

Consumer Confidence Surged in May

The Consumer Confidence Index surged 14.1 points in May to 54.9, marking the largest monthly increase in six years. Most of the improvement was in the expectations component, which jumped 21.3 points to 72.3. Consumers' assessment of the present economic situation rose just 3.4 points to 28.9.

Expectations for a Recovery are Rising

The Consumer Confidence Index jumped 14.1 points in May, as more consumers expressed confidence economic conditions will improve in coming months. The expectations component surged 21.3 points to 72.3 in May, following a 20.8 point rise in April. Consumers' assessment of the present situation did not improve as much, rising just 3.4 points in May. The larger improvement in expectations makes a great deal of intuitive sense. The moderation in the rate of decline in economic activity has raised hopes that an actual improvement will take hold in coming months. But, there has been little tangible improvement so far. Conditions have merely been not as bad as they had been in previous months.

The huge jump in the expectations series over the past two months corresponds closely with the rebound in the stock market. Expectations have surged 42.1 points over the past two months, with fewer households now expecting economic conditions to worsen over the next six months (17.8 percent) and more expecting conditions to improve (23.1 percent). The overwhelming majority expect conditions to remain the same over the next six months (59.1 percent), which is not very encouraging.

A Green Shoot Bubble?

We are not surprised that expectations have increased as the series tends to be influenced by recent economic headlines, the stock market and labor market conditions. The first of two which have improved recently, with reports of green shoots almost becoming nauseating. The most obvious green shoot has been the stock market, with the Dow Jones Industrial Average surging 29 percent since March 9. The Dow rallied more than 100 points after this morning's confidence figures were released, which makes us wonder if a green shoot bubble is building up.

The actual improvement in the economy is relatively thin. Employment conditions have clearly not improved, although April's loss of 539,000 jobs was slightly less than the previous five months. There has been a slight moderation in weekly unemployment claims, with the four-week moving average declining in five of the past six weeks. Continuing claims are still trending higher, as is the insured unemployment rate. If recent trends continue, the civilian unemployment rate should rise to 9.3 percent in May. Whether the improvement in the Consumer Confidence Index translates into an actual improvement in consumer spending will greatly depend on whether the green shoots turn out to be real or merely another bubble. Spending plans did inch up in May but remain exceptionally low. A lasting recovery in confidence and spending will require a true improvement in labor market conditions, which we have not seen yet.

