Economic Indicator — May 31, 2022

Consumer Confidence Slips in May as Inflation Concern Mellows Slightly

Summary

Consumer confidence fell in May, though not as much as expected. Inflation expectations edged lower for a second straight month, but so too did consumers' assessment of the labor market. High frequency data show consumer activity picking up, which is consistent with last week's decent personal spending data.

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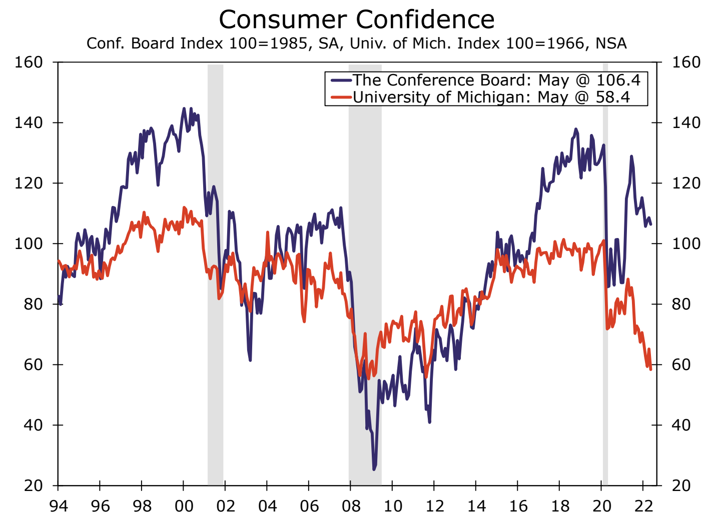
Confidence Slipping

Consumer confidence slipped 2.2 points in May to 106.4 from an upwardly revised 108.6 in April. The consensus had been braced for a larger decline so the outcome was somewhat better than expected. Financial markets in recent weeks have been preoccupied with whether the Federal Reserve's plan to raise rates will derail the economy. To that end, every piece of data becomes a new brick to build upon this wall of worry. The psyche of the consumer has been moving in the wrong direction, on trend, for the better part of the past year. The separately reported consumer-sentiment index from University of Michigan dropped in May to a decade low amid ongoing worries about inflation. The comparatively smaller decline in the Conference Board's measure of consumer sentiment has to do with the strength of the labor market, something that plays a larger role in this survey.

None of this is to say that confidence is somehow impervious to inflation. It still matters that gasoline prices rose in May from already elevated levels in April. Still, in a welcome development for policy-makers hoping to rein in prices, the expected inflation over the coming 12-months fell for a second straight month to 7.4% in May.

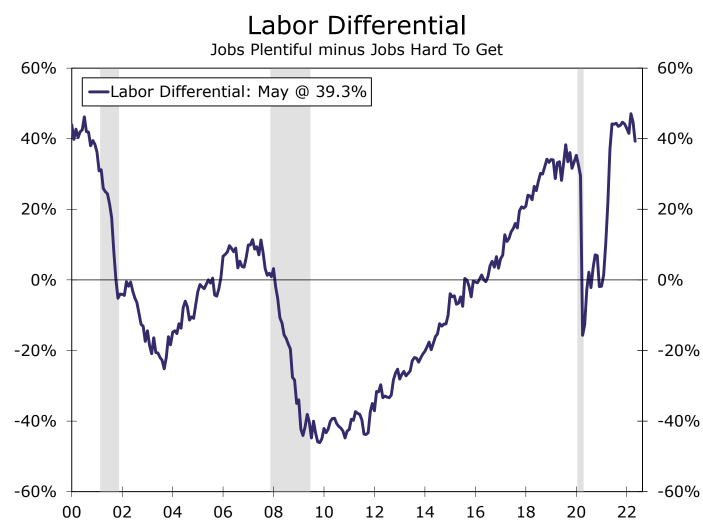


Source: The Conference Board, University of Michigan and Wells Fargo Economics

Labor Market a Little Less Tight

Our forecast anticipates a slowing in consumer spending over the next couple of years, but critically, we do not see a recession as a base-case, even though we readily acknowledge that the risk of recession is elevated. One of the best arguments in support of our "slowing but not stalling" outlook is the fact that the labor market remains quite tight and this is something that is not lost on the public. Consumers' assessment of the job market was little changed in May. The share of those saying that jobs are plentiful came in at 51.8% in May, off from the 56.7% share reached in March which was the highest level on records that date back to 1967. The share of consumers who thought that jobs were hard to get in May rose to 12.5% from 10.1% in April.

The labor differential, which is the difference between the share of those who are finding jobs are plentiful and the share finding jobs are hard-to-get fell to 39.3; that is the lowest since May 2021. This differential hit an all-time high just two months ago. A glass-half-empty read of this might imply a weakening in the labor market while a glass-half-full take might see it as a pivot from too tight to just right. Worker shortages, especially in the service sector have forced limited hours of operation or delayed summer openings for pools due to the lack of lifeguards. Even at its present level of 39.3%, the labor differential is still higher than it was at any point in the prior cycle which was the longest on record.

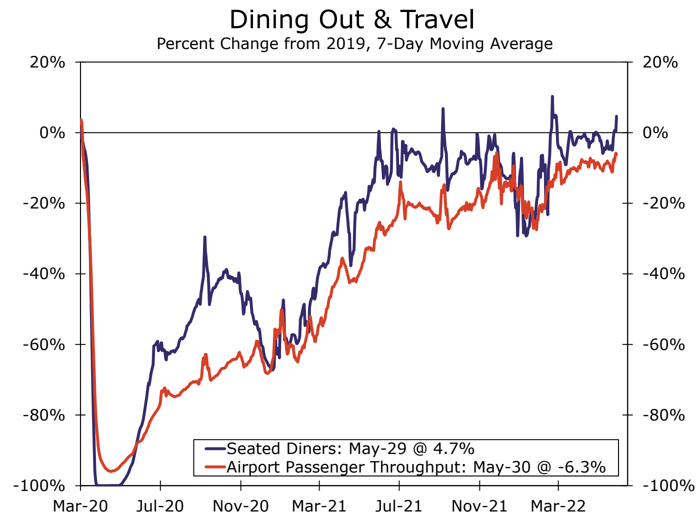


Source: The Conference Board and Wells Fargo Economics

Consumers Making Up for Lost Time

High frequency data suggest that consumers are following through on their summer vacation plans and other forms of spending that were less accessible during the pandemic. In December 2021, a pandemic high of 45.4% of respondents said they were planning a vacation in the next sixth months and now half a year later we are starting to see some of those plans actualize. Both seated diners and TSA airport passenger throughput gained over Memorial Day weekend as some consumers made the trek to see friends and family. With higher gas prices, some consumers may have shelved travel plans, as the share traveling by car dropped more than four percentage points. But even then, it is hard to ignore the cabin fever of the consumer with the box office posting new records this weekend, signaling a normalization for some pre-COVID activities.

Personal spending figures for April were released late last week and revealed a stronger pace of consumer outlays than forecasters anticipated. It is hard to square deteriorating confidence with recreational services posting the largest gain of any service category in real terms (+1.5%). Bars and restaurants also posted a solid 1.3% gain. It is an unusual circumstance when most gauges of consumer sentiment are trending lower even as spending remains un-dented by the malaise. As we wrote in a recent special [report](), some of the factors that have supported the staying power of the consumer cannot perpetually sustain spending.



Source: Bloomberg Finance LP and Wells Fargo Economics

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