

Consumers edgy in Canada, U.S.

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Even ordinary Canadians have noticed that the economy is not recovering as many hoped it would.

The Conference Board says its consumer confidence index fell 5.7 points this month and now sits 13 points below where it stood at the beginning of the year.

Coincidentally, the index in the U.S. also fell sharply in June – by about 10 points – over concerns that unemployment remains high despite better economic news in the last six months. It was the first setback since February.

In Canada, consumers expressed increased pessimism on all four measurements in the index – current finances, future finances, employment expectations and purchase intentions.

“The drop cancels out all the gains realized in May,” said the Ottawa-based think-tank.

“However, the pessimism is not spread across the country. The drop in confidence was concentrated in two regions (Ontario and British Columbia), while the remainder of the country fared much better.”

The drop in the index reflected more cautious economic data in the past month or so after six months of robust growth.

Recently, Statistics Canada and other economic watchers have reported sharp drop-offs in the growth of housing, auto sales and exports, along with lower employment growth as well as outright declines in wholesale and retail sales.

Leaders at last weekend's G20 summit broadly agreed on policies they say will set the world on a path to more balanced and sustained growth. But markets were not impressed the day after the summit on Monday, and were outright nervous Tuesday.

The Toronto Stock Exchange (TSX-I11,263.83-343.17-2.96%) was down about 250 points in early afternoon trading, oil prices (CL-FT76.530.590.78%) were off and the Canadian dollar (CAD/USD-I0.95-0.01-1.33%) fell 1.40 cents to 95.14 cents US. The Dow Jones industrial average (DJIA-I9,870.30-268.22-2.65%) fell 240 points.

Conference Board economist Todd Crawford said some consumers in Canada may have become more pessimistic because of the barrage of negative news over the European debt crisis.

But he said the large drop-offs in Ontario and B.C. likely were also significant, since those provinces are both in the process of enacting an unpopular harmonized sales tax.

The Conference Board said the survey found many people were concerned about job security.

Ontario continued to have the weakest confidence of the regions, while other areas like the Prairies, Atlantic Canada and Quebec showed gains for the month.

Meanwhile, the U.S. Conference Board said Tuesday that its Consumer Confidence Index dropped almost 10 points to 52.9, down from the revised 62.7 in May. Economists surveyed by Thomson Reuters had been expecting 62.8 for June.

June's reading marked the biggest drop since February, when the index fell 10 points. The index had risen for three straight months since then.

Both components of the index – one that measures how consumers feel now about the economy, the other that assesses their outlook over the next six months – dropped. The Present Situation Index decreased to 25.5 in June from 29.8 in May. The Expectations Index declined to 71.2 from 84.6.

“Increasing uncertainty and apprehension about the future state of the economy and labor market, no doubt a result of the recent slowdown in job growth, are the primary reasons for the sharp reversal in confidence,” said Lynn Franco, director of the Conference Board Consumer Research Centre, in a statement. “Until the pace of job growth picks up, consumer confidence is not likely to pick up.”

The index had been recovering fitfully since hitting an all-time low of 25.3 in February 2009. Still, the reading was far below what's considered healthy. A reading above 90 indicates the economy is on solid footing; above 100 signals strong growth.

Economists watch the number closely because consumer spending including health care and other major items, accounts for about 70 per cent of U.S. economic activity.

Economists already had believed confidence will remain weak for at least another year because of stubbornly high unemployment. But a batch of economic data – from disappointing job figures in May to dismal housing numbers – is increasing worries that the road to recovery could be rockier than anticipated. Amid such concerns, the Dow Jones Industrials has fallen 9.5 per cent since late April.

"We're concerned about the strength of the economic recovery from here," said Richard Hastings, macro and consumer strategist with Global Hunter Securities.

A key housing index released Friday showed that home prices in April rose for the first time in seven months as government tax credits bolstered the housing market. But the rebound may be short-lived now that the incentives have expired. The Standard & Poor's/Case-Shiller 20-city home price index released Tuesday posted an 0.8 per cent gain. It had fallen in each of the past six months.

Overall, however, a recent batch of housing data released last week signaled a renewed housing slump that may threaten the broader economy. The Commerce Department reported on Wednesday that sales of new homes collapsed in May, sinking 33 per cent to the lowest level on record as potential buyers stopped shopping for a home as government tax credits expired. That came a day after a report showed that sales of previously owned homes fell unexpectedly in May.

The Commerce Department announced Monday that Americans spent a little more in May but not enough to accelerate the economic recovery. Consumer spending rose 0.2 per cent last month after no change in April. But personal income was up 0.4 per cent, indicating consumers are still wary and choosing to save money.

A key issue is jobs. The Labor Department is expected to report on Friday that employers eliminated 110,000 jobs in June, and the jobless rate is expected to tick up slightly to 9.8 per cent, from 9.7 per cent in May, according to economists surveyed by Thomson Reuters. That follows a bleak report in May, which showed employers added 431,000 jobs but the vast majority were temporary census positions.

Retailers had a surprisingly solid start to the year as consumers felt better as their stock portfolios rose, but since April, business has slowed. Hastings believes the sluggishness continued into June. He believes sweltering heat in this past month wilted sales of summer's trendy fashions as consumers stuck to buying the basics like shorts and tank tops to keep cool. He also cited a slowdown in revenue in big-ticket items.

The Conference Board survey is based on a random survey of consumers sent to 5,000 households from June 1 to June 22.

The survey showed that consumers' assessment of the labor market was less than favorable. Those claiming jobs are "hard to get" increased to 44.8 per cent from 43.9 per cent, while those saying jobs are "plentiful" decreased to 4.3 per cent from 4.6 per cent. Consumers polled were also much less optimistic about future job prospects.