On the minds of investors

August 22, 2019

Is the consumer starting to crack?

One defining feature of this economic expansion has been the propensity of consumers to support growth in the face of growing economic headwinds. Even with the ebb and flow of trade tensions, consumer sentiment has been resilient, particularly in the U.S. Given that consumption accounts for the bulk of the economy in many developed markets, elevated levels of consumer sentiment have gone some way to mitigating the concerns about a near-term recession. However, cracks in consumer optimism may be starting to appear.

The fallout from rising protectionist policies from the U.S. has placed a heavy weight on the corporate confidence and sentiment surveys for the manufacturing sector have fallen sharply in recent months. However, that uncertain and unpredictable nature of the trade rhetoric has yet to spread from the manufacturing sector into services industries or the labor market.

Furthermore, as the tariffs applied on Chinese imports to the U.S. have been focused on intermediate and capital goods the consumer has been insulated from the direct effects of rising tariffs. That changed, however, with the announcement of additional tariffs on remaining circa USD 300billion of goods which would largely apply to consumer goods.

Even as tariffs on approximately half of the goods to be implemented on 1 September were deferred, consumer confidence displayed weakness. The Bloomberg Consumer Comfort index has declined for the past two weeks, while the University of Michigan Index of consumer confidence fell sharply in August.

The dip in confidence in U.S. consumers is something to monitor. Accounting for approximately 70% of the economy by expenditure a shock to consumption would greatly increase the chance of a recession occurring in the near term.

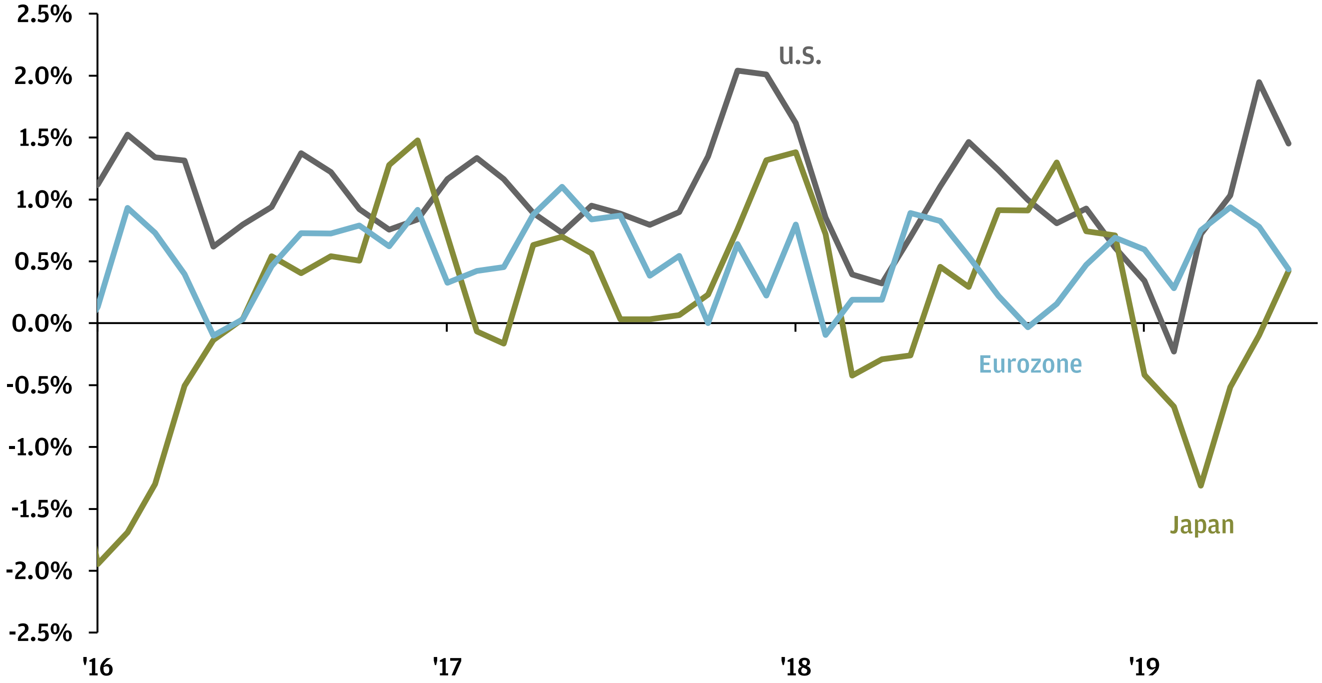
However, the dip in consumer sentiment indicators should be viewed in the broader context of consumer health. The U.S. labor market remains very tight and the unemployment rate of 3.7% is near the lowest in near 50 years. In fact, data from the Job Openings and Labor Turnover Survey (JOLTS) showed that there were 7.3 million vacancies in the U.S. labor market at the end of July, more than the current 6.1 million unemployed people. The tight labor market has underpinned low but steady wage growth helping to stabilize the consumption outlook.

It's also worth noting that U.S. household balance sheets remain fairly robust. A prolonged period of deleveraging after the global financial crisis reduced household debt levels, and what debt remains is relatively low cost. The debt service ratio, debt payments as a percent of disposable income, was below 10% in the second quarter of the year.

Kerry Craig
Global Market Strategist

EXHIBIT 1: CONSUMPTION REBOUNDED SINCE THE START OF THE YEAR

RETAIL SALES VOLUMES 3MMA, 3 MONTH ON 3 MONTH CHANGE



Source: FactSet, U.S. Census Bureau, Japan Ministry of Economy, Trade and Industry, Eurostat, J.P. Morgan Asset Management.
Data reflect most recently available as of 21/8/19.

Investment implications

The resilience of consumers globally and in the U.S. will be tested while the economic outlook remains in a stage of flux. However, the more favorable position of household balance sheets in the U.S. and average levels of the savings rate suggest that consumers could withstand a short-term shock. The recent dip in sentiment levels may be temporary as news about a delay to new tariffs takes time to appear in the economic data.

A slowing in consumption given the heightened level of uncertainty on the economic outlook and length of this expansion is to be expected. However, a moderation in spending patterns is very different to weaker spending or a contraction in consumption. Recent data on spending is broadly positive, reinforcing our view of slowing rather than stalling economic growth. As such, we reiterate our cautious approach to risk assets, but are not yet advocating an all out risk-off stance to positioning.

The Market Insights program provides comprehensive data and commentary on global markets without reference to products. Designed as a tool to help clients understand the markets and support investment decision-making, the program explores the implications of current economic data and changing market conditions.

For the purposes of MiFID II, the JPM Market Insights and Portfolio Insights programs are marketing communications and are not in scope for any MiFID II / MiFIR requirements specifically related to investment research. Furthermore, the J.P. Morgan Asset Management Market Insights and Portfolio Insights programs, as non-independent research, have not been prepared in accordance with legal requirements designed to promote the independence of investment research, nor are they subject to any prohibition on dealing ahead of the dissemination of investment research.

This document is a general communication being provided for informational purposes only. It is educational in nature and not designed to be taken as advice or a recommendation for any specific investment product, strategy, plan feature or other purpose in any jurisdiction, nor is it a commitment from J.P. Morgan Asset Management or any of its subsidiaries to participate in any of the transactions mentioned herein. Any examples used are generic, hypothetical and for illustration purposes only. This material does not contain sufficient information to support an investment decision and it should not be relied upon by you in evaluating the merits of investing in any securities or products. In addition, users should make an independent assessment of the legal, regulatory, tax, credit, and accounting implications and determine, together with their own professional advisers, if any investment mentioned herein is believed to be suitable to their personal goals. Investors should ensure that they obtain all available relevant information before making any investment. Any forecasts, figures, opinions or investment techniques and strategies set out are for information purposes only, based on certain assumptions and current market conditions and are subject to change without prior notice. All information presented herein is considered to be accurate at the time of production, but no warranty of accuracy is given and no liability in respect of any error or omission is accepted. It should be noted that investment involves risks, the value of investments and the income from them may fluctuate in accordance with market conditions and taxation agreements and investors may not get back the full amount invested. Both past performance and yields are not reliable indicators of current and future results.

J.P. Morgan Asset Management is the brand for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide.

To the extent permitted by applicable law, we may record telephone calls and monitor electronic communications to comply with our legal and regulatory obligations and internal policies. Personal data will be collected, stored and processed by J.P. Morgan Asset Management in accordance with our Company's Privacy Policy (https://www.jpmorgan.com/global/privacy). For further information regarding our local privacy policies, please follow the respective links: Australia (https://www.jpmorgan.com/country/AU/EN/privacy), EMEA (https://am.jpmorgan.com/us/en/asset-management/gim/mod/legal/external-privacy-policy), Japan (https://www.jpmorganasset.co.jp/wps/portal/Policy/Privacy), Hong Kong (https://am.jpmorgan.com/hk/en/asset-management/per/privacy-statement/), Singapore (http://www.jpmorganam.com.sg/privacy) and Taiwan (https://www.jpmrich.com.tw/wps/portal/Footer/Privacy).

This communication is issued by the following entities: in the United Kingdom by JPMorgan Asset Management (UK) Limited, which is authorized and regulated by the Financial Conduct Authority; in other European jurisdictions by JPMorgan Asset Management (Europe) S.à r.l.; in Hong Kong by JPMorgan Asset Management (Asia Pacific) Limited, or JPMorgan Funds (Asia) Limited, or JPMorgan Asset Management Real Assets (Asia) Limited; in Singapore by JPMorgan Asset Management (Singapore) Limited (Co. Reg. No. 197601586K), or JPMorgan Asset Management Real Assets (Singapore) Pte Ltd (Co. Reg. No. 201120355E), this advertisement or publication has not been reviewed by the Monetary Authority of Singapore; in Taiwan by JPMorgan Asset Management (Taiwan) Limited; in Japan by JPMorgan Asset Management (Japan) Limited which is a member of the Investment Trusts Association, Japan, the Japan Investment Advisers Association, Type II Financial Instruments Firms Association and the Japan Securities Dealers Association and is regulated by the Financial Services Agency (registration number "Kanto Local Finance Bureau (Financial Instruments Firm) No. 330"); in Australia to wholesale clients only as defined in section 761A and 761G of the Corporations Act 2001 (Cth) by JPMorgan Asset Management (Australia) Limited (ABN 55143832080) (AFSL 376919); in Brazil by Banco J.P. Morgan S.A.; in Canada for institutional clients' use only by JPMorgan Asset Management (Canada) Inc., and in the United States by J.P. Morgan Institutional Investments, Inc., member of FINRA; J.P. Morgan Investment Management, Inc. or J.P. Morgan Alternative Asset Management, Inc.

In APAC, distribution is for Hong Kong, Taiwan, Japan and Singapore. For all other countries in APAC, to intended recipients only.

Copyright 2019 JPMorgan Chase & Co. All rights reserved.

Material ID: 0903c02a8269574e