Confidence Jump Hints at Future Spending Surge

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Director
512.481.2012
greg.warner@hilltopsecurities.com

In February 2021, the Conference Board's consumer confidence index sat at 90.4, literally on top of its 20-year average. This morning, the March confidence index jumped 19.3 points to 109.7. It was the largest single month increase in 18 years. Both the present situation index and future expectations index surged last month, *with good reason*, as the Covid spread slowed, the vaccine rollout gained momentum, stimulus checks rolled in and the DOW and S&P500 reached new highs. The survey indicated future spending plans for new homes, vehicles and other big ticket items rose sharply in March.

The historical correlation between positive consumer outlook and spending is dubious. Consumer confidence reached a record high of 144.7 in May 2000 and was still quite lofty at 142.5 four months later. As it turned out, retail sales growth was negative in each of the next three months. Confidence subsequently reached an 18-year high in October 2018, but again, the follow-through fell flat with November retail sales up by just +0.1% and December sales down -2.1%.

Fed Chair Powell has said on several occasions that future monetary policy decisions will be based on actual data rather than forecasts. Surveys mostly fall into the forecast category. However, the sum total of positive inputs strongly implies that a spending boom is just around the corner. Today's confidence numbers reinforce the widely held belief that actual consumption data could exceed the Fed's cautious forecasts. Much stronger growth, if it materializes, could prompt committee members to rethink their steady monetary policy stance. *That case is growing*.

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In other news this morning, the S&P CoreLogic Case-Shiller home price index showed a +11.2% year-over-year gain in single family home prices in the nation's largest markets. The remarkable thing about this rare double-digit advance is that is it's relative to January 2020 when the pandemic had yet to reach the front page. In the 10-year *pre-Covid* period from January 2010 to January 2020, annual price increases averaged +3.7%. The Fed is waiting for general inflation to emerge before tightening, but they may not be looking in the right places. The big ticket items consumers are expecting to buy over the next six months all have much higher price tags.

In yesterday's news, the Texas Manufacturing Outlook Survey indicated significantly stronger activity in Texas factories last month. Strength was evident across the board. (In this series, a reading above zero indicates expansion; below zero indicates contraction.)

- The general business index climbed 12 points in March to 28.9. *By comparison, the general business index was -72.2 in April of 2020.*
- The production index jumped from 20 to 48, *the highest level in the 17-year history of the series.*
- The outlook index jumped 15 points to 25.8, the highest in three years.
- Employment conditions brightened considerably in March with the hours worked index more than doubling from 11.3 to 23.4. while the employment index rose from 12.7 to 18.8.

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- On the inflation front, supply chain disruptions continue to put upward pressure on prices as raw materials index jumped from 57.4 to 66, while the finished goods index climbed from 23 to 32.2, a three-year high.

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The March survey included a special series of questions on the February storm and the mask mandate, including both manufacturing and service companies.
Below are some key responses of Texas businesses:

- 61% lost power for an average of three days during the freeze.
- 51% reported reduced operating capacity for an average of five days.
- 31% reported damage to structure/facilities with 23% of these not expecting insurance to cover.
- 46% do not expect lost revenue will be made up in the subsequent months
- 87% will still require employees to wear masks, while 73% will require customer to cover their faces despite the lifting of the state mask mandate.
- 59.1% have reopened or plan to reopen at 100% capacity.

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The major stock indexes are down while weighing a range of news from hedge fund collateral damage and unclogged canals, to a rapidly accelerating pace of vaccination amid fresh CDC warnings on a potential fourth Covid wave. Bonds are mixed today, with the long end rallying and the short-to-intermediate end gently selling off. *The volatility isn't going away anytime soon.*

Market Indications as of 1:55 P.M. Central Time

DOW	Down 85 to 33,087 (HIGH: 33,171)
NASDAQ	Down 27 to 13,032 (HIGH: 14,095)
S&P 500	Down 15 to 3,956 (HIGH: 3,975)
1-Yr T-bill	current yield 0.06%; opening yield 0.05%
2-Yr T-note	current yield 0.15%; opening yield 0.14%
5-Yr T-note	current yield 0.91%; opening yield 0.89%
10-Yr T-note	current yield 1.73%; opening yield 1.71%
30-Yr T-bond	current yield 2.40%; opening yield 2.41%