

Economic Indicator — August 31, 2021

Rattled: Consumer Confidence Set Back Six-Months Amid Delta Surge

Summary

A larger than expected drop in consumer confidence in August to its lowest level since February occurred against a depressing backdrop of war and pestilence. As the reality of the Delta variant decreases vaccine hesitancy, the scope for a drop in case counts may be the best hope for renewed confidence in the homestretch of the year. Until then, consumer spending will be under pressure.

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Confidence Dented by Delta Variant and COVID Re-emergence

Consumer confidence dropped more than 11 points to 113.8, a larger drop than had been expected. There was no shortage of things to worry about, which weighed on consumers' collective psyche in August. It was the first month showcasing the full extent of the Delta variant on confidence, and it sets back the Conference Board measure by about six-months to a level that is above where it was in February and just below where it was in March.

Hospitals have been inundated with COVID patients and even some vaccinated people have seen an uptick in cases. August brought with it an unwelcome reinstatement of mask mandates and other restrictions that have dashed consumers' hopes of a swift return to normal—at least in the near term.

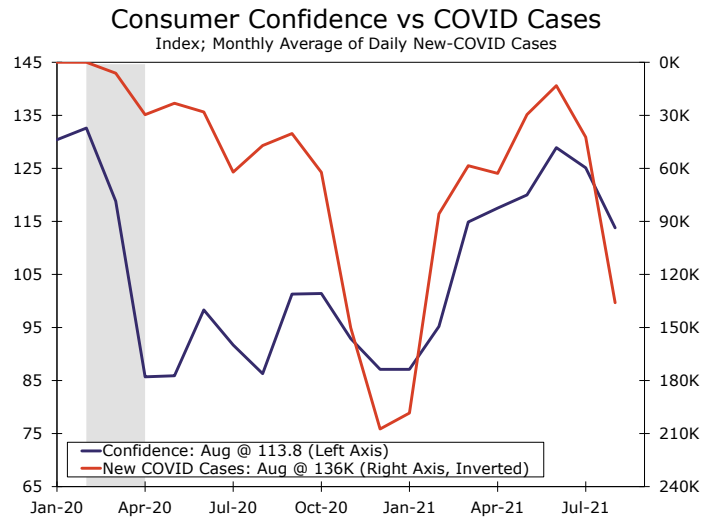
The media images of the U.S. withdrawal from Afghanistan likely piled on to the list of things that may have dented consumer confidence in August. Rising prices continued to be a factor as well, with forward-looking inflation over the next year rising to 6.8% in August.

Hot Labor Market Gives Much-Needed Support

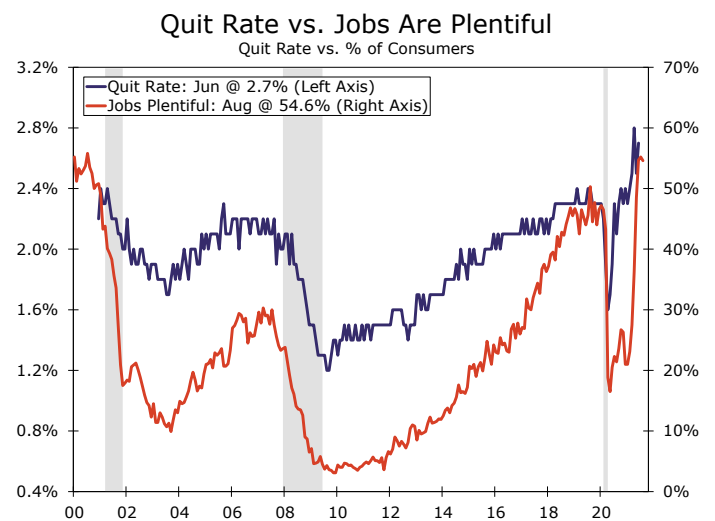
Despite the much larger-than-expected decline in consumer confidence, the readings from this measure are not as glum as in the University of Michigan's index of consumer sentiment, which dipped to its lowest since 2011 in the same month. As we described, there are plenty of causes for concern at the moment, but troubled though the world may be, some things are still going quite well for the consumer.

For starters, it doesn't hurt that the stock market set fresh all-time highs throughout the course of the month. While the total number of jobs has a long way to go to get back to pre-pandemic levels, by other measures, the labor market is quite strong. Not only are jobless claims near their lowest levels of the post-pandemic era, other measures point to a strength in the labor market not seen in decades. Whether you are a business owner or a consumer you get the same story: the labor market is tight. Many businesses say they cannot find workers to fill open positions. Hiring isn't the only problem; the quit rate at 2.7% in June is higher than it was in either of the prior two expansions. Meanwhile, the share of consumers saying jobs are plentiful is near its highest level in at least 20 years.

Despite the many other problems in the world, it remains a seller's market for labor these days and consumers can feel it. That is why we suspect that consumers will regain confidence in the months ahead. It is about more than just finding work, it is about naming your terms with employers that are increasingly eager to hire. Not only did July's jobs report exceed expectations, it also showed faster-than-expected growth in average hourly earnings. Signing bonuses and paid interviews are becoming more common in fields where such things were once unheard of, like leisure and hospitality and various professional driving jobs, from trucks to school buses.



Source: The Conference Board, Bloomberg LP and Wells Fargo Securities

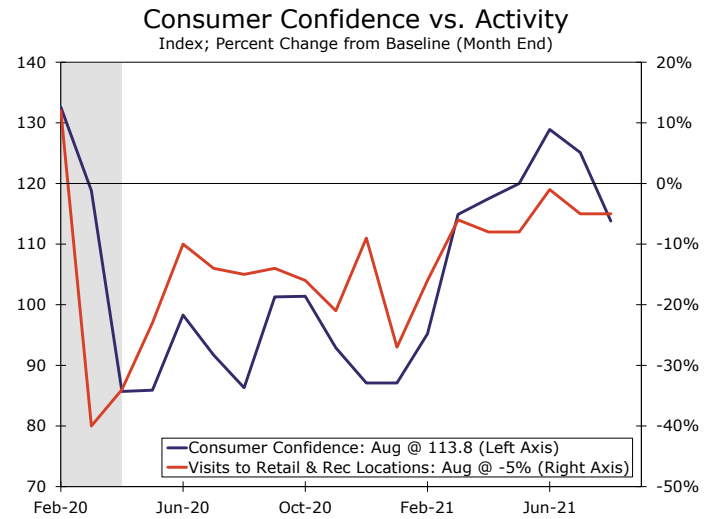


Source: U.S. Department of Labor, the Conference Board and Wells Fargo Securities

Activity Has Not Faltered Yet

All things considered, August was a tough month, and some factors weighing on consumers are likely to carry into September as the Delta variant continues to spread. Despite the emotional month, disheartened consumers did not necessarily change their actions as swiftly. Throughout the year, there have been times when confidence waned and activity did not drop to the same extent. So, while the summer is ending on a bleak note, consumers may not scale back their spending in-step with their feelings.

Data through late August shows that consumers are still getting out and about to retail and recreational stores as life goes on, and even in the uncertainty surrounding learning and return to work, many still are preparing for the typical late summer/early fall events such as back to school and Labor Day. Plus, the positive developments seen in the labor force as well as the 1.1% increase in personal income in July from wages and salaries and the child tax credit mean that consumers are equipped for the wherewithal to spend if they choose to. While confidence has clearly taken a turn, at this point it does not signal consumers are done with the spending spree we have seen for the past couple of months.



Source: The Conference Board, Google and Wells Fargo Securities

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