

Economics Group

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Wilting Confidence Will Not Stop Solid PCE in Q2, But...

Consumer confidence was shaken in June falling almost 10 points to 121.5. The consumer is still on track for a solid outturn in Q2 but unless confidence is restored, consumer spending in the second half is poised to slow.

Starting to Come Unglued

Some retrenchment was expected, but today's consumer confidence report instead showed that amidst an ongoing trade war and a soft May jobs report, consumers were downright shaken. The 9.8 point drop is the largest monthly decline since 2015. From the initially reported print of 134.1, the decline was 12.6 points, the biggest monthly drop since 2011.

Bear in mind, that even with this deterioration, confidence is still elevated by historical standards. The fallout here in June is likely attributable to concern about the trade war and an indication of vulnerability in the labor market.

Mexico Tariffs

The threats about a new front in the trade war with Mexico consumed the news cycle in the first week of June. Although that already feels like history, the second half of the month included more geo-political worries with the downing of a U.S. drone in Iran and fresh sanctions against the Iranians in response. So to the extent that consumers are worried about an unsteady global growth landscape, there are no signs of that abating at present.

Did the Jobs Report Rattle Consumer's Nerves?

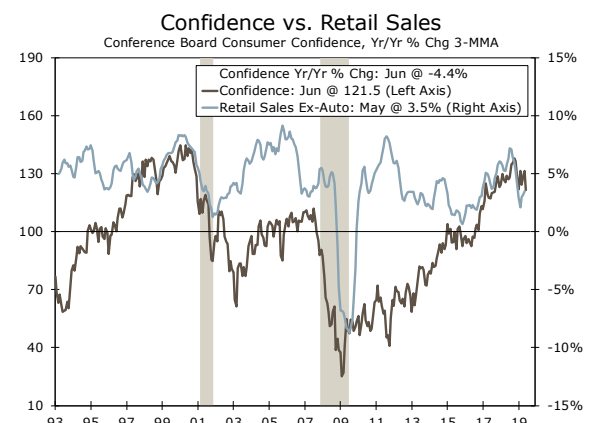
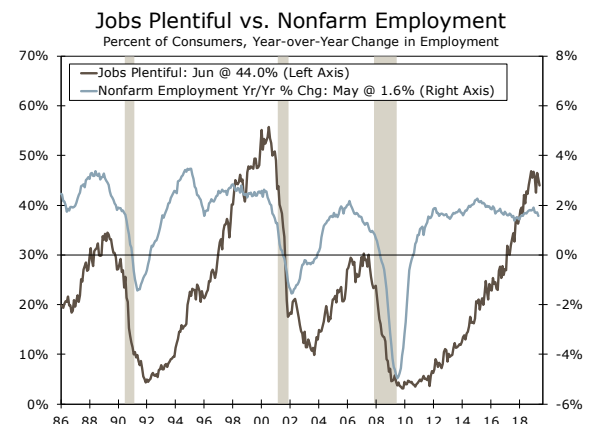
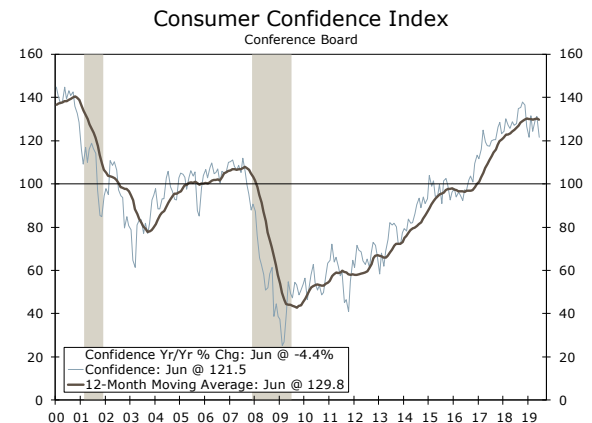
Whether it is because there are questions in the survey about the job market or just because jobs are what people tend to care most about, the consumer confidence numbers tend to be influenced by labor market developments. This survey was conducted in early June, about the time that the May jobs report was released. That report, you may recall, was a dud with just 75K new jobs added in May and net downward revisions to prior months' data.

The middle chart plots year-over-year growth in nonfarm payrolls alongside the share of consumers who feel that jobs are plentiful. While the labor market is still hot, it is not as hot as it was according to consumers. The rolling-over that we are seeing here in jobs plentiful is worryingly reminiscent of what we have seen late in prior cycles. It would be too soon to mark-down spending estimates for the second half; but if past patterns hold, without a turnaround in this series, job growth could slow in coming months.

Consumer on Track for Now

After a soft start to the year, consumer spending picked up in earnest at the end of the first quarter. We are forecasting a 2.9% rate of growth in personal consumption expenditures in the second quarter. Today's report of wilting confidence in June does not change that. Retail sales have already been released for April and May (two out of the three months for the second quarter) and suggest that barring an awful month for stores in June, spending is already on solid footing for the period.

The keys to consumer spending in the second half of the year will likely revolve around labor market prospects and developments in the trade war. An amicable resolution would lift expectations here, but that does not appear likely.



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