

Jobs lift U.S. consumer confidence to near 16-year high

By Lucia Mutikani

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U.S. consumer confidence jumped to a near 16-year high in July amid optimism over the labor market while house prices maintained their upward trend in May, which could boost consumer spending after recent sluggishness.

The reports on Tuesday underscored the economy's strong fundamentals, expected to keep the Federal Reserve on course to raise interest rates for a third time this year.

"This brightens the outlook for the economy as we enter the second half of the year," said Chris Rupkey, chief economist at MUFG in New York. "We expect Fed officials will continue with their gradual pace of rate hikes secure in the knowledge that a confident consumer means that more spending is on the way."

The Conference Board said its consumer confidence index surged to 121.1 this month, the second highest reading since 2000, from 117.3 in June. The rise in confidence came despite the healthcare impasse in Washington. The index hit a 16-year high of 124.9 in March.

The survey's so-called labor market differential, derived from data about respondents who think jobs are hard to get and those who think jobs are plentiful, was the strongest since 2001. This measure closely correlates to the unemployment rate in the Labor Department's employment report and is consistent with continued reduction in labor market slack.

"That matches up well over time with actual labor market conditions and is a component of the Fed's labor market conditions index," said Ted Wieseman, an economist at Morgan Stanley in New York. "The latest gain indicates the unemployment rate is still falling to new lows."

The labor market is near full employment, with the jobless rate at 4.4 per cent. But the tightening labor market has struggled to generate strong wage growth, a frustration for both households and policymakers.

Less upbeat on income

The Conference Board survey showed consumers were less upbeat about their income prospects this month. The percentage of consumers expecting an improvement in their income fell slightly to 20.0 per cent from 20.9 per cent in June.

The share of those expecting a decrease rose to 10.0 per cent from 9.3 per cent last month. Tepid wage growth has hurt retail sales, which fell in June for a second straight month.

With consumers tightening their purse strings, inflation growth has slowed significantly, leading economists to dial back their expectations for an interest rate hike to December.

Fed officials were scheduled to start a two-day policy meeting later on Tuesday. The U.S. central bank is not expected to raise interest rates at the end of that meeting on Wednesday.

Despite the upbeat data, the dollar fell to a 13-month low against a basket of currencies as investors awaited the statement that will accompany the Fed's interest rate decision.

The S&P 500 hit a record high, also buoyed by a sets of strong earnings from Caterpillar and McDonald's.

Retail sales could get a lift from rising house prices, which are boosting household wealth. A second report on Tuesday showed the S&P CoreLogic Case-Shiller composite index of 20 metropolitan areas rose 5.7 per cent in May on

a year-over-year basis after increasing 5.8 per cent in April.

An acute shortage of homes on the market and strong demand are pushing up house prices. In another report the Federal Housing Finance Agency (FHFA) said its house price index jumped a seasonally adjusted 6.9 per cent in May from a year ago.

That followed a 6.8 per cent gain in April. The FHFA's index is calculated by using purchase prices of houses financed with mortgages sold to or guaranteed by mortgage finance companies Fannie Mae and Freddie Mac.

"It is very much a sellers' market, so growth is unlikely to slow," said Matthew Pointon, property economist at Capital Economics in New York.