

Economic Indicator — May 30, 2023

Confidence Shaken Amid Early Tremors in Job Market

Summary

Consumer confidence slipped slightly in May, and while the weakening may reflect short-term worries about the debt ceiling, the more interesting developments reveal how the sand is shifting under consumers' feet. Worries about the labor market are growing as buying plans dry up.

Economist(s)

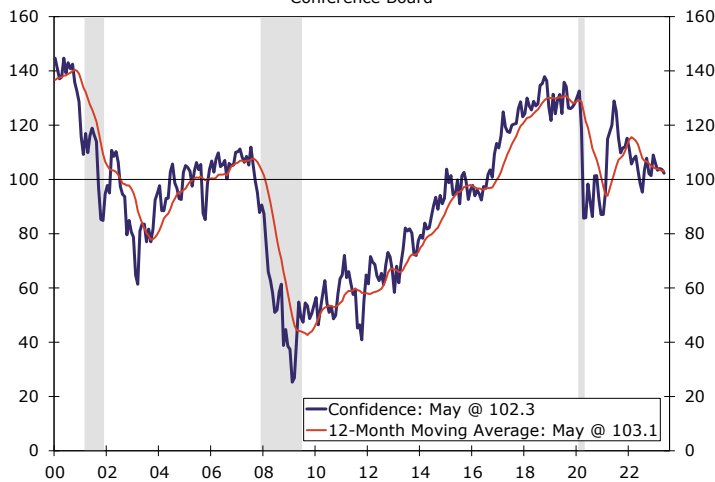
Tim Quinlan

Senior Economist | Wells Fargo Economics
 Tim.Quinlan@wellsfargo.com | 704-410-3283

Shannon Seery

Economist | Wells Fargo Economics
 Shannon.Seery@wellsfargo.com | 332-204-0693

Consumer Confidence Index
 Conference Board



Source: The Conference Board and Wells Fargo Economics

Sand is Shifting

Consumer confidence slipped only slightly to 102.3 in May from an upwardly revised reading of 103.7 the prior month ([chart](#)). Amid worries about the debt ceiling and last week's slip in the University of Michigan's measure of consumer sentiment, expectations were for a bigger dip.

It may be tempting to consider this yet another example of the staying power of the consumer, but pay attention to the sand beginning to shift under consumers' feet. The [three-legged stool](#) that has propped up consumer spending in this cycle has been: (1) excess saving, (2) access to credit, and (3) steady gains in real income. Two out of the three are faltering as the pile of excess savings gets smaller each month and the latest data from the Federal Reserve showing credit standards tightening. Today's confidence report points to potential trouble when it comes to that last leg, real income growth.

Specifically, the share of consumers who say that jobs are "plentiful" has fallen to a level last seen in 2021 ([chart](#)). At 43.5% in May, the share of consumers saying jobs are plentiful is lower than it was throughout most of 2019, and it corroborates the sharp decline in the separately reported quits rate which is also sharply lower in recent months. Real income growth was just barely positive in last week's personal income and spending report and clearly trending lower. In short: the decline in these leading indicators of the labor market threaten to kick the last leg out from under consumer spending.

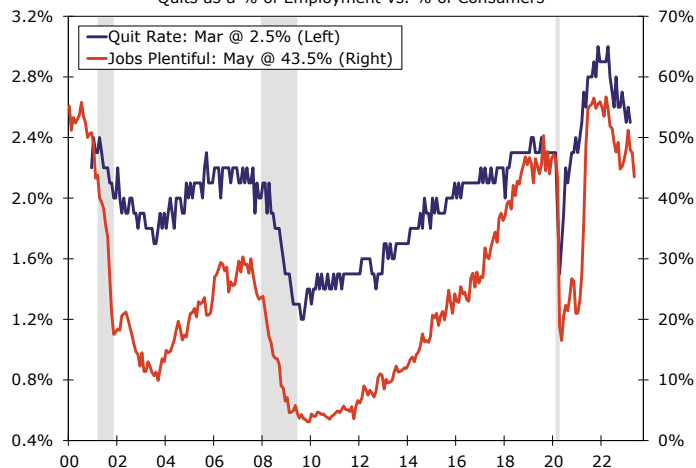
Consumers' buying intentions are notoriously volatile month-to-month and tend to be influenced by their sense of economic security. While there's been a clear divergence between what consumers say and what they do during the pandemic, buying plans still offer a sense of consumer appetite to large expenditures. Plans to buy a vehicle, home or major appliance within the next six months all improved modestly in May ([chart](#)). Plans to purchase a home remain the most steady with pre-pandemic trends despite a stall in activity. Underlying demand for homes remains solid, but many would-be homebuyers find themselves sidelined amid higher rates and still-elevated home values. Plans to purchase major appliances and autos have fallen off more, but real spending in applicable categories still remain well above pre-pandemic levels demonstrating some underlying consumer resilience.

For now at least, the consumer continues to deliver in a way that exceeds consensus expectations and defies predictions of a coming demise, a theme evident in last week's stronger-than-expected personal income and spending [report](#). These latest developments further strengthened some hawkish tendencies among policymakers at the Federal Reserve who are beginning to suspect the fastest pace of rate hikes since the early 1980s has yet to sufficiently slow the economy to cool inflation, which keeps the possibility of at least one more hike this cycle in play.

Even though real consumer spending rose 0.5% in April, which ties the second biggest monthly gain of the past year, there are signs that the cooling labor market is keeping a lid on wage growth. Income in April was only sufficient to match inflation. Today's report showed consumers' own short-term expectations with regard to future income. 17.8% of consumers expect their incomes to increase, up slightly from 17.3% last month. Meanwhile, an unchanged 11.5% of consumers expect their incomes to decrease.

Quit Rate vs. Jobs Are Plentiful

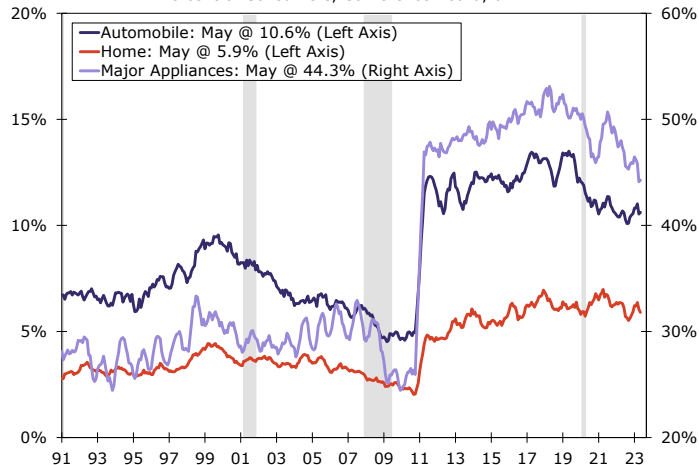
Quits as a % of Employment vs. % of Consumers



Source: U.S. Department of Labor, The Conference Board and Wells Fargo Economics

Confidence: Plans to Buy

Percent of Consumers, Conference Board, 6-MMA



Source: The Conference Board and Wells Fargo Economics

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Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Seery	Economist	332-204-0693	Shannon.Seery@wellsfargo.com
Nicole Cervi	Economic Analyst	704-410-3059	Nicole.Cervi@wellsfargo.com
Jessica Guo	Economic Analyst	212-214-1063	Jessica.Guo@wellsfargo.com
Karl Vesely	Economic Analyst	704-410-2911	Karl.Vesely@wellsfargo.com
Patrick Barley	Economic Analyst	704-410-1232	Patrick.Barley@wellsfargo.com
Jeremiah Kohl	Economic Analyst	704-410-1437	Jeremiah.J.Kohl@wellsfargo.com
Coren Burton	Administrative Assistant	704-410-6010	Coren.Burton@wellsfargo.com

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