

Economic Indicator — January 30, 2024

Consumer Confidence: Time to Hesitate Is Through

Summary

Today's two-year high for consumer confidence and new post-pandemic high for expectations corroborates an improved consumer mindset captured in other measures such as this month's consumer sentiment survey. Expectations for rates and inflation are down, while job prospects are up.

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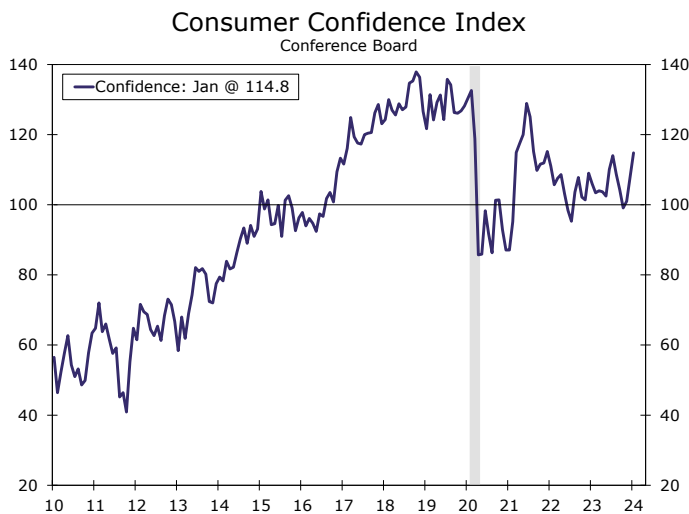
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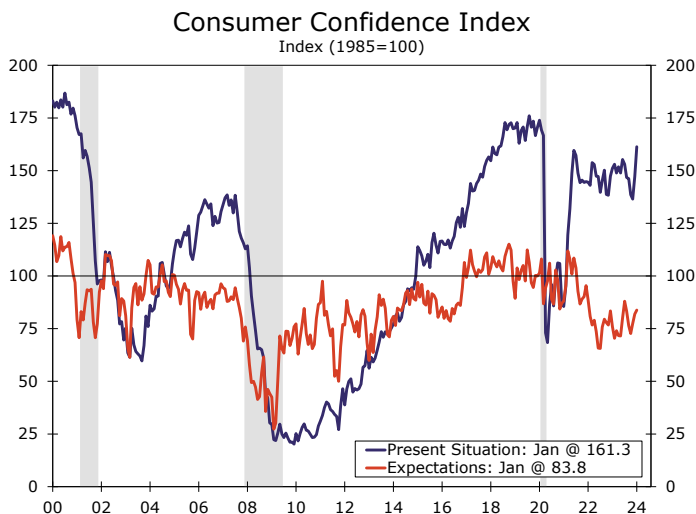
Source: The Conference Board and Wells Fargo Economics

Mr. Mojo Risin'

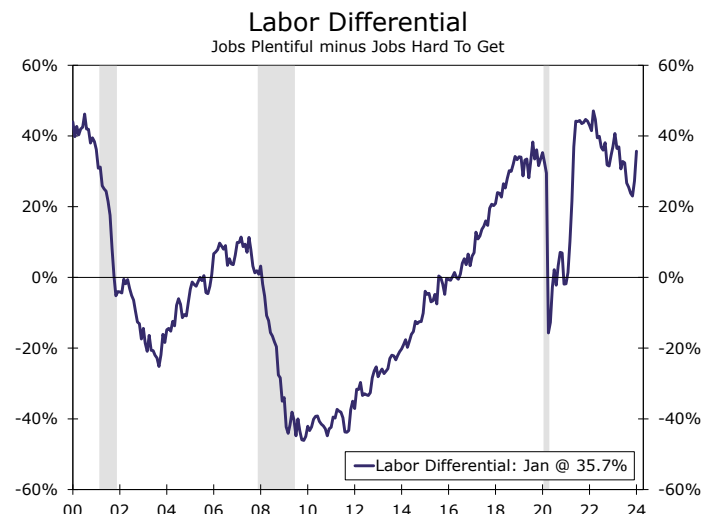
If you need convincing that consumers are regaining some lost swagger, today's report showed consumer confidence jumped to a two-year high of 114.8 in January, corroborating this month's surge in consumer sentiment ([chart](#)).

It will not be lost on FOMC policymakers that consumer expectations for interest rates to rise in the year ahead plummeted to just 41.5 percent, the lowest share since 2020. Policymakers have repeatedly cited consumer inflation expectations as a factor to be considered in the context of policy decisions. In that regard, they might be encouraged to see that average 12-month inflation expectations fell to 5.2 percent, the lowest since March 2020.

The present situation index shot up 14 points to 161.3, a new post-pandemic high helped by an improved read on business conditions and the employment situation ([chart](#)). A rising share of consumers see business conditions as “good” and a shrinking share still see conditions as “bad”.



Source: The Conference Board and Wells Fargo Economics



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In the Same Boat

Despite the rosy assessment of present conditions, ask consumers about conditions in six months time, and they'll say “about the same as today”. There is optimism in that considering the pace of growth the economy experienced in 2023 (2.4%), but the warning signal is that there is a speed limit on the pace of spending these conditions can support.

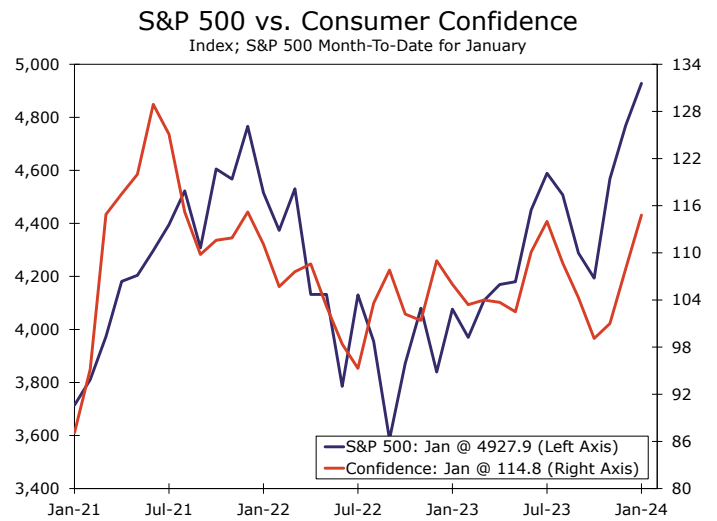
Consumer confidence tends to track households' perception of the labor market and financial conditions more closely than the consumer sentiment measure from the University of Michigan. To that end, the *labor market differential*, or difference between the share of households who view jobs as “plentiful” versus those as “hard to get,” rose by the most in two and a half years (8.4 points) to 35.7, pausing the downward trend that has been in place over the past year ([chart](#)). This came among a drop in the jobs hard to get figure which notched its lowest level in eight months. Separately released data this morning showed job openings ticked back up to 9.0 million in December. These data demonstrate that while the labor market is moderating, it remains tight, and even if it's more challenging to find a job today that it was a year ago, it's not impossible.

Consumers Taking Stock

Strength in the stock market has long been a boon for consumer confidence, and January was no different. After a rough performance in 2022, equities bounced back in 2023 and finished the year up nearly 25%. Month-to-date the S&P 500 is up 3.9% since the start of the year, and it has been on the rise since October. Consumer confidence and the S&P 500 often move together month-to-month, as consumers feel more optimistic with their retirement and brokerage accounts on the rise ([chart](#)).

Confidence tells the same story as the stock market, having risen in each of the past three months. At 114.8, consumer confidence has now bested its highest level from 2023. As long as strength continues in the stock market, consumers look apt to have a more optimistic outlook on the economy more broadly. Indeed, consumers' perceived likelihood of a recession within the next 12 months continued its downward trend from the past seven months, declining to 66% in January.

We tend to take the consumer confidence data with a grain of salt, both on the way down and the ride back up. That's because households don't always do what they say. Consider how overall real personal spending rose 2.2% in 2023 despite consumer confidence moving more-or-less sideways over the course of the year. The recent move higher in confidence is encouraging in the sense that a moderating labor market, still-high prices and elevated interest rates haven't pushed the consumer into hiding. But with vulnerabilities rising in the form of a growing interest burden for households and rising rates of consumer delinquencies, we remain cautious on the pace of consumer spending this year.



Source: The Conference Board, Bloomberg Finance L.P. and Wells Fargo Economics

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