

ECONOMIC NEWS

United States: Consumer Spending Slow to Reflect Higher Confidence

Consumer confidence indexes have increased since Donald Trump's election. With a gain of nearly 25 points since October, March saw the Conference Board index reach its highest point since December 2000. Its consumer expectations component suggests that the annual change in real consumption could reach 5%. Can we believe in such an acceleration when the trend is hovering around 3%?

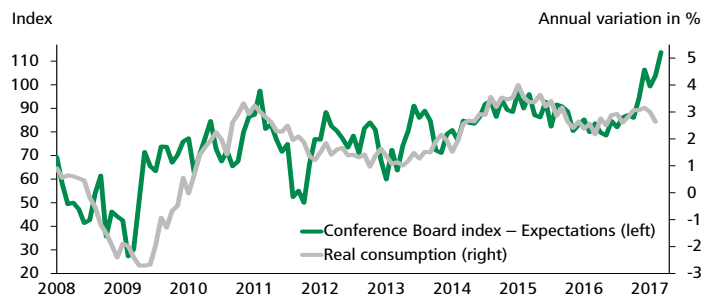
Household surveys are probably exaggerating the actual situation. No doubt employment growth is very favourable and Americans have also benefited from a strong rise in the value of their assets (stock market and home prices). However, we sense major divergences in each sentiment surveys. Recent gains in the indexes stem more from wealthy households, seniors and regions where the majority of voters supported Donald Trump in November. It therefore seems that his sympathizers are showing themselves to be more optimistic. The most recent statement on the University of Michigan confidence index mentions that "the data have been significantly affected by partisanship, with the data from Democrats indicating an imminent recession, while the data from Republicans points toward a new era of robust growth".

The little progress that Donald Trump has made on his key promises could, however, erode confidence. We are already seeing this with the IBD/TIPP index, which asks a specific question on the perception of federal economic policies. We note that this element was at the centre of improved household sentiment after the election. However, it is falling now. We can expect the other confidence indexes to follow the same path.

IMPLICATIONS

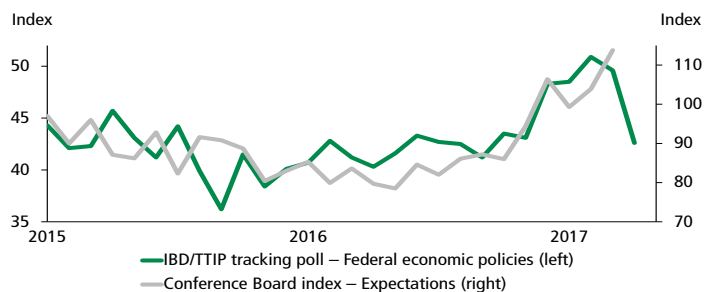
After a first quarter that was looking to disappoint, acceleration in real consumption in spring is expected. However, its strength should not achieve what is currently suggested by the main confidence indexes. In fact, they could very well fall since the

GRAPH 1
Consumption not yet driven by improved consumer confidence



Sources: Conference Board, Bureau of Economic Analysis and Desjardins, Economic Studies

GRAPH 2
Improved confidence was boosted by optimism on federal politics, but the effect is reversing



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

positive effects of Donald Trump's election risk turning out to be overenthusiastic and fleeting.

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