

Economic Indicator — September 28, 2021

Confidence Dips on Bad News Flurry Despite Jobs Plentiful at Record High

Summary

Consumer confidence dropped to a seven-month low in September as the Delta variant brought a spike in COVID cases. With no shortage of other factors to blame, such as wildfires, war, hurricanes and a border crisis, we see room for improvement in coming months. One silver lining: the share of consumers seeing jobs as plentiful rose to the highest level on record.

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Present Situation, Expectations and Confidence All Decline

Consumer confidence fell to 109.3 from 115.2; that puts confidence at a seven-month low as COVID cases continued to pile up during September.

A strong labor market might be the only thing giving consumers much cheer these days amid an onslaught of negative news. Notably, despite the declines in overall confidence, expectations and the present situation indices, the share of consumers saying that jobs are plentiful rose to its highest level on record. In figures going back to the 1960s, there has never been a greater consensus among consumers that jobs are plentiful at the moment.

Even though one-off factors such as natural disasters do not tend to influence confidence for a prolonged period, non-employment factors that might be weighing on consumer's minds are just about everywhere you look.

The month began amid the ugly wind-down of the war in Afghanistan, historic wildfires are raging in the West as Hurricane Ida and related flooding swamp communities across the East. (Ida made landfall on August 29th, too late to be fully captured in last month's confidence survey).

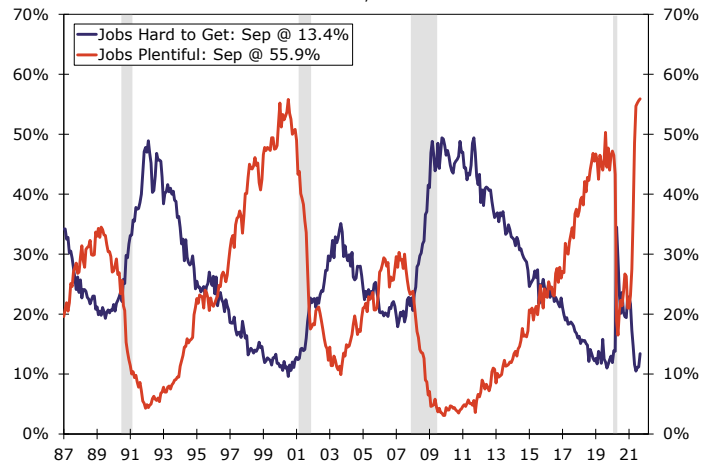
The looming limit on the debt ceiling and related congressional bickering may not be a top of mind concern for the average consumer, but it does not likely lift spirits either.

The Best Laid Plans Sometimes Go Wrong

Confidence fell sharply last month as well, though despite diminished confidence, consumers still spent. Retail sales surprised on the upside in August with a 0.7% gain despite a consensus expectation for another monthly decline after sales slipped in July. It may be that consumers, worried about the Delta variant, have curtailed service sector activities in favor of a goods spending, as we saw through much of 2020. Buying intentions data from both the University of Michigan sentiment survey as well as the Conference Board's consumer confidence have pointed to a lack of planning for large goods purchases, but as reimposed restrictions have thwarted some of the comeback in services spending, it is possible that what consumers ended up doing was different than what they originally intended. We will get some clarification on that with Friday's personal income and spending report, which has greater representation in services categories than the retail sales report does.

Jobs Plentiful vs. Hard to Get

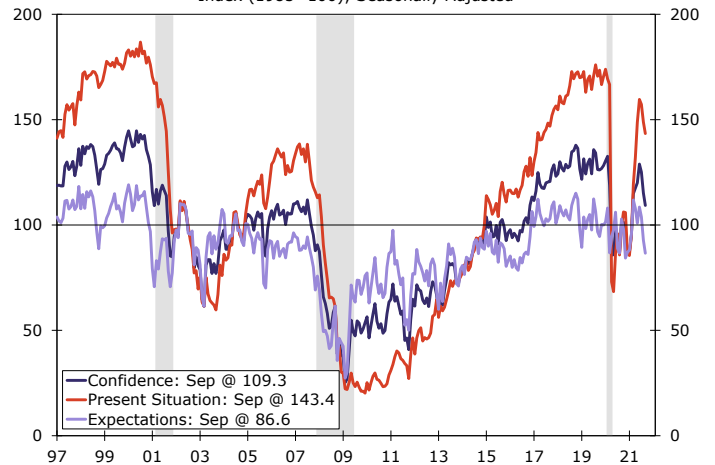
Percent of Consumers, Conference Board



Source: The Conference Board and Wells Fargo Securities

Conference Board Consumer Confidence

Index (1985=100); Seasonally Adjusted

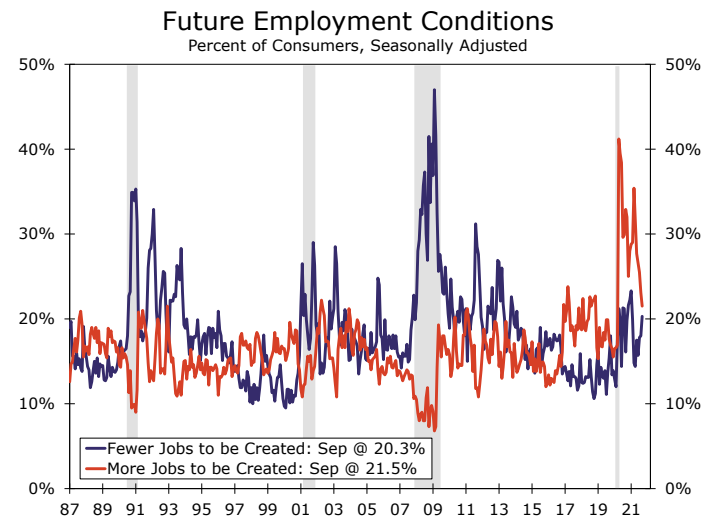


Source: The Conference Board and Wells Fargo Securities

Labor Market Expectations More Iffy

While spirits are high concerning the current labor market, consumers' disheartened attitude surrounding the labor market recovery in the future was one of the main drivers of the third consecutive drop in expectations. Those expecting there to be more jobs in the next six months fell 1.6 points to 21.5, while those predicting fewer jobs increased to 20.3 in September from 18.0 last month. Income expectations moved in conjunction as expectations for better incomes dropped modestly while consumers expecting lower incomes in six months increased by 1.6 points.

After a strong run for summer payroll reports, August's lackluster 235K gain was a disappointment. Our read is that the soft hiring was more a function of lack of available labor than a slowing in hiring. That said, initial jobless claims have risen in two out of the three weeks so far in September. While consumers know there are a lot of opportunities out there currently, they are more concerned about what employment will look like in a few months. This may also just be the consequence of coming off of a hot labor market and the expectation that things can only be so good for so long. Next week's employment report should be able to shed more light on the state of the labor market and whether August was a blip, as we suspect, or the start of a weaker trend.



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