HIGHLIGHTS

- Real consumption jumped 0.6% in April after remaining flat in March. Spending on durable goods rose 2.2%, thanks in particular to the auto sector (+3.4%). Consumption of non-durable goods advanced 0.7% and consumption of services rose 0.4%. Real disposable personal income increased 0.2%.
- The Conference Board’s consumer confidence index eroded again in May, going from April’s 94.7 to 92.6, its lowest point since November 2015. The pullback stems mainly from the current situation component (-4.2 points) rather than the expectations component (-0.7 points).

COMMENTS

Fairly sluggish for several months, consumer spending has finally rebounded in the United States. The performance by retail sales suggested the results would be good, but the gain is stronger than the consensus forecast. If we look at two decimal places, April’s monthly change is the best since February 2014. It is interesting to see that growth is well distributed across the various goods and services. Aside from the auto sector, in real terms, clothing went up 1.3%, furniture is up 1.1%, and recreational goods are up 1.4%. Real consumption of services got a temporary leg up from the rebound by energy demand (+9.1%) following the mild winter. However, we can expect this contribution to be slighter in the coming months. A pullback there could, however, be offset by better spending on food services after a disappointing March (-0.3%) and April (+0.1%).

Unfortunately, the recent trend of the Conference Board confidence index suggests that the constraints that had been limiting consumption growth have not all dissipated. Although spending was strong in April, we cannot be certain that upcoming results will be as robust. Note, however, that the other confidence indexes are showing better results.

Implications: After a fairly modest first-quarter gain, consumption growth should be better this spring. One month in, the carryover is already 3.0% (annualized). It therefore seems that the rebound by real GDP hoped for in the second quarter is materializing; this should favour a key rate increase from the Federal Reserve at its June meeting.