WEEKLY COMMENTARY

The Ambivalence of US Consumers

By Francis Généreux, Principal Economist

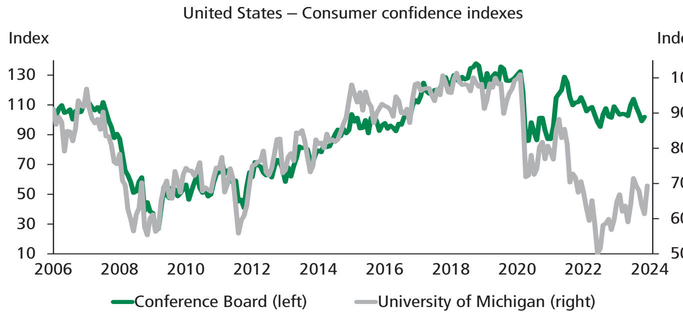
We've been concerned about the strength of US consumption since policy rate hikes began in the winter of 2022. Just a few months later, in April 2022, we published an Economic Viewpoint outlining key threats to consumer confidence and spending, such as the end of government pandemic relief programs, soaring inflation and higher interest rates. But the counterpoints to these challenges were the robust labour market and its ability to support personal income.

While most of these factors continue to weigh on households, US consumer spending is nonetheless holding up. Real consumption rose at a 3.6% annual rate in the third quarter of 2023. Spending then continued to climb in October with a 0.2% month-over-month increase. And it now appears that the holiday season is off to a pretty good start, based on anecdotal information, consumer and business surveys, and preliminary card transaction data.

Even though US consumers have continued to spend, at least until now, they're not feeling terribly cheerful. In fact, the consumer confidence indexes show that sentiment has been low since summer 2021 (graph 1). This is despite certain reassuring economic conditions, the most obvious of which being the strong labour market. Nearly 12 million jobs have been created since June 2021, including 2,552,000 in 2023. But there are some decidedly more negative factors, like the rising cost of living. Since June 2021, real personal income has declined 0.8% and real hourly wages have fallen 2.0%. For households, the key pain point is clearly the erosion of their purchasing power due to high inflation.

However, recent numbers show that inflation is starting to ease, which should put Americans in a better mood. The year-over-year change in the consumer price index has plummeted from a high of 9.1% in June 2022 to "just" 3.1% in October 2023. As encouraging as this may be, households aren't satisfied with

GRAPH 1
US Consumer Confidence Remains Low



Sources: Conference Board, University of Michigan and Desjardins Economic Studies

a slower rate since it doesn't make up for the massive jump in prices seen in the past few years. Fortunately, some factors are starting to have a bit more of an impact. The sharp drop in gas prices over the past few weeks, lower retail rates and the stock market's solid performance since late October have boosted consumer sentiment according to the preliminary version of the University of Michigan's December survey. The index remains at historically low levels, however.

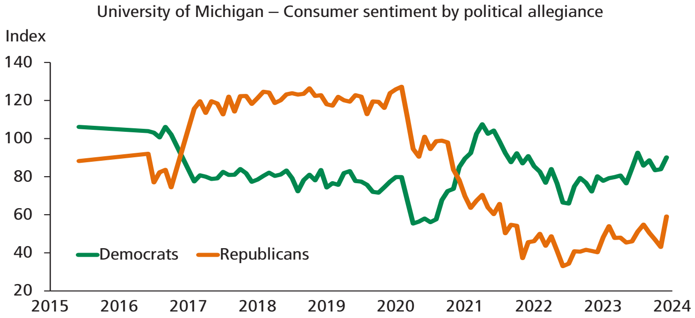
Beyond economic and personal finance considerations, there's another important factor that influences US consumer confidence: politics. The ever-widening rift between the left and right is even apparent in consumer confidence indexes. Consumers' perceptions of the economy's strength and their expectations are split along partisan lines. Changes in the University of Michigan consumer sentiment index at the beginning and end of Donald Trump's presidency clearly show that Democrats are less confident when there's a Republican in the White House, just as Republicans are less confident when there's a Democrat in the Oval Office (graph 2 on page 2). To a certain extent, this explains the current discrepancy between

CONTENT

Desjardins Economic Studies: 514-281-2336 or 1-866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

GRAPH 2
Political Views Influence US Consumer Confidence



Sources: University of Michigan and Desjardins Economic Studies

sentiment and spending. Low consumer confidence reflects a negative view of the Biden administration while consumption is being influenced by the actual health of the economy.

There are other macroeconomic factors that influence households' willingness or ability to spend, even if they don't have a direct impact on consumer confidence. Interest rates are an obvious one. The increases that began in early 2022 have put pressure on borrowers. Consumer credit spending also seems to have slowed. That said, so far the pullback hasn't been as pronounced as expected, particularly in durable goods spending, which is surprisingly strong. Since the start of the year, real spending on durable goods excluding motor vehicles climbed 6.1%, while spending on nondurable goods or services was up 2.0%. Since durable goods spending is typically tied more closely to term credit, it would have been reasonable to expect rate hikes and tightening credit conditions to have a greater impact on it. So why hasn't it faltered? One explanation is that software accounts for an ever-increasing proportion of durable goods consumption. This type of spending, which is believed to be less dependent on credit, has increased by 16.0% in real terms since the start of the year. Excluding software, growth in durable goods consumption would have been 3.6%, which is still strong, but not exceptionally so.

Savings are another issue. One of the reasons households increased their spending despite declines in real income and rising interest rates is that they had savings to dip into. Consumers were able to build up significant reserves during the pandemic. But starting in the summer of 2021, people shifted from over-saving to under-saving. At the same time, inflation began eroding the purchasing power of the money they had stashed away. While their excess savings are now dwindling, they haven't been drained yet. The extra cushion won't last forever though, and sooner or later households will need to rethink their spending habits.

All in all, US household spending remains strong, but the situation is fragile. We expect real consumption to slow considerably in the first half of 2024. It will pick up again once interest rates start coming down, consumer confidence improves and the risk of a recession fades. But for now, the threat is real and the stakes are high, as the impact of US consumption on Canada and the global economy should not be underestimated.

What to Watch For

By Randall Bartlett, Senior Director of Canadian Economics, Tiago Figueiredo, Associate – Macro Strategy, Marc Desormeaux, Principal Economist, Marc-Antoine Dumont, Economist, and Francis Généreux, Principal Economist

UNITED STATES

TUESDAY December 12 - 8:30

November	m/m
Consensus	0.0%
Desjardins	0.0%
October	**0.0%**

Consumer price index (November) – The all items consumer price index (CPI) was flat (+0.0% m/m) in October thanks to a drop in gasoline prices. The November print should be similar. Gasoline prices continued to fall, likely sending energy prices lower again. Prices at the pump were down 6.9%, though that decline will look smaller after seasonal adjustment. Meanwhile we think food inflation will be in line with October's 0.3% monthly gain. We expect the all items less food and energy index to come in at 0.3%, slightly higher than October's 0.2% advance. It'll be interesting to see if goods prices continued to trend lower and services showed more signs of slowing. Look for the year-over-year change in the all items index to fall from 3.2% to 3.1%, with the all items less food and energy index holding steady at 4.0%.

WEDNESDAY December 13 - 14:00

December	
Consensus	5.50%
Desjardins	5.50%
November 1st	**5.50%**

Federal Reserve meeting (December) – The Federal Reserve (Fed) is now firmly in wait-and-see mode. The economy is holding up well, inflation is coming down, and Powell and company have recently hinted that they think interest rates are now just high enough to keep inflation moving lower without triggering a recession. But we'd be surprised if they closed the door completely to additional rate hikes, though that shouldn't be their main scenario anymore. It's probably too early for them to start thinking about rate cuts, however. All signs therefore point to another hold next week, when the Fed will also release much-anticipated updates to its GDP, inflation and interest rate projections.

THURSDAY December 14 - 8:30

November	m/m
Consensus	-0.1%
Desjardins	-0.4%
October	**-0.1%**

Retail sales (November) – Retail sales fell in October for the first time since March, declining a modest 0.1% month-over-month. But we expect a slightly larger pullback in November. Despite reports of relatively strong Black Friday sales, preliminary card transaction data suggests sales were actually down, especially at furniture, building material and leisure goods stores. New car sales data released earlier this month was also negative. Lower gasoline prices will likely also translate to lower gas station receipts. We therefore expect a 0.4% decline in total retail sales and a slight 0.1% drop in sales excluding motor vehicles and gasoline.

FRIDAY December 15 - 8:30

November	m/m
Consensus	0.2%
Desjardins	0.7%
October	**-0.6%**

Industrial production (November) – Industrial production posted its largest monthly decline since December 2022 in October. The 0.6% drop was largely due to the autoworkers' strike, however. Excluding auto manufacturing, industrial production would have decreased just 0.1%, while manufacturing would have eked out a 0.1% gain. With the strike now in the rearview mirror, auto production probably shot up nearly 10%. For other manufacturing, hours worked and the ISM Manufacturing index suggest a small gain of 0.1%. Meanwhile energy production probably increased now that colder weather is driving demand for heating. Mining production was also probably up. Overall, we expect a 0.7% advance in industrial production.

CANADA

TUESDAY December 14 - 8:30

October	m/m
Consensus	n/a
Desjardins	-2.7%
September	**0.4%**

Manufacturing sales (October) – Manufacturing sales are expected to have contracted by 2.7% m/m in October, in line with Statistics Canada's flash estimate. With the seasonally adjusted Industrial Products Price Index down 1.1% in the month, much of the anticipated decline probably came from lower manufacturing volumes. While Canadian auto production inched higher in October, the drop in autos rolling off US assembly lines suggests demand for shipments of motor vehicles was likely lacklustre in the month.

THURSDAY December 14 - 9:00

November	m/m
Consensus	n/a
Desjardins	-3.0%
October	**-5.6%**

Existing home sales (November) – We anticipate that Canadian Real Estate Association (CREA) data due out Thursday will reveal that national-level home sales fell by 3% in November. Early information from local real estate boards suggests a continuation of the weakness we saw last month, with some regional variation. It appears that Calgary, Edmonton and Vancouver all saw home purchases decline in November, though not as significantly as in October. Big drops in the first two cities last month came as somewhat of a surprise, given the extent to which housing market activity had proved resilient to the Bank of Canada's second round of interest rate hikes up to that point. By contrast, the Toronto real estate board reported a seasonally adjusted monthly increase, which suggests at the very least that the peak rate of decline is likely behind Canada's largest city. Listings will be interesting to watch as well. Following a six-month surge, the number of homes available for purchase fell back at the national level and in many major cities. Further declines would imply prospective sellers are choosing to wait until more favourable conditions materialize. Another increase would be a sign that individuals who bought homes in a lower-rate environment are struggling with sharply higher borrowing costs.

FRIDAY December 15 - 8:15

November	ann. rate
Consensus	n/a
Desjardins	250,000
October	**274,700**

Housing starts (November) – Will we finally see housing construction align with fundamentals, or will the random number generator take over again? We have Canadian housing starts easing to 250k units in November on the assumption that overwhelmingly weak conditions in the homebuilding sector pushed activity lower. As we've highlighted multiple times, other than the record-high population growth in many jurisdictions, few indicators imply conditions supportive of new housing construction. Interest rates and building material costs are at decade highs. Homebuilding sentiment is exceptionally weak. And labour shortages remain in the construction industry. But there are nuances to the indicator as well. Projects already underway before the economic backdrop worsened look to have contributed to strong multi-unit starts in Ontario and BC. Starts are also some of the first data points we receive in any given month, which means fewer early indicators of their performance—and more month-to-month volatility.

OVERSEAS

WEDNESDAY December 13 - 2:00

October	m/m
Consensus	-0.1%
September	**0.2%**

United Kingdom: Monthly GDP (October) – UK real GDP contracted in the third quarter despite expanding in September. October's data release on Wednesday will provide better insight into the fourth quarter. Right now we don't have a good read, as retail sales fell again in October but PMIs improved somewhat. The Bank of England will meet on Thursday. With the economy slowing but inflation still high, we don't expect a change in key rates.

THURSDAY December 14 - 8:15

December	
Consensus	4.50%
Desjardins	4.50%
October 26	**4.50%**

Eurozone: European Central Bank meeting (December) – We expect the European Central Bank (ECB) to hold rates steady next week. The eurozone economy is slowing and inflation is down sharply. And while it isn't back to target yet, inflation is definitely moving in the right direction—so much so that the ECB may strike a more dovish tone. The Bank may not open the door to imminent interest rate cuts, but it could hint that cuts are coming sooner than anticipated a few months ago. The ECB will also release fresh GDP and inflation projections that could lend further support to sooner-than-expected rate cuts.

THURSDAY December 14 - 21:00

China: Industrial production and retail sales (November) – While the Purchasing Managers' Index suggested manufacturing activity had contracted, industrial production continued to grow in October, posting an annual gain of 4.6%. The limited data available for November again points to a modest increase in industrial production. That said, base effects should provide a boost as much of China was under strict lockdowns at the same time last year. The November print will also provide more insight into fourth-quarter real GDP growth, which is looking soft right now.

FRIDAY December 15 - 4:00

December	
Consensus	48.0
November	**47.6**

Eurozone: Purchasing Managers' Index (December – preliminary) – The eurozone composite PMI has been up and down since the fall. Both the Services and Manufacturing PMIs edged higher last month but remain below 50. This supports our view that the eurozone economy has stalled but not dipped into a deep recession. December's reading will tell us if economic activity weakened further or remained flat.

Economic Indicators

Week of December 11 to 15, 2023

Day	Time	Indicator	Period	Consensus	Desjardins	Previous reading
UNITED STATES						
MONDAY 11	---	---				
TUESDAY 12	8:30	Consumer price index				
		Total (m/m)	Nov.	0.0%	0.0%	0.0%
		Excluding food and energy (m/m)	Nov.	0.3%	0.3%	0.2%
		Total (y/y)	Nov.	3.1%	3.1%	3.2%
		Excluding food and energy (y/y)	Nov.	4.0%	4.0%	4.0%
	14:00	Federal budget (US$B)	Nov.	-300.0	n/a	66.6
WEDNESDAY 13	8:30	Producer price index				
		Total (m/m)	Nov.	0.1%	-0.2%	-0.5%
		Excluding food and energy (m/m)	Nov.	0.2%	-0.1%	0.0%
	14:00	Federal Reserve meeting	Dec. 13	5.50%	5.50%	5.50%
	14:30	Speech by Federal Reserve Chair J. Powell				
THURSDAY 14	8:30	Initial unemployment claims	Dec. 4–8	225,000	222,000	220,000
	8:30	Retail sales				
		Total (m/m)	Nov.	-0.1%	-0.4%	-0.1%
		Excluding automobiles (m/m)	Nov.	-0.1%	-0.3%	0.1%
	8:30	Import prices (m/m)	Nov.	-0.8%	-1.2%	-0.8%
	8:30	Export prices (m/m)	Nov.	-0.7%	-1.7%	-1.1%
	10:00	Business inventories (m/m)	Oct.	0.0%	-0.1%	0.4%
FRIDAY 15	8:30	Empire State Manufacturing Index	Dec.	2.0	0.0	9.1
	9:15	Industrial production (m/m)	Nov.	0.2%	0.7%	-0.6%
	9:15	Production capacity utilization rate	Nov.	79.1%	79.4%	78.9%
	16:00	Net foreign securities purchases (US$B)	Oct.	n/a	n/a	-1.7
CANADA						
MONDAY 11	---	---				
TUESDAY 12	---	---				
WEDNESDAY 13	8:30	National balance sheet	Q3			
THURSDAY 14	8:30	Manufacturing sales (m/m)	Oct.	n/a	-2.7%	0.4%
	9:00	Existing home sales (m/m)	Nov.	n/a	-3.0%	-5.6%
FRIDAY 15	8:15	Housing starts (ann. rate)	Nov.	n/a	250,000	274,700
	8:30	Wholesale trade excluding petroleum (m/m)	Oct.	n/a	-1.1%	0.4%
	8:30	International securities transactions ($B)	Oct.	n/a	n/a	15.09
	12:25	Speech by Bank of Canada Governor T. Macklem				

Note: Each week, Desjardins Economic Studies takes part in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Standard Time (GMT - 5 hours). Desjardins Economic Studies forecast.

Economic Indicators

Week of December 11 to 15, 2023

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
MONDAY 11							
Japan	18:50	Producer price index	Nov.	0.2%	0.1%	-0.4%	-0.8%
TUESDAY 12							
Germany	5:00	ZEW Current Conditions Survey	Dec.	-76.0		-79.8	
Germany	5:00	ZEW Expectations Survey	Dec.	8.0		9.8	
Japan	18:50	Tankan Large Manufacturers Index	Q4	10		9	
WEDNESDAY 13							
United Kingdom	2:00	Monthly GDP	Oct.	-0.1%		0.2%	
United Kingdom	2:00	Industrial production	Oct.	-0.1%	1.1%	0.0%	1.5%
United Kingdom	2:00	Index of services	Oct.	0.0%		0.2%	
United Kingdom	2:00	Construction	Oct.	-0.2%	1.4%	0.4%	2.8%
United Kingdom	2:00	Trade balance (£M)	Oct.	-2,150		1,754	
Eurozone	5:00	Industrial production	Oct.	-0.3%	-4.5%	-1.1%	-6.9%
Brazil	16:30	Central Bank of Brazil meeting	Dec.	11.75%		12.25%	
THURSDAY 14							
Switzerland	3:30	Swiss National Bank meeting	Dec.	1.75%		1.75%	
Norway	4:00	Bank of Norway meeting	Dec.	4.25%		4.25%	
United Kingdom	7:00	Bank of England meeting	Dec.	5.25%		5.25%	
Eurozone	8:15	European Central Bank meeting	Dec.	4.50%		4.50%	
Mexico	14:00	Bank of Mexico meeting	Dec.	11.25%		11.25%	
United Kingdom	19:01	Consumer confidence	Dec.	-22		-24	
Japan	19:30	Composite PMI – preliminary	Dec.	n/a		49.6	
Japan	19:30	Manufacturing PMI – preliminary	Dec.	n/a		48.3	
Japan	19:30	Services PMI – preliminary	Dec.	n/a		50.8	
China	21:00	Industrial production	Nov.		5.7%		4.6%
China	21:00	Retail sales	Nov.		12.5%		7.6%
FRIDAY 15							
France	2:45	Consumer price index – final	Nov.	-0.2%	3.4%	-0.2%	3.4%
France	3:15	Composite PMI – preliminary	Dec.	45.0		44.6	
France	3:15	Manufacturing PMI – preliminary	Dec.	43.3		42.9	
France	3:15	Services PMI – preliminary	Dec.	46.0		45.4	
Germany	3:30	Composite PMI – preliminary	Dec.	48.2		47.8	
Germany	3:30	Manufacturing PMI – preliminary	Dec.	43.2		42.6	
Germany	3:30	Services PMI – preliminary	Dec.	49.9		49.6	
Eurozone	4:00	Composite PMI – preliminary	Dec.	48.0		47.6	
Eurozone	4:00	Manufacturing PMI – preliminary	Dec.	44.5		44.2	
Eurozone	4:00	Services PMI – preliminary	Dec.	49.0		48.7	
United Kingdom	4:30	Composite PMI – preliminary	Dec.	50.9		50.7	
United Kingdom	4:30	Manufacturing PMI – preliminary	Dec.	47.5		47.2	
United Kingdom	4:30	Services PMI – preliminary	Dec.	51.0		50.9	
Eurozone	5:00	Trade balance (€B)	Oct.	n/a		9.2	

NOTE: Unlike release times for US and Canadian economic data, release times for overseas economic data are approximate. Publication dates are provided for information only. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Times shown are Eastern Standard Time (GMT - 5 hours).