U.S. consumer confidence hits 18-year high; house prices slowing

By Lucia Mutikani
September 25, 2018 – *The Globe and Mail / Reuters*

U.S. consumer confidence surged to an 18-year high in September as households grew more upbeat about the labour market, pointing to sustained strength in the economy despite an increasingly bitter trade dispute between the United States and China.

While other data on Tuesday showed a moderation in house price increases in July, the gains probably remain sufficient to boost household wealth and continue to support consumer spending, as well as making home purchasing a bit more affordable for first-time buyers.

"The consumer is always in the driver's seat when it comes to stoking the fires that run the engines of economic growth, but the million dollar question is what is going to happen down the road when the trade tariffs start to bite?" said Chris Rupkey, chief economist at MUFG in New York.

The Conference Board said its consumer confidence index increased to a reading of 138.4 this month from an upwardly revised 134.7 in August. That was the best reading since September 2000 and the index is not too far from an all-time high of 144.7 reached that year.

Economists polled by Reuters had forecast the consumer index slipping to a reading of 132.0 this month from the previously reported 133.4 in August.

Consumers' assessment of labour market conditions improved sharply even as the trade war between the United States and China escalated, which economists warned would lead to job losses and higher prices for consumers.

Washington on Monday slapped tariffs on $200 billion worth of Chinese goods, with Beijing retaliating with duties on $60 billion worth of U.S. products. The United States and China had already imposed tariffs on $50 billion worth of each other's goods.

For now, consumers appear to be shrugging off the trade tensions. Households were this month upbeat about business conditions over the next six months, with many planning purchases of household appliances, motor vehicles and houses.

Some economists believe a tightening labour market, which is starting to boost wage growth, and higher savings could provide a cushion for households against more expensive consumer goods imports from China.

"Moreover, consumers may choose to substitute purchases of goods affected by tariffs with other goods and firms may choose to absorb the higher costs," said Roiana Reid, an economist at Berenberg Capital Markets in New York.

Strong labour market

The Conference Board consumer survey's so-called labour market differential, derived from data about respondents who think jobs are hard to get and those who think jobs are plentiful, rose to 32.5 in September, the highest level since January 2001, from 30.2 in August.

This measure, which closely correlates to the unemployment rate in the Labour Department' employment report, is pointing to further declines in the jobless rate and labour market slack. The labour market is viewed as either at or near full employment, with the jobless rate at 3.9 per cent.

The robust labour market, together with the strong economy and steadily rising inflation, have left economists confident that the Federal Reserve will raise interest rates on Wednesday for the third time this year.

The dollar was trading slightly weaker against a basket of currencies, while U.S. government bond yields rose. Stocks on Wall Street were little changed.

The consumer confidence report added to fairly upbeat data on consumer spending and manufacturing that have suggested solid economic growth in the third quarter. Gross domestic product increased at a 4.2 per cent annualized rate in the second quarter. Growth estimates for the July-September quarter are above a 3.0 per cent pace.

While the broader economy is powering ahead, the housing market is continuing to lag behind amid signs that higher mortgage rates and house prices are starting to hurt demand.

Separately, the S&P CoreLogic Case-Shiller composite home price index of 20 U.S. metropolitan areas rose 5.9 per cent in July from a year ago after increasing 6.4 per cent in June.

Prices in the 20 cities edged up 0.1 per cent in July from June on a seasonally adjusted basis, the survey showed.

The moderation in house price inflation was also underscored by another report from the Federal Housing Finance Agency, which showed its home price index rising 0.2 per cent in July after gaining 0.3 per cent in June.

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.

“Consumers are delirious but not bidding up prices of homes as much as they had been,” said Joel Naroff, chief economist at Naroff Economic Advisors in Holland, Pennsylvania. “Increasing prices and mortgage rates are reducing affordability and sales and that is translating into slower price gains.”