

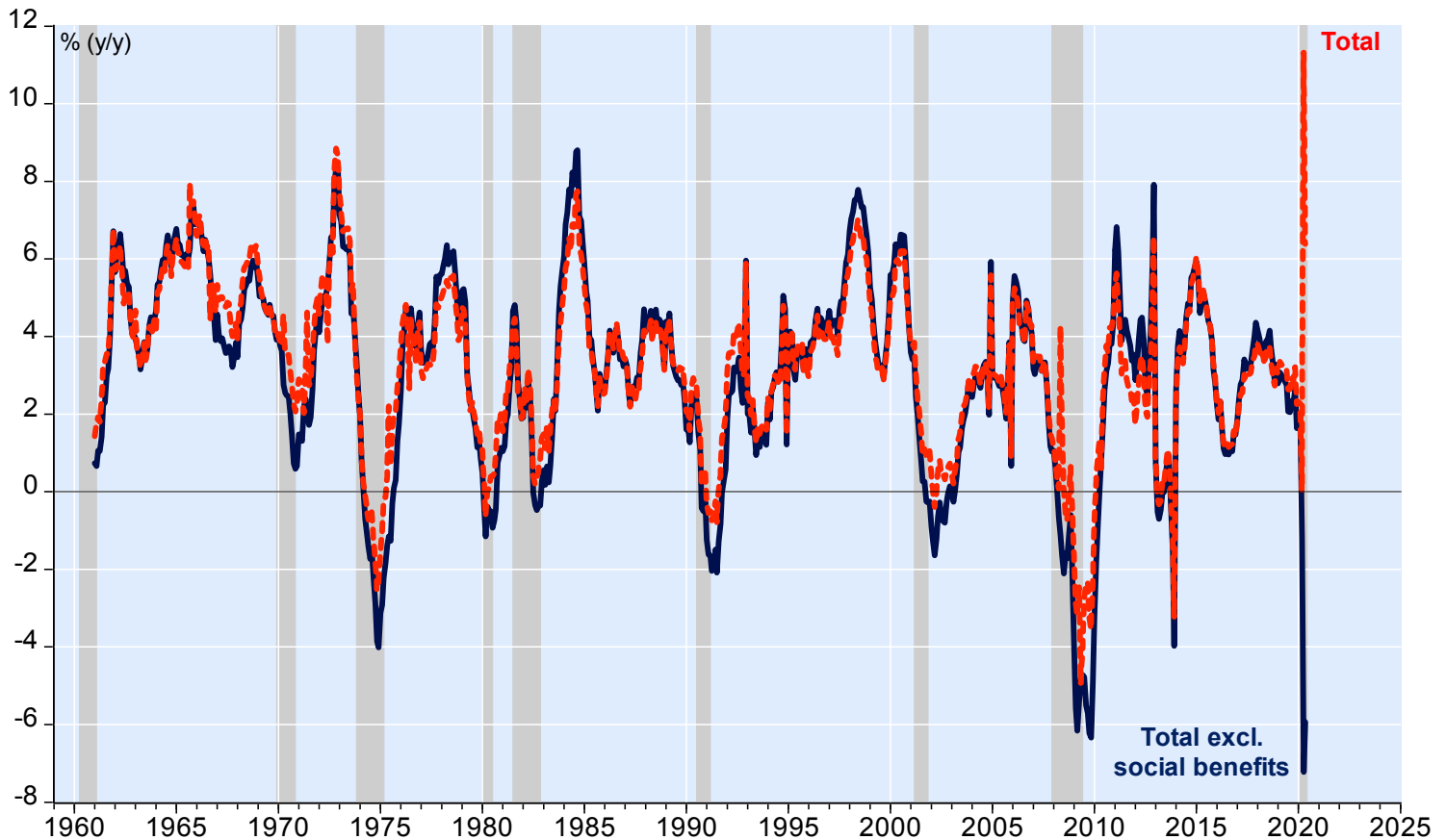
U.S. Watch

By Stéphane Marion

Consumer Discretionary stocks are trading at a new high, with a forward P/E close to 40. Why are investors bidding up a sector so closely linked to a still-uncertain recovery of labour markets? This is where government programs come in. Despite recession and the deepest job losses in generations, labour income is surging and consumer spending is rebounding! As today's Hot Chart shows, this unprecedented development is due to the enhanced generosity of government social benefits. Were it not for these transfer payments to households, we estimate that labour income would be declining at the fastest rate in more than 60 years. It is important to keep in mind that a divided U.S. Congress has yet to commit to a second round of direct payments to households after the first round expires at the end of July. Failure to do so at a time when employment is still well off its pre-recession peak is likely to shake equity markets now trading at hefty valuations.

U.S.: Personal income surges despite recession!

Real personal income: Total vs. total excluding government social benefits to persons



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