

Special Commentary — July 13, 2021

# The Animal Spirits Index Jumps in June

## Summary

Our Animal Spirits Index (ASI) jumped in June to 0.40 from 0.22 in May, notching its fourth consecutive month in positive territory. Four of the five components contributed positively on the month, indicating widespread optimism. Much like the broader recovery, the ASI's turnaround is the fastest in decades, with the index returning to positive territory after just 12 months. By comparison, the ASI took 75 months to turn positive after the Great Recession and 33 months from the 2001 recession.

Economist(s)

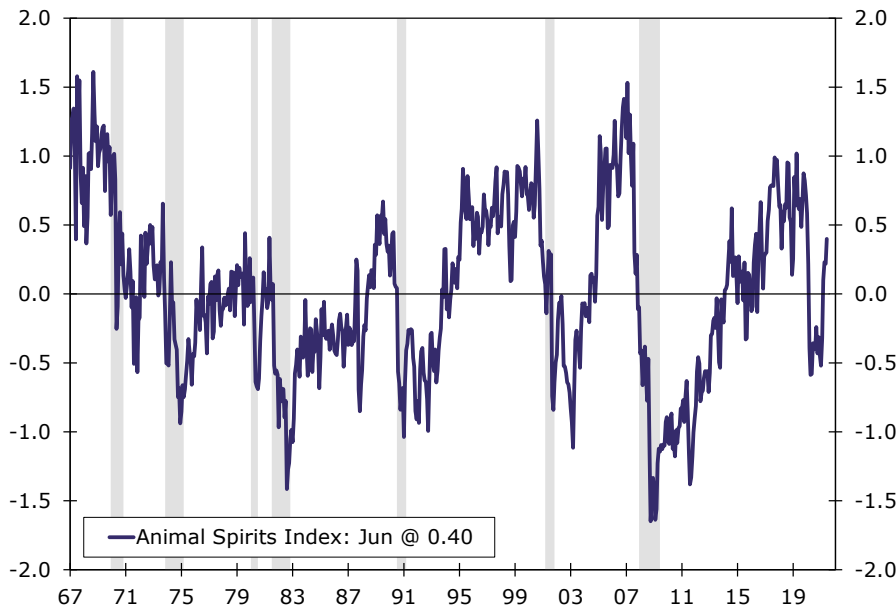
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Animal Spirits Index



Source: Wells Fargo Securities

All estimates/forecasts are as of 7/13/2021 unless otherwise stated. 7/13/2021 11:30:59 EDT. Please see page 4 for rating definitions, important disclosures and required analyst certifications. Wells Fargo Securities, LLC does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report and investors should consider this report as only a single factor in making their investment decision.

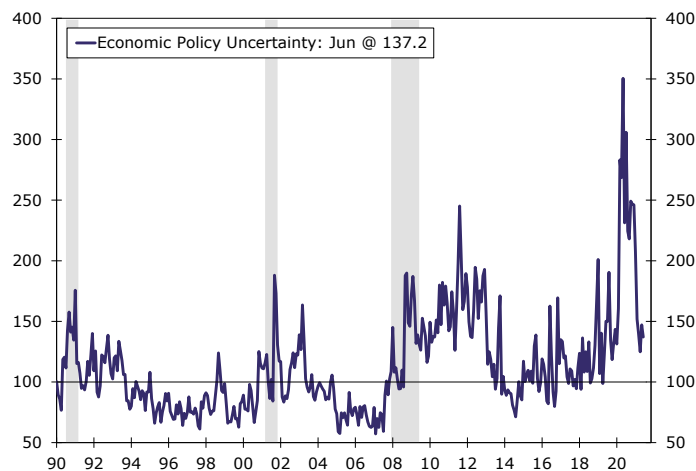
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## ASI Marches On

The Animal Spirits Index (ASI) came in at 0.40 in June, jumping 0.18 after taking a breather in May. The index has notched four consecutive months in positive territory, since being stuck below zero between March 2020 and February 2021. [Previous reports](#) detail the methodology, but on a basic level an ASI value above zero indicates optimism, while a value below zero suggests pessimism. The ASI's improvement in June was broad-based, with four of the five components of the ASI contributing positively on the month.

The Economic Policy Uncertainty Index dropped to 137.2 in June, the second lowest level in the pandemic era. The S&P 500 index notched another all-time high, while the VIX hit its lowest monthly average since December 2019. Consumers' perception of the economy improved rapidly in June as case counts dropped and the labor market recovery picked up momentum. The Conference Board's Consumer Confidence Index jumped to 127.3, the highest since February 2020. The only negative contributor was the spread between the 10-year and three-month Treasury yields, which narrowed in June as markets lowered expectations for growth and fiscal stimulus.

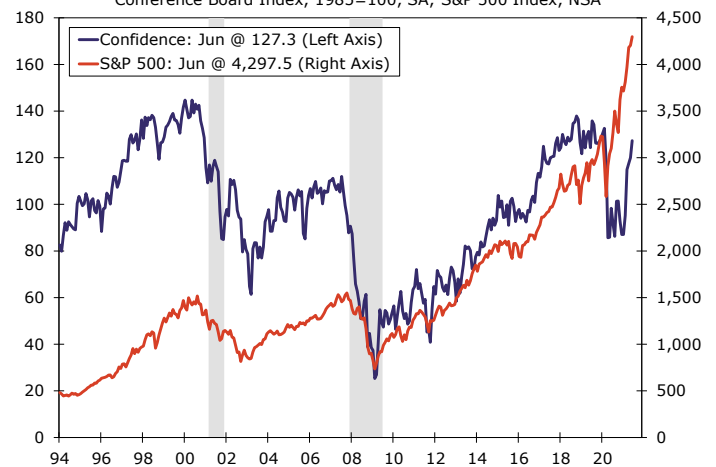
### Economic Policy Uncertainty Index



Source: Baker, Bloom & Davis and Wells Fargo Securities

### Consumer Confidence Index & S&P 500

Conference Board Index, 1985=100, SA; S&P 500 Index, NSA



Source: S&P Dow Jones Indices, The Conference Board and Wells Fargo Securities

## Economic Agents Are Optimistic About the Economic Recovery

Much of the incoming data for June has been very positive. The labor market recovery has begun to accelerate, with 850,000 jobs added in June. The ISM indices for the manufacturing and service sectors remain above 60, though they have moderated recently. Rising animal spirits, in addition to historic fiscal stimulus and an improving public health picture, underpin our expectation for further improvement in economic activity over the coming months. Our recent [work](#) details how this recovery is different from prior cycles and discerns whether this cycle can break the weak-recovery trend of the last few decades. While that report focuses on output and employment, the ASI appears to be displaying a similar break. The ASI's recovery—turning positive just 12 months after the start of the recession—is the fastest in decades. By comparison, the ASI took 75 months to turn positive after the Great Recession and 33 months from the 2001 recession.

Going forward, there could be some moderation in the pace of increases for the ASI. Economic policy uncertainty could start to pick up again, as the debt ceiling forces action on the budget and lawmakers debate additional infrastructure spending, though it is unlikely to reach the highs seen last year. June's only negative contributor, the yield spread, could drag on the index in the months to come, as faster-than-expected inflation brings forward market expectations on future monetary tightening. Finally, big jumps in consumer confidence could be tougher to come by with inflation fears mounting and progress on the public health front stalling. Ultimately, however, the outlook for animal spirits and the broader economy remain bright. While the pace of growth may be peaking, consumer balance sheets

are strong and wages are rising. We expect 2021 and 2022 to be the fastest two consecutive years of growth since the mid-1960s.

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