

## Consumer strains likely to cloud recovery hopes

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Relief that the global economy is on course to escape recession following a return to growth by Germany, France and Japan in the second quarter has been replaced by nagging anxiety over the strength and sustainability of any recovery.

This week's data releases are expected to highlight growing strains on consumers, particularly in the US, and could add to concerns about recovery prospects.

US consumer confidence fell in both June and July, mainly because of fears about the labour market. Only 3.6 per cent of those surveyed thought jobs were plentiful, the lowest since 1982. The consensus forecast for the Conference Board measure of consumer confidence, due out tomorrow, is for a rebound from 46.6 in July to 48 in August. However, any further disappointment would underline concerns about the gloomy outlook for US consumers.

The US housing market has shown encouraging signs of stabilisation in recent months, but high levels of unsold properties and large numbers of foreclosures look likely to slow the return to growth.

Declines in US house prices should slow for June. The year-on-year fall in the S&P Case-Shiller measure of 20 metropolitan areas, due for release tomorrow, is likely to ease from -17.1 per cent to -16.4 per cent. Any price increase in June compared with May would be seen as another sign that the property market has reached its trough.

New home sales figures, due on Wednesday, are seen rising from 384,000 in June to 390,000.

The core measure for US durable goods orders (non-defence capital goods) rose 2.6 per cent in May, up for a second successive month, and a rise in motor vehicles and parts should ensure a further boost in July's data, also due on Wednesday.

Thursday brings revisions to second-quarter US gross domestic product data, with growth likely to be revised down from -1 per cent (annualised) to -1.4 per cent, mainly because of inventory adjustments.

US weekly jobless claims, also due on Thursday, are seen falling from 576,000 to 560,000 after rising in the two previous weeks.

US personal income and spending data for July, due out on Friday, should show car sales boosted by the government's "cash for clunkers" scheme. The consensus forecast is for a rise of 0.2 per cent in spending and for incomes to inch up 0.1 per cent. Both measures are still declining compared with last year.

Incomes have been heavily supported by government measures including the Making Work Pay tax credit, extensions to unemployment benefit and more spending on food stamps. However, JPMorgan warns that the only sustainable support for consumer spending will be a recovery in the labour market and growth in incomes.

In Germany, no revisions are expected to the headline figures for second quarter GDP, due out tomorrow, with quarter-on-quarter growth expected to be confirmed at 0.3 per cent. The breakdown will provide details of the extent of any increase in consumer spending, the contribution made by exports to overall growth and by how much destocking has slowed.

Germany's IFO business climate survey for August, due on Wednesday, should reflect activity strengthening as the economy has exited recession. The headline business climate index is seen rising from 87.3 in July to 88.9 in August.