

Economic Indicator — July 27, 2021

Will the Real Confidence Measure Please Stand Up?

Summary

The Conference Board's measure of consumer confidence rose slightly in July, remaining at its highest level of the post-pandemic era. The gain was largely unexpected especially in the wake of the sharp decline in an alternative measure of consumer sentiment earlier this month. Although the conflicting purchase measures mean that the jury is still out on how inflation is weighing on consumers, optimism around business conditions, employment and expected income shows that consumers remain upbeat.

Economist(s)

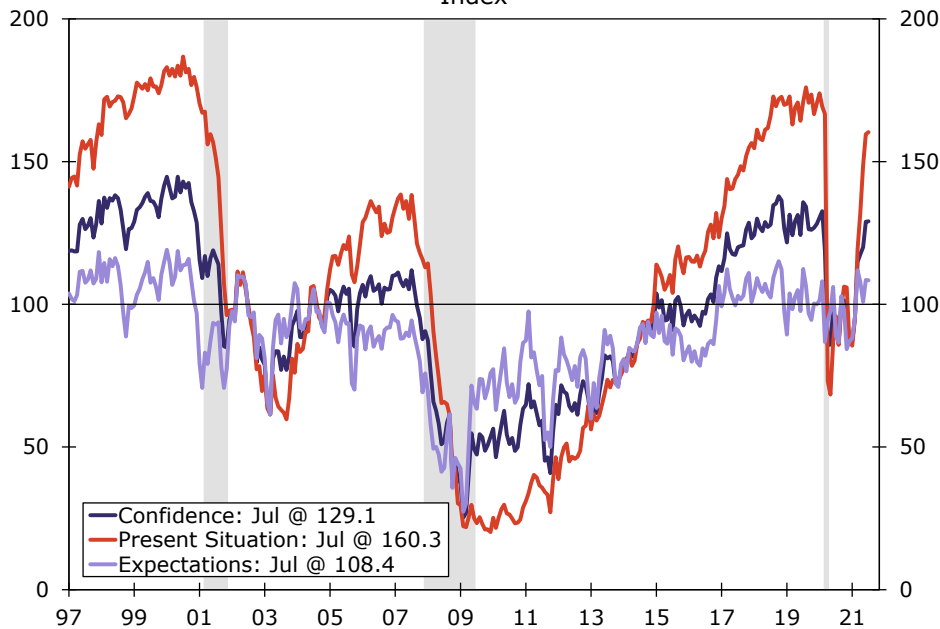
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Conference Board Consumer Confidence Index



Source: The Conference Board and Wells Fargo Securities

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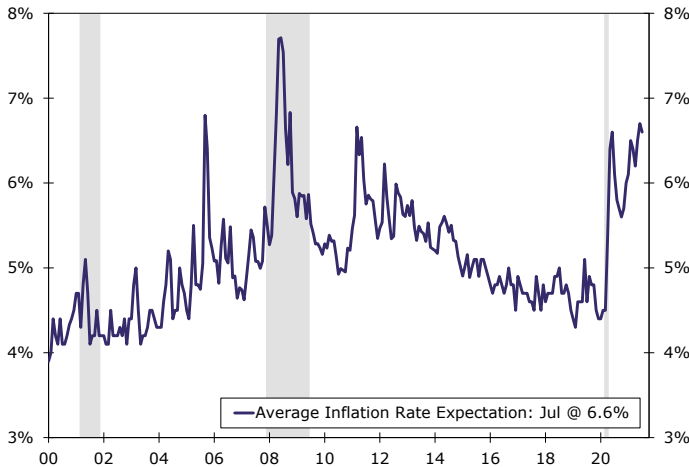
More Color on Inflation: How Prices Are Impacting Plans to Buy

In defiance of widespread expectations that inflation and a resurgence in COVID cases would weigh on sentiment, the Conference Board's measure of consumer confidence rose in July to its highest level of the post-pandemic era. This is at odds with a decline in a previously reported counterpart measure from the University of Michigan which showed inflation fears pulling the measure lower. Mark Twain once famously quipped that news of his death had been greatly exaggerated. Today's report that consumer confidence rose in July does not mean that inflation worries have gone away though.

Inflation is still top of mind for consumer, although notably the forward-looking inflation measure came off the boil, if only slightly, with consumers expecting 6.6% inflation over the next 12 months in July versus 6.7% in June. Until recently we have been of a mind that after a year or more of putting their life on hold, most consumers were price-takers. In other words, people may grumble about higher prices, but not enough to put off spending. The sharp dip in the University of Michigan Consumer Sentiment index gave us pause. This latest report adds some interesting color to the discussion.

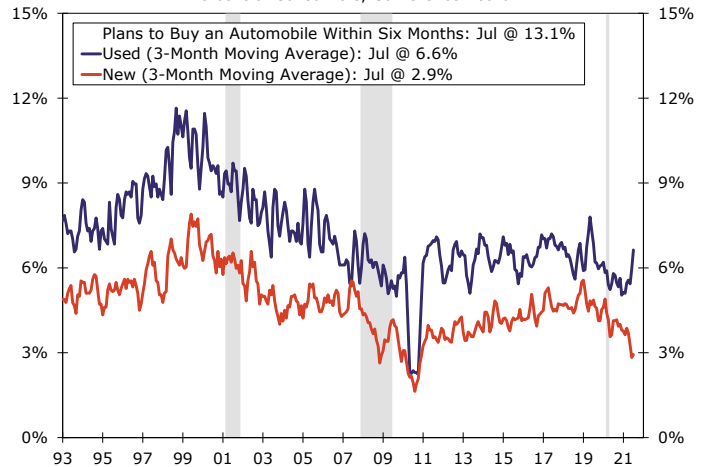
Amid scarcity of inventory, auto prices have been elevated for months. Despite this, we see 13.1% of consumers say they are in the market for a vehicle; that is the highest since December 2019. When you drill down though, you find that although new car buyers did rise slightly from 2.9% to 3.4% in July, most of the auto-shoppers today by choice or by circumstance are in the pre-owned market with the share of those with plans to buy a used car soaring to 7.6%. That it the highest share of people shopping for used cars since May 2019.

Average Inflation Rate Expectations
Conference Board Consumer Confidence



Source: The Conference Board and Wells Fargo Securities

Plans to Buy an Automobile
Percent of Consumers, Conference Board

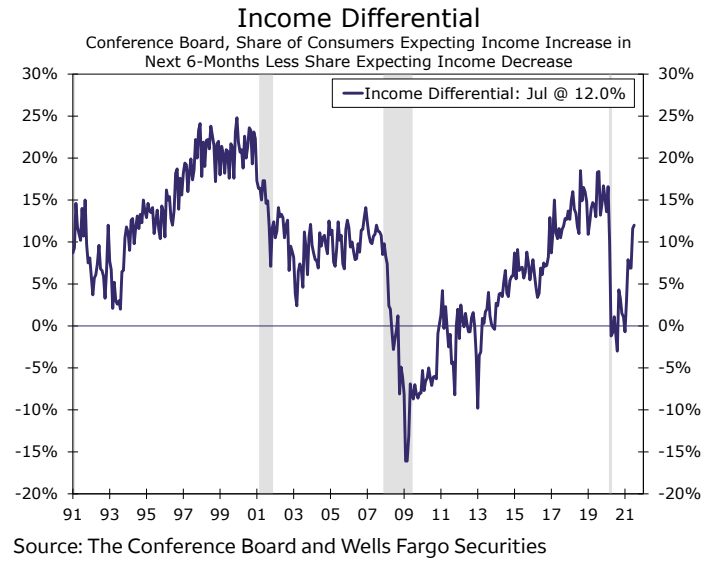
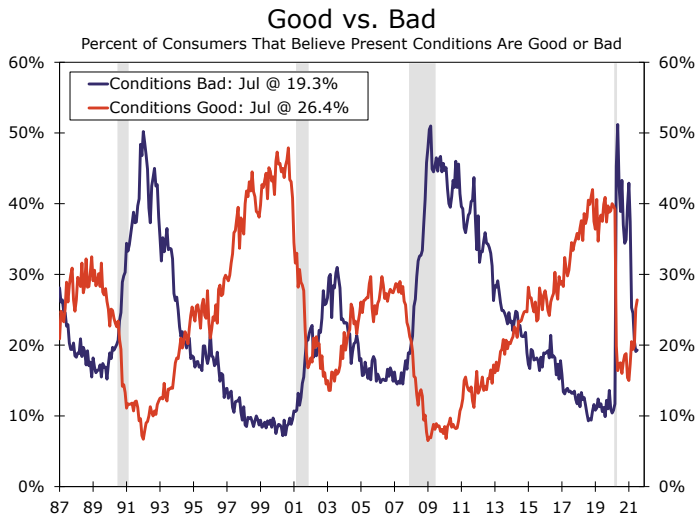


Source: The Conference Board and Wells Fargo Securities

Business Conditions, Financial Prospects and Job Market Are all Looking Up

For a report that was generally unchanged over the month, business conditions showed a hint of improvement as those reporting business conditions as "good" edged up 1.2 points to 26.4%, while those reporting worse conditions stayed relatively stable. Note here the divergence between the reality of the blockbuster second quarter earnings season now underway and the experience of ordinary Americans whose day-to-day experience may not match the euphoria that comes with the largest share of companies in the S&P 500 beating expectations in at least a decade according to Factset data.

Encouragingly however, consumers are feeling more upbeat when it comes to their own short-term financial prospects as the share of those who expect their income to increase rose to 20.6%, the largest share since the pandemic struck. The brighter prospects for income may stem from a perception that labor market dynamics are improving. When asked about the labor market, the share of those surveyed seeing jobs as plentiful also rose to a new post-pandemic high of 54.9%, while the share of those who see jobs as hard-to-get remained at a very low 10.5%. As additional jobless benefits expire and kids return to school in coming months, these measures will offer early clues about how healthy job growth will be in the autumn months.



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