

ECOWEEK

No. 18-15, 13 April 2018

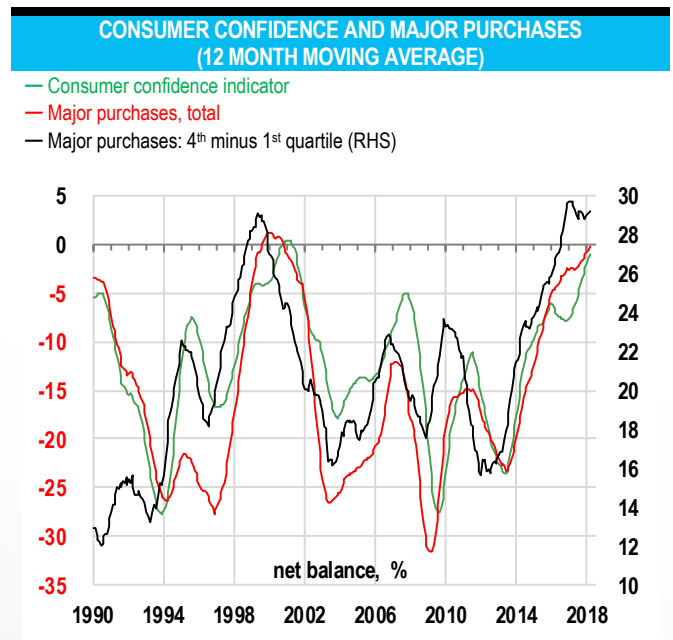
Eurozone: a peak in consumer confidence?

■ Turning points in the assessment of making major purchases lead those of the overall consumer confidence indicator ■ The difference of how top and bottom quartile income households assess their spending on major purchases is highly cyclical and its turning points lead those of consumer confidence ■ Based on recent observations, this suggests that the cyclical peak in consumer confidence is near.

Consumer confidence data play an important role in assessing the outlook for household spending: high confidence levels should *ceteris paribus* allow for strong consumption growth. The monthly European Union consumer survey also asks whether it is the right moment to make major purchases like furniture, electrical/electronic devices etc. Spending on these items can be postponed if need be and should be more cyclically sensitive.

As shown in the chart, peaks in the assessment of major purchases tend to lead peaks in overall consumer confidence. The EU also provides this information based on income groups which allows to check whether they react differently in a given phase of the cycle. The black line, which shows the difference in the assessment of major purchases by the top quartile incomes (Q4) versus the bottom quartile (Q1), shows this is indeed the case. It exhibits considerable swings which are positively correlated with the overall consumer confidence indicator.

This means that higher incomes react more significantly to changes in the cyclical environment, both during upswings and downswings. Possible explanations are 1) an improvement in the general economic climate may be perceived differently by lower income households versus higher income households, so when the environment improves the former may still display a greater caution 2) lower income households may face higher income uncertainty or at least have this perception. This might explain why the over an entire business cycle the average assessment of making major purchases is lower for these households than for the top income quartile 3) bottom quartile households could be more challenged than others to finance major purchases out of accumulated savings or via borrowing. Importantly, the cyclical turning points of the difference in the assessment of making major purchases between the top and the bottom quartile incomes are leading those of the overall major purchases series (which covers all respondents) which in turn lead those of the consumer confidence index. The recent behaviour of the difference indicator (black line) suggests that we are at or near a cyclical peak in consumer confidence. This should be taken on board in assessing the outlook for household spending.



Source: European Commission, BNP Paribas

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