

Economic Indicator — February 27, 2024

Downward Revisions Signal Consumer Confidence Has Yet to Recover

Summary

The Consumer Confidence Index fell to 106.7 in February amid downward revisions to past data, revealing confidence remains shaky and has yet to recover.

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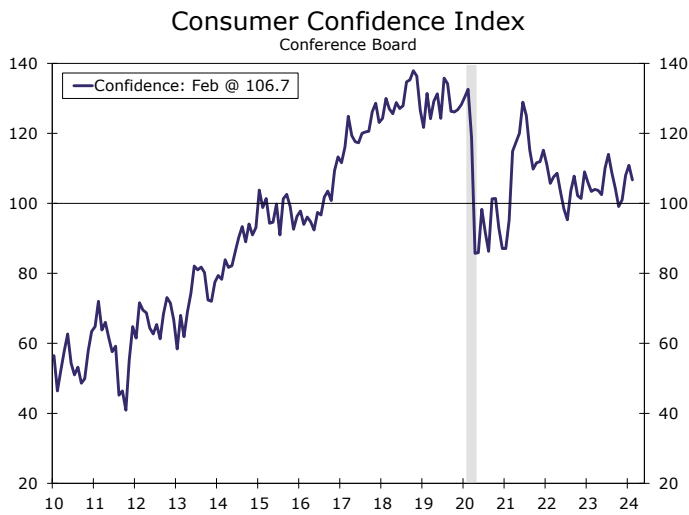
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Source: The Conference Board and Wells Fargo Economics

Revisions Sap January Gain and Moderating Labor Market Dents Optimism

Consumer confidence remains shaky—that's the takeaway from the February Consumer Confidence report. Despite the consensus expectation among 60 forecast submissions to Bloomberg calling for an increase in the Consumer Confidence Index, it slipped to 106.7 in February ([chart](#)). The outturn is surprising to us given rising equity values, slowing inflation and a still-sturdy labor market. But if you ask consumers, they're growing increasingly concerned about labor prospects, and that's to blame for this drop in confidence.

Confidence dropped by the most in four months in February, slipping 4.2 points. While the drop looks less bad in light of downward revisions to past months' data, it's still not great. Prior to revisions, confidence had hit a two-year high in January, but now the data suggest confidence was just the highest in six months at the start of the year.

The drop in consumers' perceptions of current conditions reversed the January gain, driving the Present Situation Index down to the level that prevailed in December ([chart](#)). Household expectations also weakened in February. The Expectations Index declined by the most in four months (-1.7 points) and marked the second consecutive decline.

A big driver of consumers' optimism in January stemmed from a still-sturdy labor market, and that appears to have been the downfall in February. The labor market differential, or difference between the share of households who view jobs as "plentiful" less those who view jobs as "hard to get," fell back to 27.8 in February ([chart](#)). That's just above the level that prevailed in December, and downward revisions to January (the labor differential is now at 31.7 in January versus 35.7 in the prior release) explains some of the downward revision to last month's confidence metric. Stepping back, the differential is still consistent with a strong labor market perception among households, yet it's consistent with moderation, which signals worry among households.

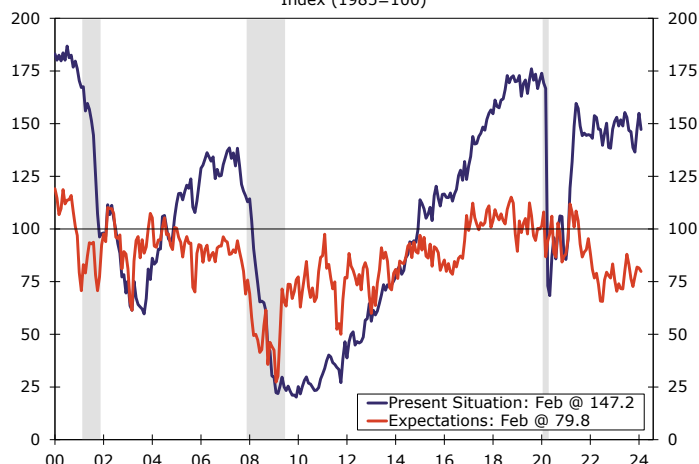
This idea was echoed by economists at the Conference Board, who noted in the press release that: "While overall inflation remained the main preoccupation of consumers, they are now a bit less concerned about food and gas prices, which have eased in recent months. But they are more concerned about the labor market situation and the US political environment."

As inflation has slowed over the past year, consumers are increasingly turning their attention to the job market as income again becomes their primary source of spending. Confidence across the household income spectrum has trended upward over the last few months for most income groups, though moderating labor market prospects are weighing on household mindsets. In addition to labor market moderation, the 2024 election will also be a key consideration in confidence measures as the year progresses.

To that end, the final print of the University of Michigan's February Consumer Sentiment Index will be released on Friday, and with it an update on consumer sentiment by political party (Republican, Democrat or Independent). As the country turns its attention to general election season, we look for this to be an important gauge of how consumers are interpreting the economic environment in such a politically pivotal year.

Confidence is key in gauging household perceptions, but it's not always the best leading indication of true spending decisions. Confidence and consumption have decoupled throughout the pandemic, but household perception of the labor market is a key to continued spending growth, as income has once again become the main driver of consumption. We're paying close attention to these metrics to gauge the extent of a slowdown in spending to come.

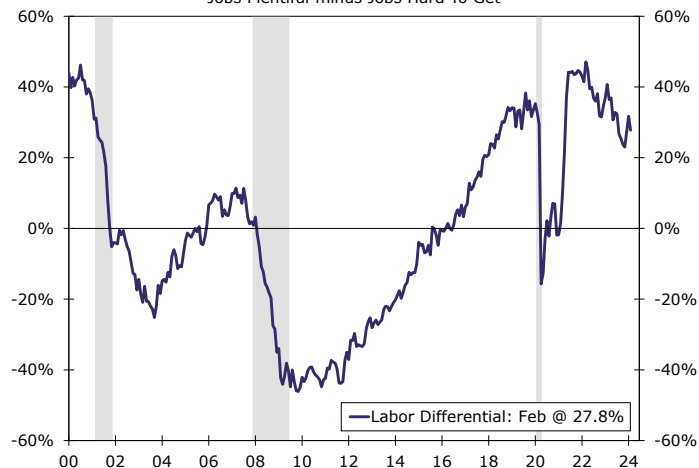
Consumer Confidence Index
Index (1985=100)



Source: The Conference Board and Wells Fargo Economics

Labor Differential

Jobs Plentiful minus Jobs Hard To Get



Source: The Conference Board and Wells Fargo Economics

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