United States

Consumer confidence and home prices improve again

HIGHLIGHTS

- Consumer confidence rose again in May according to the Conference Board survey. The 7.2 point increase takes the index from 69.0 to 76.2.
- The S&P/Case-Shiller index of existing home prices in the 20 largest cities rose 1.1% in March, on the heels of February’s 1.3% increase. The index’s annual change went from 9.4% to 10.9%.

COMMENTS

After some hesitation early in the year, consumer confidence seems to be returning to a solid uptrend. The Conference Board’s confidence index gained a total of 14.3 points in April and May. The rise is especially encouraging as it primarily stems from an improvement to household expectations (+8.1 points in May) while the index of the current situation went up slightly less (+5.7 points). This kind of an upswing by expectations augurs well for growth by household consumption. The components on the employment situation are also advancing, which favours faster hiring in May compared with the fairly sluggish performances in March and April.

For a third month in a row, the S&P/Case-Shiller index has risen by more than 1%. The advance takes the total gain from the low of January 2012 to 10.8%. The index is now at its highest point since November 2008, but is still 26.6% below the historic peak of spring 2006. Moreover, for a fourth straight month, all of the 20 cities covered by the index saw prices increase. The gains since last year’s low vary wildly, however, with rebounds of more than 20% in the cities that were the hardest hit by the crisis, but slower growth in Boston, Chicago and New York.

Implications: While some concerns persist regarding business, households seem to be doing better. The upswing in consumer confidence and rise by home prices should foster better growth by consumer spending.