

Special Commentary — April 15, 2021

The Animal Spirits Index Turns Positive in March

Summary

After staying below zero for a year, our Animal Spirits Index (ASI) turned positive in March. All five components contributed positively over the month, indicating widespread optimism. This strong reading is just the latest piece of data pointing toward an accelerating economy. Much like the broader recovery, the ASI's turnaround is the fastest in decades, with the index returning to positive territory after just 12 months. By comparison, the ASI took 75 months to turn positive after the Great Recession and 33 months from the 2001 recession.

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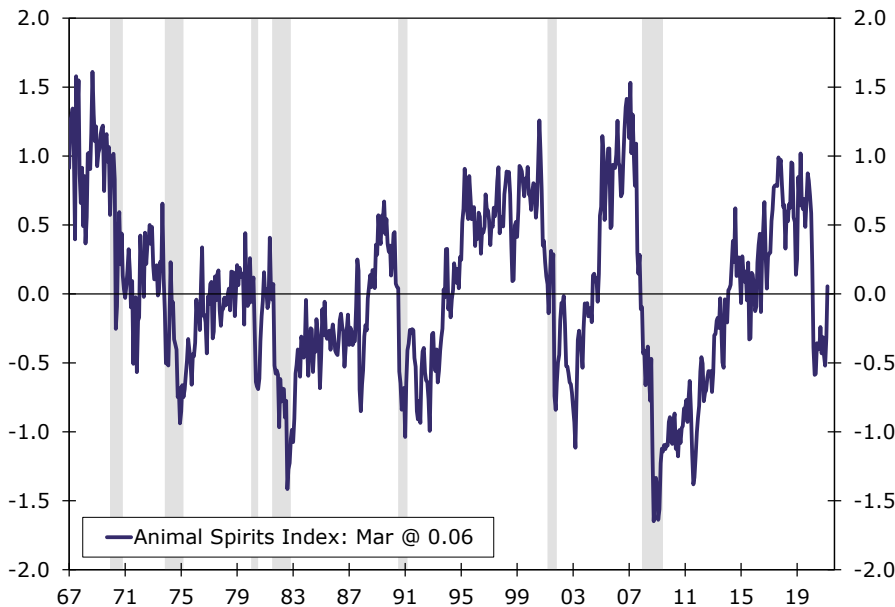
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Figure 1

Animal Spirits Index



Source: Wells Fargo Securities

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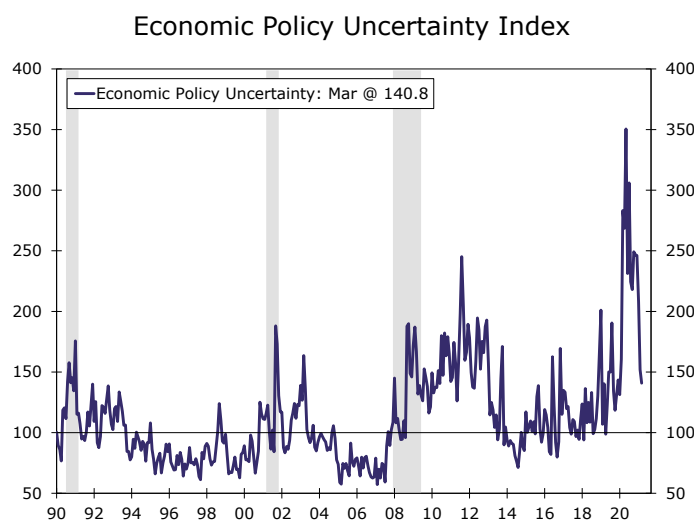
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ASI Is Heading in the Right Direction

The Animal Spirits Index (ASI) came in at 0.06 in March, the first positive number in a year. [Previous reports](#) detail the methodology, but on a basic level an ASI value above zero indicates optimism, while a value below zero suggests pessimism. The index had been negative since the start of the pandemic, as any improvement over the last year proved fleeting and successive waves of COVID prevented the return to normal economic engagement. While the virus is still prevalent, the accelerating pace of vaccinations provides some reason to believe the recent improvement in sentiment could prove durable. Additionally, unlike many of the monthly increases over the past year, the ASI's improvement in March was broad-based, with all five components of the ASI contributing positively on the month.

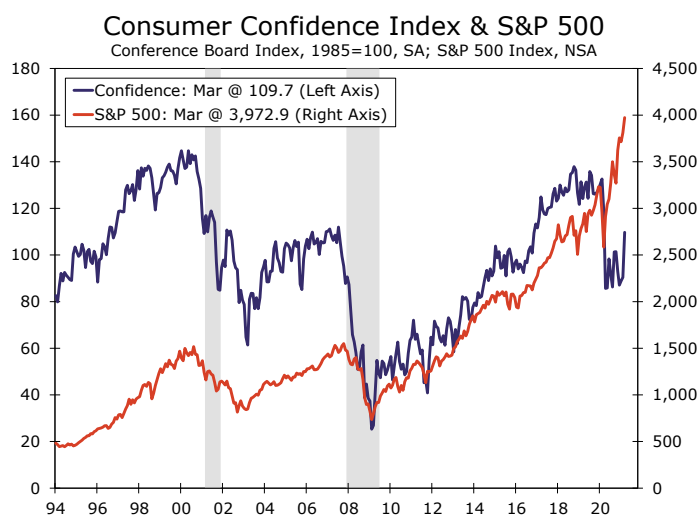
Financial markets continued their steady advance. The S&P 500 index notched another all-time high, while the VIX hit its lowest monthly average since January of last year. The yield spread between the 10-year and 3-month Treasuries increased as markets continued to price in higher inflation and expectations of further fiscal stimulus. The Economic Policy Uncertainty Index dropped to 140.8 in March, the lowest level since January 2020. Consumers' perception of the economy improved rapidly in March as case counts dropped and the labor market recovery picked up momentum. The Conference Board's Consumer Confidence Index jumped to 109.7, the highest since March 2020.

Figure 2



Source: Baker, Bloom & Davis and Wells Fargo Securities

Figure 3



Source: S&P Dow Jones Indices, The Conference Board and Wells Fargo Securities

Are Economic Agents Optimistic About the Economic Recovery ?

Much of the incoming data for March has been very positive. The labor market recovery has begun to accelerate, with 916K jobs added in March, and the ISM indices for the manufacturing and service sectors hitting 37- and 24-year highs, respectively. Yet, unlike last year, when reopenings led to a mechanical jump in various indicators as the country exited lockdown, sentiment now appears to be improving alongside better economic data. Rising animal spirits, in addition to historic fiscal stimulus and an improving public health picture, underpin our expectation for further improvement in economic activity over the coming months.

Our recent [work](#) details how this recovery is different from prior cycles and discerns whether this cycle can break the weak-recovery trend of the last few decades. While that report focuses on output and employment, the ASI appears to be displaying a similar break. The ASI's recovery—turning positive just 12 months after the start of the recession—is the fastest in decades. By comparison, the ASI took 75 months to turn positive after the Great Recession and 33 months from the 2001 recession.

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