn’t posted such a steep monthly decline since summer 2011, when the debate on the debt ceiling was in full swing. That was also the last time that confidence levels were this low. In 2011, the negative impacts on growth by real consumption were modest. Let us hope it will be the same for early 2013.

The S&P/Case-Shiller index is now on its tenth consecutive monthly increase, its longest upward trend since the real estate bubble burst. Almost all of the major cities listed, except New York, posted price increases in November. From January’s trough, the S&P/Case-Shiller index is up 6.0%, which attests to the encouraging recovery by the housing market, also seen in the uptrend by sales and growth by housing starts.

Implications: Falling consumer confidence, added to the expected drop by disposable income, is a serious risk for the evolution of consumer spending in early 2013. Fortunately, employment’s solid performance, the housing market’s recovery—through increased home values—and the recent upswing by the stock market should help limit the damage.

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