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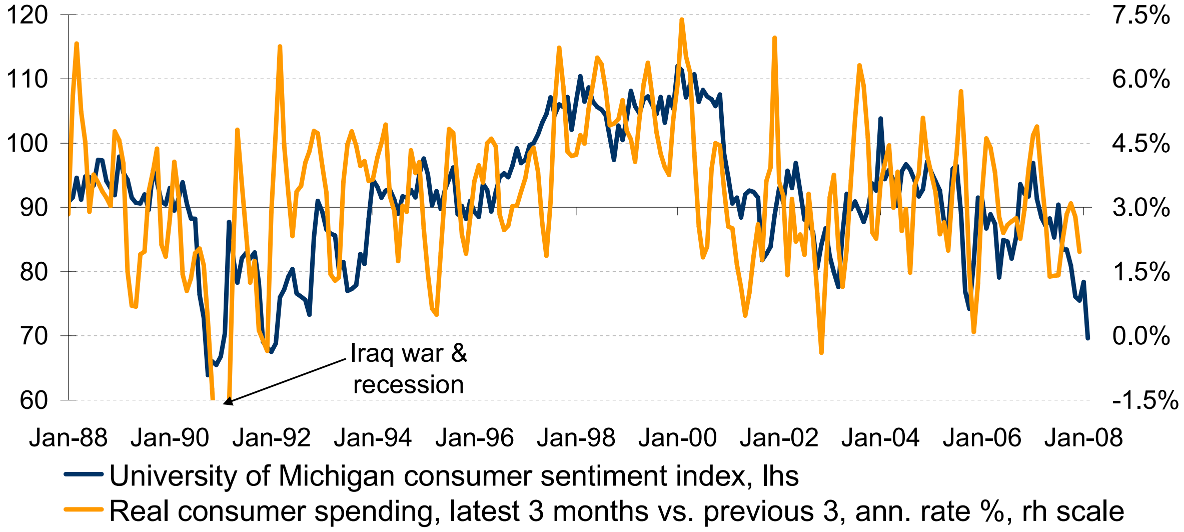
US consumer recession now indicated

WE SUGGEST: Stocks still on the high-side, bond yields less clearly so

SUMMARY: The U-Mich consumer sentiment dive below 70 suggests consumer recession. Other factors may just be enough to keep GDP from the same fate. But the Fed's violent switch towards ease is showing in import prices up 14% over 12 months.

The nasty drop in the University of Michigan's provisional consumer sentiment index for February takes it just below the 70 level that has proved roughly consistent with nil growth in real consumer spending in the past. Retail sales were negative in December, and grew by less than their price level in January – negative again in real terms. The likelihood is that real consumer spending will be down in Q1 from 2007 Q4.

U-Mich confidence survey & consumer spending



The last time the U-Mich indicator was at these levels was in the depressed consumer conditions of the 1990-91 recession. But then, as is normal in recessions, consumer spending was not leading the economy downward, except in the first Iraq war. It was housing, business cap-ex and inventories that fell most. Housing is even more heavily negative this time round, but business cap-ex is still quite well maintained, and could hold up until the worst of the house-building collapse, which has lasted nearly two years, is over. And inventories are fairly well battened down, though they could still provide some negative influence on GDP. Exports are quite strong, and imports naturally falling, so with fiscal reflation next quarter in an election year, a GDP recession could still just be avoided.

We have yet to see the PPI and CPI, but import price data today showed the cost of the Fed's violent switch of priorities in favour of growth at any price. Import prices are up 14% in 12 months. Even China-sourced imports, formerly the leading scourge of inflation, together with hi-tech, costs 3.3% more. Bonds, which would normally do well, must keep a weather eye on inflation. And the stock market typically hates stagflation.

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