

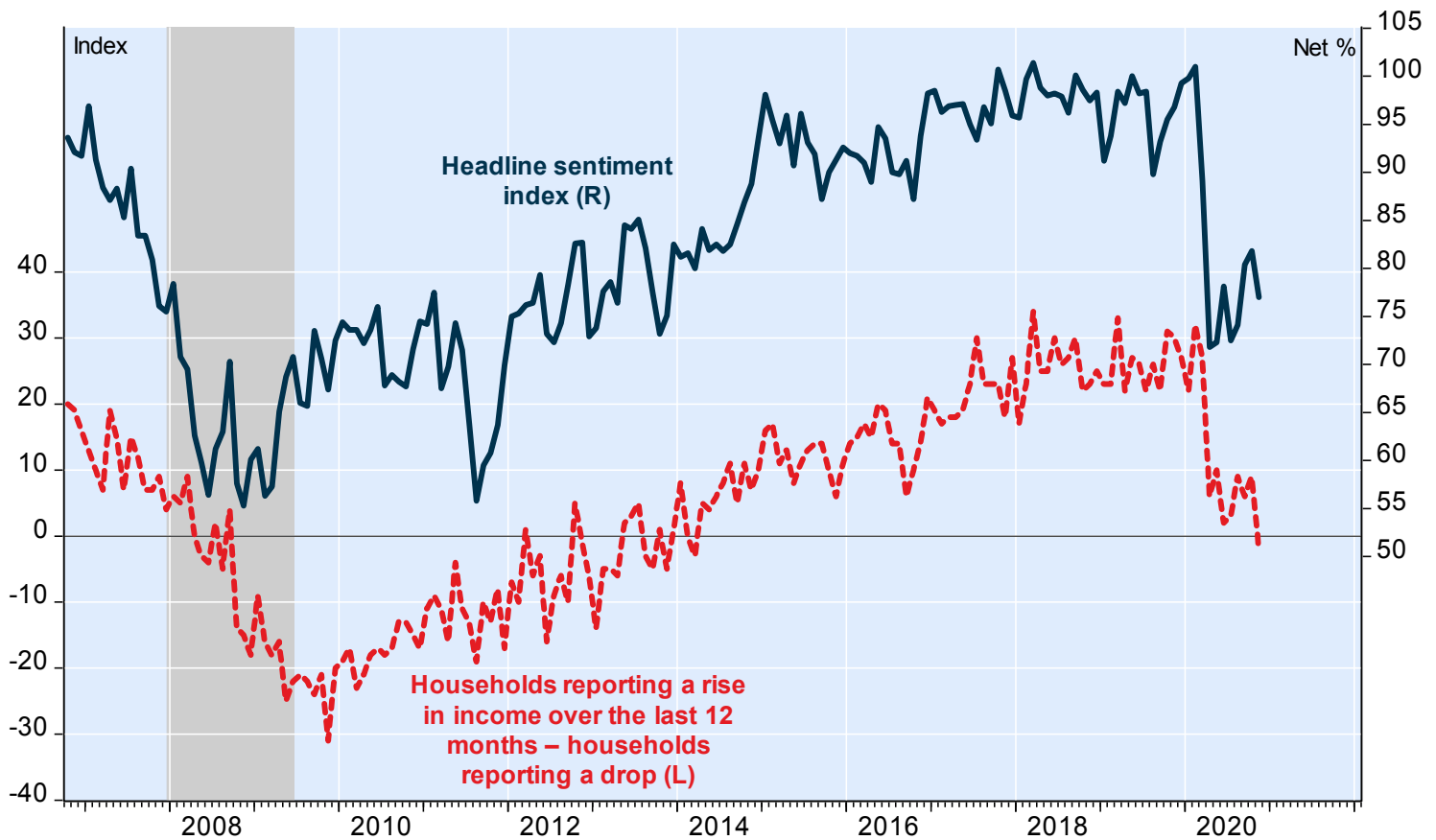
U.S. Watch

By Jocelyn Paquet and Alexandra Ducharme

Despite a surge in unemployment, consumer spending has been surprisingly resilient in the U.S. since the beginning of the crisis. For that, we have to thank Washington. Though job losses have resulted in an unprecedented drop in worker earnings, that decline has been more than offset by the emergency assistance deployed by the U.S. Congress. Bonifications to unemployment schemes have been particularly helpful in preventing a drop in earnings. But these benefits are now expired, leaving consumers more exposed to the vagaries of the labor market. Judging from the latest edition of the University of Michigan Consumer Sentiment Survey, Americans are starting to feel the bite. As today's Hot chart shows, the headline sentiment index fell 4.8 points in November to 77.0. This was significantly below consensus expectations calling for an 82.0 print. Rising Covid-19 caseloads were in part responsible for this decline. The result of the election also played a role. While sentiment held steady among Democrats following Joe Biden's victory, it took a dive among Republicans. Perhaps more importantly though, respondents on both sides of the political divide seemed increasingly concerned about their finances. For the first time since March 2014, a majority of polled households said their income had declined in the past 12 months. Unfortunately, the chances of this situation improving in the coming months seem slim, with a majority of households expecting unemployment to increase over the next 12 months. Unless a new stimulus package can make it through Congress before Joe Biden's inauguration (January 20), we expect household consumption to weaken significantly.

U.S.: Consumers feel the bite from lower income and rising caseloads

U of Mich Consumer Sentiment Index vs. net % of respondents reporting a rise in income in the last 12 months



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