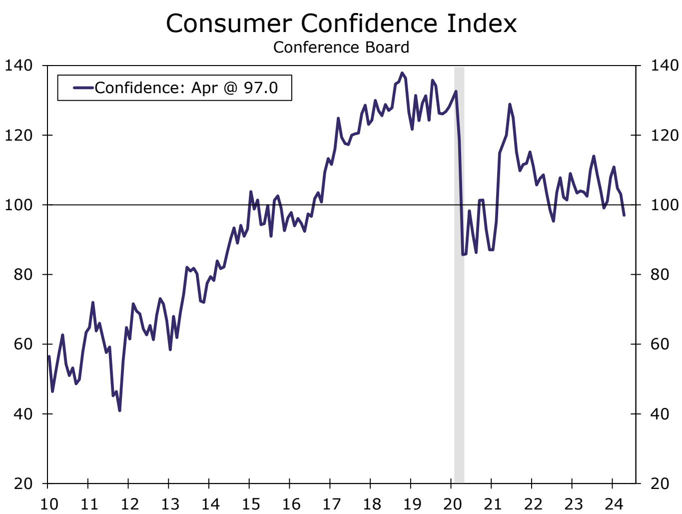
Economics

Economic Indicator — April 30, 2024

Slipping Confidence Hard to Square with Resilient Spending

Summary

Confidence is slipping among consumers amid concern about the current labor market situation as well as future business conditions and whether income can keep up.



Source: The Conference Board and Wells Fargo Economics

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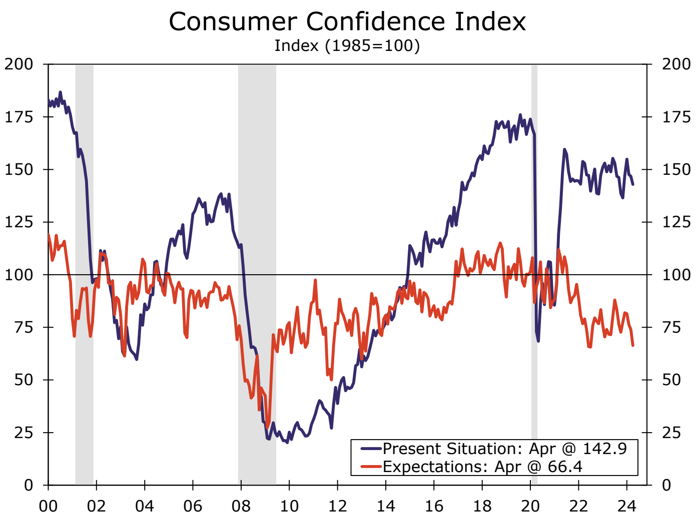
Hey Big Spender, Why So Glum?

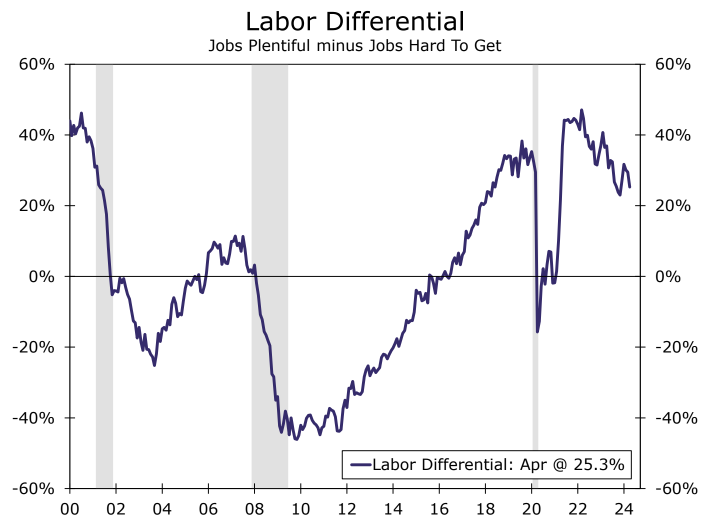
Consumer confidence dropped in April to 97.0, the second-lowest level in the past three years (chart). The assessment of the present situation dipped only modestly from 146.8 to 142.9; the larger drop was in the forward-looking expectation component which slipped to 66.4 from 74.0 last month (chart). There have only been two other months in the past decade when expectations were lower.

An aspect of this that is tricky to rationalize is how consumer spending can remain so strong even as morale can be so low. It may be that in order to sustain the breakneck pace of spending, consumers are spreading themselves thin. In last week's personal income and spending report, we learned that real disposable personal income grew 0.2% in March, yet consumers ratcheted up spending at an even faster rate with real spending up 0.5% during the period. While it is true that household income is outpacing inflation, it is also true that spending is outpacing income. In order to do that, consumers are reducing the amount they set aside for a rainy day to make up the difference. The saving rate fell in March to 3.2%, a rate that is lower than at any other point in the past year.

Prices at the pump are not helping. The only other times in the past decade when expectations were lower than they are today was in the summer of 2022 when gasoline prices climbed above $5/gallon. With the national average price for a gallon of gas at the end of April around $3.66, we are a far cry from the summer of 2022, but prices have been steadily climbing all year, up another 3.5% just during the month of April.



Source: The Conference Board and Wells Fargo Economics



Source: The Conference Board and Wells Fargo Economics

Labor the Point

Consumers are increasingly concerned about their labor market prospects. The labor differential, or those who view jobs as plentiful minus those who view them as hard to get, declined to 25.3 in April from 29.5 in March (chart). This is the lowest reading since November 2023, and highlights that consumers are anxious that recent labor market strength might be hard to sustain in the coming months. The 4.2 point decline in the labor differential is the largest one month drop since August 2023. While both those reporting jobs as plentiful decreased and those reporting jobs as hard to get increased, the main driver of the narrowing differential was the 2.7 point increase in those finding jobs hard to get. This broadly tracks with job openings that have steadily declined since late 2022, albeit from very elevated levels. A further decrease in JOLTS data released tomorrow may help explain part of why consumers are so glum in their perception of the labor market.

Even as consumer confidence dropped to its second lowest level over the past three years, consumers look to be in a solid place. However, a still elevated cost of living in combination with a labor market that is not quite as hot as it was in 2021 and 2022 looks to be leaving them in a sour mood.

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