

Economic Indicator — June 28, 2022

Lost Swagger: Consumer Confidence Dips to 16-Month Low

Summary

Consumer confidence fell to 98.7 in June. It is a far cry from the 128.9 reading exactly a year ago in June 2021. We do not expect the lost swagger will forestall a surge in services spending this summer, but we are increasingly concerned that a contraction in consumer spending is inevitable this autumn.

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Consumer Confidence Index
 Index (1985=100); Conference Board



Source: The Conference Board and Wells Fargo Economics

Labor Market: Momentum Moving in the Wrong Direction

Consumer confidence fell a bit more than feared dipping to 98.7 in June, which marked the lowest reading since February 2021. We appear to be at an inflection point with consumer psyche at the moment. The labor market is still historically strong but after a few years in which it has been a seller's market for labor, there are incipient signs that the momentum has not only stalled but is now starting move in the other direction.

Take the jobs "plentiful" component as an example: as recently as March the 56.7% share of consumers saying that jobs were plentiful was the highest in records going back more than a half century. A smaller share of consumers find that jobs are plentiful today. The 51.3% share may still be historically high, but it is also the third consecutive monthly decline and lower than it has been at any other point in the past year ([chart](#)). The share of consumers seeing jobs as "not so plentiful" rose to 37.1% (the highest in the past year) although just 11.6% of consumers see jobs as "hard to get" at the moment.

Sharp increases in the jobless rate are associated with recession. The unemployment rate is just a tick off a 50-year low at present. Our latest [forecast](#) has the unemployment rate rising over the next year; that is generally associated with a deterioration in consumer confidence.

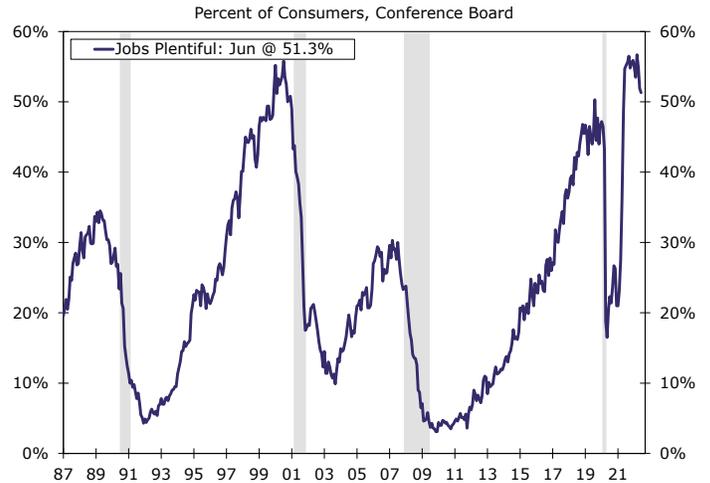
Increased Fear of What's Coming

Declines in confidence were mostly tied to consumers expectations, which slipped by 7.3 points to 66.4, marking the largest monthly drop in over a year- and-a-half and the lowest reading for expectations in nine years ([chart](#)). Consumers' impression of present conditions actually held pretty constant last month. These perceptions are in line with our view for the consumer more broadly.

Inflation is raging and weighing on consumers' purchasing power, and as such we expect consumers will increasingly rely on their balance sheets to fund spending in the near-term. Sky-high prices are no match for the desire to travel and participate in many in-person services this summer, but they are weighing on sentiment. Relying on savings or taking on credit to fund spending is not a sustainable source of funding, and consumers may be looking at their finances, elevated gas prices and deteriorating labor market prospects and are growing more concerned with coming conditions.

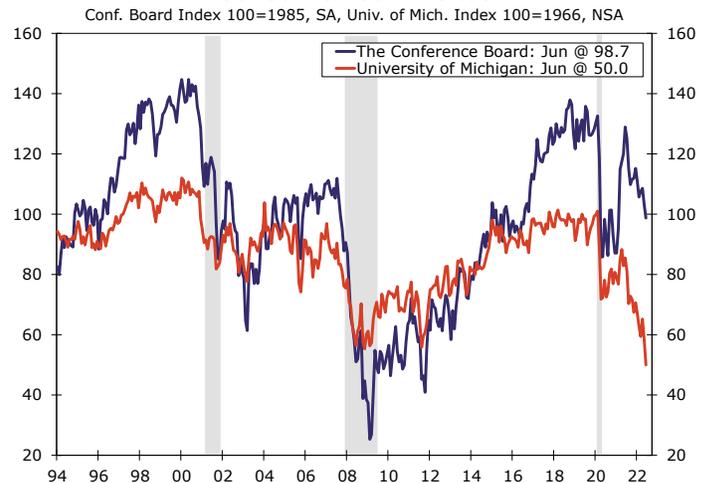
A deterioration in confidence is not surprising. The other bellwether of consumer psyche—consumer sentiment measured by the University of Michigan—paints an even more pessimistic view of the consumer. Sentiment fell to a fresh record low in June amid increased concern over inflation. While both the sentiment and confidence surveys aim to measure the same thing—how consumers are feeling about the economy—they approach it at different ends with the former focusing on inflation and interest rates while confidence is geared more to labor market conditions. These differences can lead to variation in the indices, but both indicate directional deterioration in consumer optimism ([chart](#)).

Do Consumers Feel Jobs Are Plentiful?



Source: The Conference Board and Wells Fargo Economics

Consumer Confidence



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

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