



# Economics Group

Mark Vitner, Senior Economist  
[mark.vitner@wellsfargo.com](mailto:mark.vitner@wellsfargo.com) • 704-383-5635

## Consumer Confidence Rises Solidly in April

**Perceptions that labor market conditions are continuing to improve helped pull the Consumer Confidence Index higher in April. The overall index rose 5.6 points to 57.9, the highest reading since September 2008.**

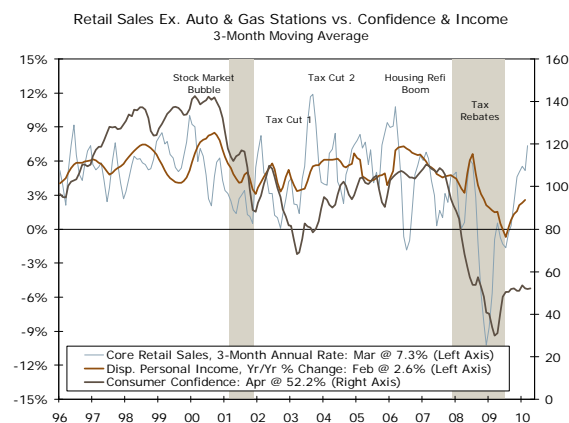
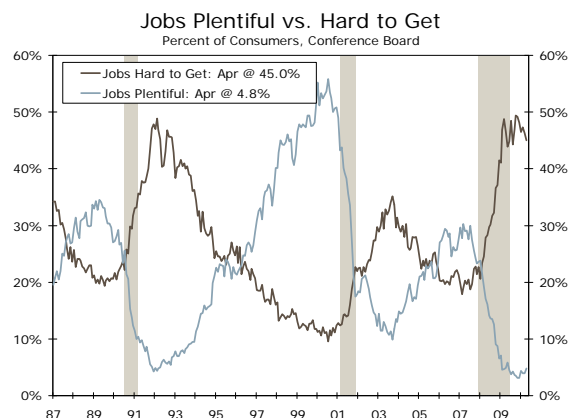
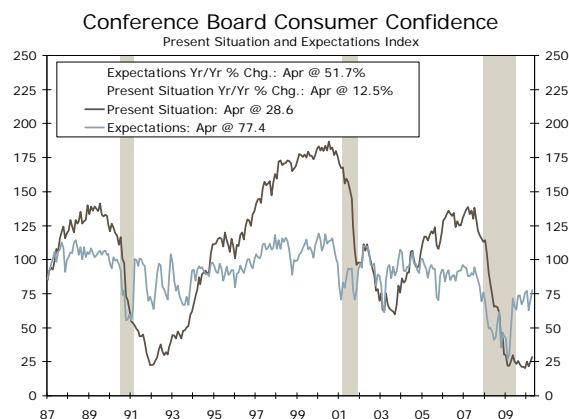
### Confidence Rebounds but Concerns Are Still Clearly Present

The Consumer Confidence Index rose 5.6 points to 57.9 in April, reaching its highest level since September 2008, when the financial markets were sliding into the abyss. While the rise in consumer confidence is another positive development, consumers clearly remain concerned about the current economic environment. Consumers' assessment of the present situation rose 3.4 points in April, while their expectations for future economic conditions rose 7.2 points. The split between the two series has been evident for well over a year and the improvement in the more heavily weighted expectations series has accounted for virtually all the improvement in the overall Consumer Confidence Index.

The lack of improvement in the present situation index likely reflects the tepid recovery in the labor market. Consumers as whole do a very good job of gauging the strength and breadth of the recovery or the lack thereof. Their current assessment of the economy matches up well with the most recent data from the labor market. Layoffs have clearly moderated, as evidenced by the recent decline in weekly first-time unemployment claims. The unemployment rate has also declined slightly over the past few months. Outright hiring, however, has been slower to turn around, with nonfarm payrolls so far showing just one month of meaningful gains. Long-term unemployment also remains at heights unseen for decades. The Consumer Confidence Index will not regain the highs seen prior to the recession until hiring picks up enough to boost consumers' perception about the availability of jobs.

### Consumer Spending has Turned up Despite Low Confidence

Even though the Consumer Confidence Index has increased only modestly from its recession lows, attitudes have improved enough to drive healthy gains in spending. Overall retail sales increased at an 11.03 percent annual rate during the first quarter, with spending rising for motor vehicles and a broad assortment of spending categories. Our measure of core retail sales, which excludes motor vehicles and gasoline, rose at a 7.3 percent pace during the first quarter. Retail sales have clearly gotten a boost from various stimulus programs, including cash for clunkers, the first-time homebuyers' tax credit, and the more recent energy efficient appliance rebates. Spending may have also gotten a boost from a slightly earlier Easter and so-called "frugal fatigue", where consumers simply got tired of skimping. Whatever the reason for the rebound, the recent improvement in retail sales appears to have gotten ahead of the improvement in the underlying fundamentals, including after-tax income and consumer confidence. Unless employment and income pick up soon, retail sales are poised for a let down later this spring, as spending realigns with the fundamentals.



## Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research & Economics	(704) 715-8437 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 374-7034	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 383-5635	mark.vitner@wellsfargo.com
Jay Bryson, Ph.D.	Global Economist	(704) 383-3518	jay.bryson@wellsfargo.com
Scott Anderson, Ph.D.	Senior Economist	(612) 667-9281	scott.a.anderson@wellsfargo.com
Eugenio Aleman, Ph.D.	Senior Economist	(612) 667-0168	eugenio.j.aleman@wellsfargo.com
Sam Bullard	Economist	(704) 383-7372	sam.bullard@wellsfargo.com
Anika Khan	Economist	(704) 715-0575	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 383-6805	azhar.iqbal@wellsfargo.com
Adam G. York	Economist	(704) 715-9660	adam.york@wellsfargo.com
Ed Kashmarek	Economist	(612) 667-0479	ed.kashmarek@wellsfargo.com
Tim Quinlan	Economist	(704) 374-4407	tim.quinlan@wellsfargo.com
Kim Whelan	Economic Analyst	(704) 715-8457	kim.whelan@wellsfargo.com
Yasmine Kamaruddin	Economic Analyst	(704) 374-2992	yasmine.kamaruddin@wellsfargo.com

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