

Economic Indicator — December 21, 2022

Cheer Up Dude. It's Christmas.

Confidence Reveals a Surprising Improvement in Attitudes at Year's End

Summary

The Conference Boards' consumer confidence index surprised to the upside in December, rising to an eight-month high of 108.3. December's performance easily exceeded even the highest economist expectation and suggests there is material improvement in consumers' attitudes as 2022 comes to a close.

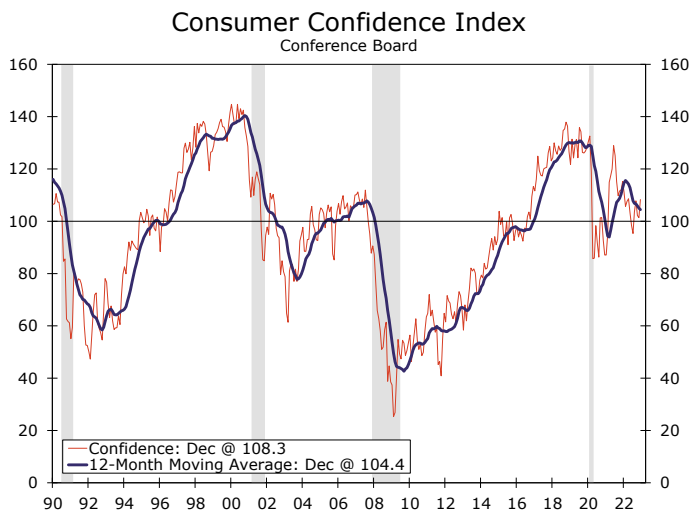
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Source: The Conference Board and Wells Fargo Economics

Confidence Ends 2022 on an Upbeat Note

The Conference Board's consumer confidence index increased more than expected in December, sparked by falling gasoline prices and an improved assessment about the labor market. The improvement is consistent with the preliminary December reading of the University of Michigan's consumer sentiment index, which climbed 2.3 points from November's level.

The present situation index, which measures consumers' assessment of current business and labor conditions, increased nearly 9 percentage points in December to a three-month high of 147.2. The expectations index, which is based on consumers' outlook for labor, income and business conditions over the next six months, also improved rising 5.7 percentage points to a level of 82.4.

The bounce back in consumer confidence following declines in October and November reflects easing concerns about inflation and more favorable views of the labor market. Consumers' expectations of near-term labor market conditions have been trending down since March. However, attitudes improved this month as the net percentage of survey respondents noting that jobs were "plentiful", versus "hard to get", was 47.8% in December, up from 45.2% in November. While the economy has been softening, consumers are still pretty confident about their ability to find a job.

Optimism extended beyond the current assessment with a more favorable view of the near-term outlook. Expectations for "better" business conditions increased to its highest level since February, while expectations for "more jobs" fully retraced November's percentage point decline. Even as consumers were relatively more sanguine about future employment and inflation prospects, that optimism did not translate to future income expectations. Consumer assessment of income expectations six-months out declined for the second straight month in December and suggest financial prospects will remain a concern for consumers in 2023.

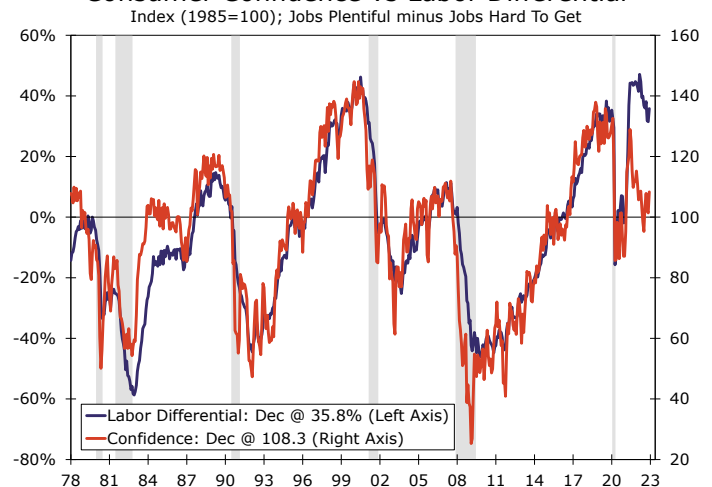
Inflation Begins to Loosen Grip

Consumers are increasingly more optimistic with their inflation outlook, as the average year-ahead inflation expectation fell to 6.7%, the lowest level since September 2021. This is a notable drop from the all-time high of 7.9% registered in March of this year. A significant driver of this is gas prices putting consumers in the holiday mood. The national monthly average for a gallon of gas is down close to 12% from last month and is nearly 34% off its peak in June, according to AAA.

The drop in inflation expectations did not translate into a meaningful change in consumers' plans to make a major purchase within the next six months. Auto purchase plans remained relatively flat at 10.5% compared to November's 10.4%, while home and major appliance purchase plans notched declines of 6.2% from 6.5% and 43.1% from 44.9%, respectively.

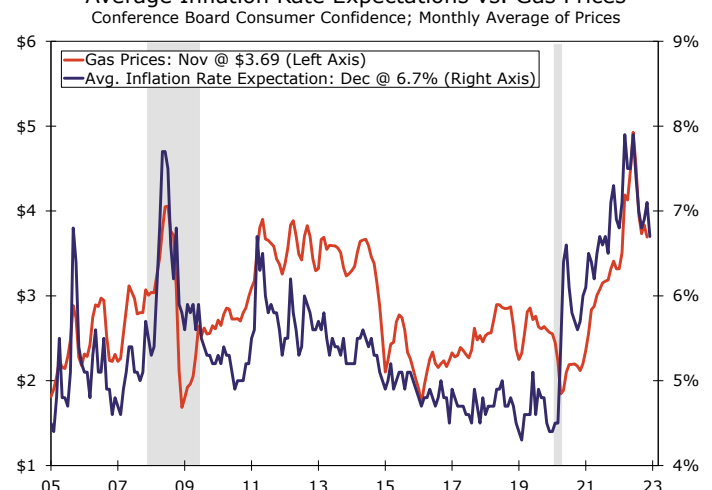
While purchase plans for all three major goods categories were lower than those a year ago, the post-pandemic shift from goods to services spending is on full display in consumer expectations to take a vacation. Consumers planning to take a vacation in the next six months rose to 46.2%, up from 45.4% a year ago and a marked difference from only 36.3% in June. Clark Griswold would be proud.

Consumer Confidence vs Labor Differential



Source: The Conference Board and Wells Fargo Economics

Average Inflation Rate Expectations vs. Gas Prices



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

Consumers may be more confident than they were over the summer months, but they are still exhibiting more caution than was apparent in 2021. The outlook for consumer confidence in 2023 will hinge on the Fed's ability to deliver a soft landing on what could be described as a narrow runway. Substantially addressing inflation is one aspect of increased consumer confidence, but a large part of the Conference Board's measure is determined by labor market health. The potential for rising rates to pull the floor out from under the still strong labor market is a real downside risk for 2023.

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