Economic Indicator — January 25, 2022

Consumer Confidence Drop Not as Bad as Feared, Present Situation Improves

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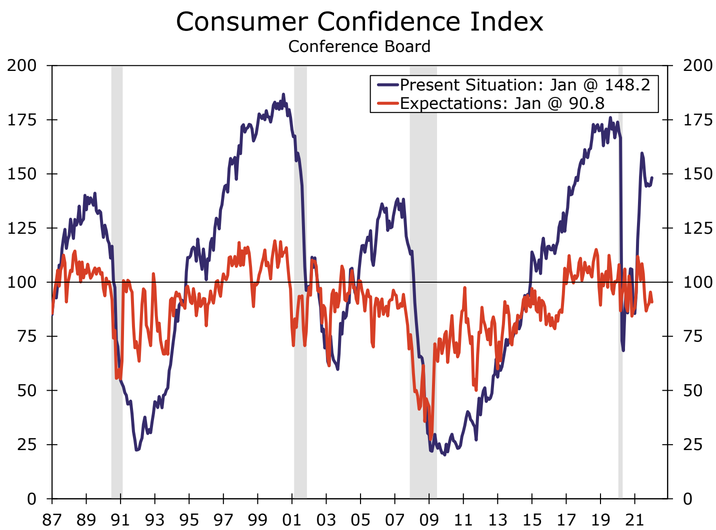
Summary

Consumer confidence fell for the first time in four months in January, though the decline was smaller than expected. Consumers are souring on their outlook for the economy and their own paychecks even as they admit that business conditions have improved. When asked about the present situation, however, consumers are as upbeat as they have been since August.

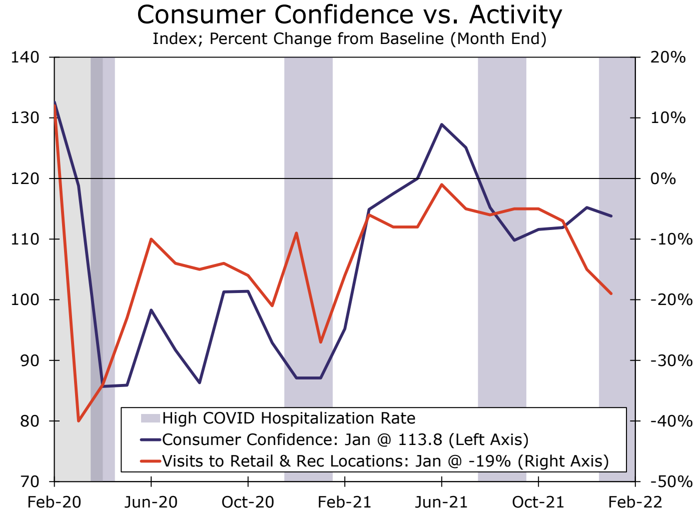


Source: The Conference Board and Wells Fargo Economics

First Dip in Confidence in Four Months

It takes more than a resurgent virus and choppy financial markets to derail consumer confidence. Yes, consumer confidence edged down to 113.8 in January from 115.2 at the end of 2021. But the decline was smaller than the consensus had expected and even more surprisingly, consumers' take on the present situation actually rose to its highest level since August. Since the Omicron variant first emerged on the scene in late November, financial markets have been trying to determine the extent to which the variant might stymie economic growth as the Delta variant did in 2021. The "not a huge deal" camp can point to today's report as evidence that consumers have not completely lost their confidence. Our take is that hospitalizations have become a bigger factor than case counts, and the recent increase in people having to go to the hospital may yet take a bigger toll on confidence.

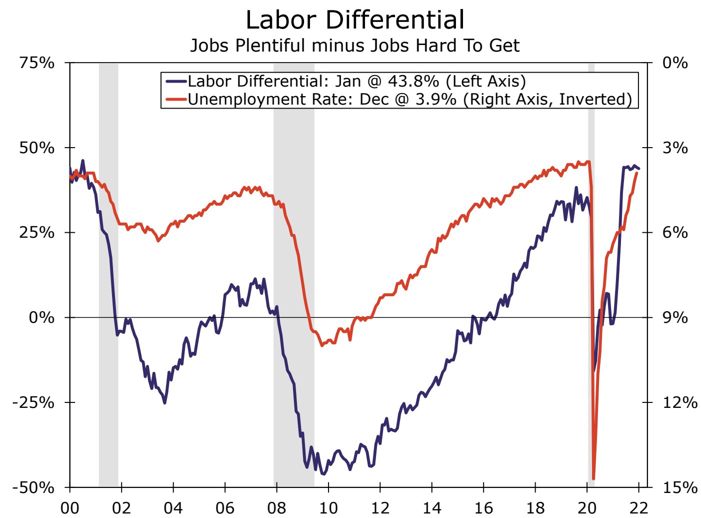
The improvement in present conditions notwithstanding, the expectations index dropped 4.6 points, to 90.8, though current business conditions were rated as more favorable.



Source: Bloomberg Finance L.P., the Conference Board, Google and Wells Fargo Economics

Nothing Like a Job to Boost Your Confidence

The labor differential, measured by those viewing jobs as plentiful vs. those thinking jobs are hard to get, fell to 43.8%, similar to where it was in October. While this may signal some cooling off in the labor market, it still remains historically strong. Before the pandemic-era, this measure had only climbed that high twice since 1978—both instances were in the year 2000. Employment expectations for six months ahead also dimmed slightly, with the share of those expecting more jobs falling and those seeing fewer opportunities rising. Considering these labor force-related measures are slightly dampened, it is not that surprising that confidence suffered only a minor blow in January. As we have detailed in our special report, Of Two Minds, consumer confidence tends to move in step with changes in its employment-related line items. The slight weakening of the index in January was likely a reflection of consumer confidence's employment measures coming off of their late 2021 highs. That said, at a 3.9% unemployment rate and with December's initial jobless claims reaching their lowest level in 50 years, the job market is still quite tight and continued strength should support confidence in the near term.



Source: The Conference Board, U.S. Department of Labor and Wells Fargo Economics

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