



UNITED STATES

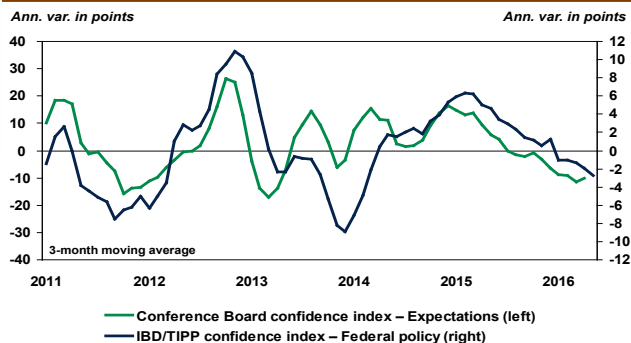
Is the election campaign already hurting confidence and the economy?

Several factors argue for an improvement in the U.S. consumer confidence indexes. However, they are taking a while to take off again. Could the long primary campaign in the run-up to the November 8 presidential election be a factor that is sapping the consumer mood?

The Conference Board index of U.S. consumer confidence fell in April, as did the other major index, the University of Michigan's. Yet the job market is doing well, with jobless claims down to levels not seen since 1973, which should be making households rather optimistic. After the troubles at the start of the year, the major stock indexes are also doing much better. Although up, gas prices remain very low, at around US\$2 a gallon on average nationally. Despite these factors, confidence has been trending down since the start of 2015.

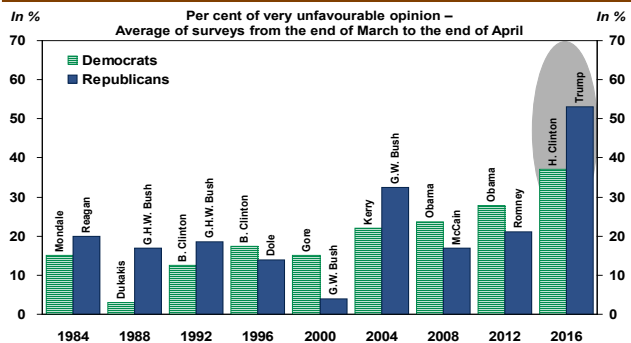
Some factors could help explain the erosion. Concerns over the strength of the world economy are one factor. Fears about terrorism and security are another. It seems we can also add the concerns arising from the ongoing electoral campaign. The IBD/TIPP Economic Optimism Index, another indicator of confidence, surveys households on their opinions of federal public policies. This component of the index has declined substantially since spring 2015. If we compare this component's annual change with that of the Conference Board household expectations component, we see very similar downward movements. An election campaign does not always mean worsening confidence, at least not this far ahead of the vote. However, the candidates that are now in the lead seem to be exacerbating some distrust, which is adding to the existing distrust of the political class in general. At this stage in the campaign, the Democrats' Hillary Clinton and the Republicans' Donald Trump are getting record levels of unfavourable opinions in the polls.

Some of the recent erosion in consumer confidence seems to stem from concern over federal politics



Sources: Conference Board, TechnoMetrica Market Intelligence, Datastream and Desjardins, Economic Studies

The presumed candidates are currently highly unpopular



Sources: Harry Enten (fivethirtyeight.com) and Desjardins, Economic Studies

Implications: The weak confidence is reflected in modest consumption growth in the first quarter. It remains to be seen whether the rest of the election campaign will have negative repercussions on the economic climate. This is a risk to watch.

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