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UNITED STATES

US consumers remain under pressure as sentiment slides

Consumer confidence remains under pressure from weak wage growth, high motor fuel costs and worries about job security. However, spending is holding up, reflecting the growing dominance of high-income households, who are in a much stronger financial position



High-income households are maintaining spending, despite weak consumer confidence

Sentiment slide would normally be bad news for spending...

Today's data flow has produced very weak University of Michigan sentiment, falling to 46.3 in October from 48.1. This is the second-weakest reading of all time (the weakest being in May of this year). Current conditions exhibited the greater pain, falling to 44.7 from 50.9, which is a new low and doesn't bode well for Republicans in the mid-terms. High gasoline prices, weak income growth and job security all remain the key themes with steep falls seen in all the "good time to buy..." categories. 73% think it is a bad time to buy a major household appliance, 78% think it is a bad time to buy a vehicle and 87% think it is a bad time to buy a home.

Consumer confidence and spending



Source: Macrobond, ING

But high income households keep the K-shaped consumer narrative in play

Does this matter for growth? Well, the relationship between spending and sentiment has broken down over the past couple of years, primarily because of the K-shaped consumer story. High-income households are the key driver of spending behaviour, with the Bureau of Labor Statistics suggesting the top 20% of households by income (those making over $155k per year) are responsible for around 40% of all consumer spending, while Moody's Analytics suggest it could be as much as 60%. This group has high-paying jobs, a greater sense of job security and has been boosted by huge wealth gains over recent years. The median American (reflected in the sentiment surveys) doesn't have the wealth gains to support their spending in an environment where real household disposable incomes are barely growing in a low-hire, low-fire economy – Federal Reserve data suggests the bottom 60% of households by income hold only 15% of US household wealth.

So, as long as equity markets hold up, spending can keep going. Hopefully, that buys time for an improvement in the energy situation that provides relief in terms of lower motor fuel costs and improved job prospects for the broader household sector. But if we were to experience a stock market correction, then the situation would change quickly.

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