

Economic Indicator — August 30, 2022

## Confidence Hits 4-Month High as Gas Prices Hit 4-Month Low

### Summary

Consumer confidence rebounded to its highest level since May as gas prices fell throughout the month and stock prices rose during the first half of it. The share of consumers that see jobs as plentiful fell, but so too did the share finding jobs as hard-to-get.

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### Pain Relief at the Pump

Lower gas prices throughout the month and a rebound in equities through the first half of it breathed some fresh life into consumer confidence in August. The headline print of 103.2 was a bigger gain than the consensus had expected and returns confidence to a level last seen in May.

The expectations component shot up almost 10 points to 75.1 and while that is indeed an improvement, it still places this measure at a point that is lower than all but three months in the past 8 years.

Inflation has been a top-of-mind concern for consumers for at least the past year and one of the most visible and persistent manifestations of that is pain at the gas pump. A drop below \$4/ gallon on average for gasoline across the country in August brought some much-needed relief.

While gasoline prices have continued to trend lower throughout the month, stock prices have not. The roughly 6.5% decline in the S&P 500 since August 16 could weigh on confidence if markets remain under pressure.

### What Good is a Job When Prices Outpace Income?

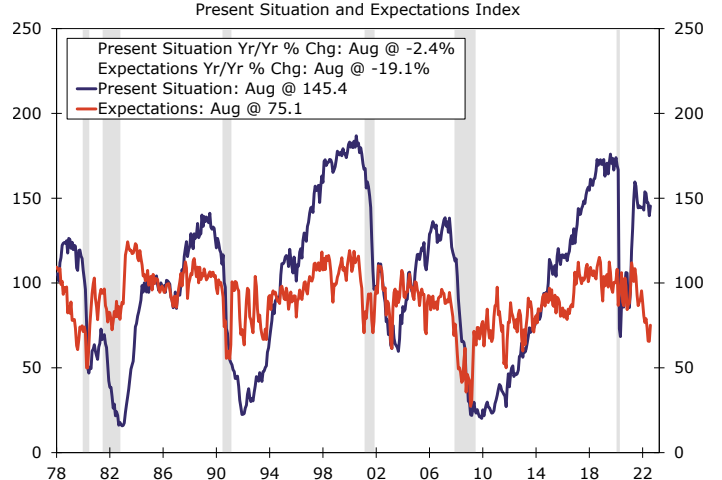
A sometimes overlooked factor that could be playing a role in soft consumer confidence despite an apparently strong labor market is the fact that income is struggling to keep up with inflation.

As the nearby chart shows, growth in real disposable per-capita income is underwater to a degree that is without precedent since the early 1990s. This sheds some light on lack of confidence despite an otherwise strong labor market.

More remarkable is the staying power of consumer goods spending reflected in the red line which plots year-over-year retail sales growth. The strength in spending despite the lack of disposable income growth has been facilitated by consumers stretching to continue to spend. At times that has been detrimental to household balance sheets.

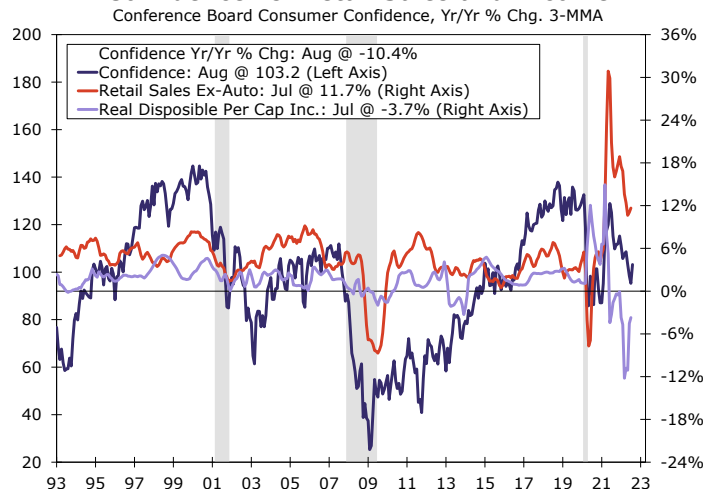
Consumers have reduced their saving rate sharply from 9.5% at this time last year to just 5.0% in July. There has also been a significant accumulation in credit card borrowing that has lifted revolving debt to a new record high.

### Conference Board Consumer Confidence



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

### Confidence vs. Retail Sales and Income



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

## Plentiful of Questions About Friday's Jobs Report

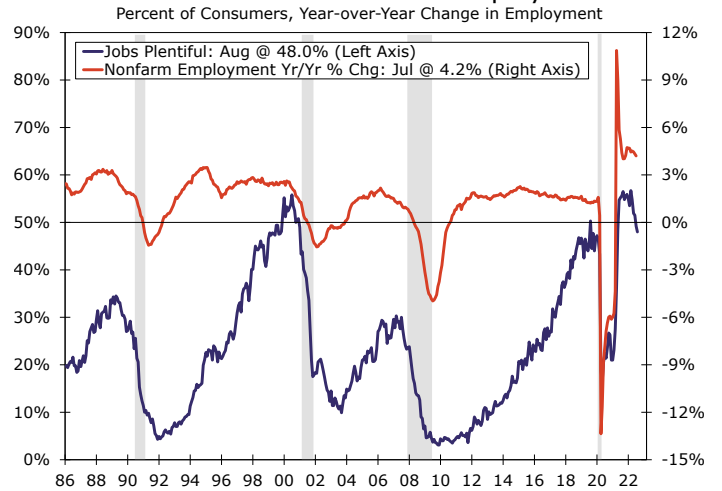
The share of consumers saying that jobs are plentiful remains historically high but has clearly rolled over. In March, 56.7% of consumers saw jobs as plentiful; that was the highest share on records dating back more than 50 years. In August, just 48.0% of respondents said jobs were plentiful.

The share saying jobs were "hard-to-get" fell to 11.4%. There is a growing assessment among consumers that jobs are merely "good". In short, the consumer confidence survey is pointing to an inflection point in the labor market, albeit not a complete about-face but rather a general cooling.

That does not exactly square with the more than half a million new jobs added in July. That sort of hiring is consistent with robust economic growth; the economy has contracted in each of the past two quarters.

While it is true that employers report difficulty finding help these days, monetary policymakers are charting a course that is intended to bring labor supply and demand more into balance. On Friday of this week the official employment report will be released, and we would be surprised by job growth continuing anywhere near the July pace in the months ahead. We expect employers added 325K people to their payrolls in August.

## Jobs Plentiful vs. Nonfarm Employment



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