



Economics Group

Mark Vitner, Senior Economist
mark.vitner@wachovia.com • 704-383-5635

Consumer Confidence Weakens in October

Consumer confidence fell 5.7 points in October to 47.7, with both the present situation and expectations components falling substantially. The drop reflects continuing fears about employment conditions.

Lingering Fears About Jobs Drag Down Consumer Confidence

The lack of hiring taking place across the economy coupled with the still-high level of layoffs is continuing to weigh on consumer confidence. The Consumer Confidence index fell 5.7 points to 47.7 in October. Both the present situation and future expectations components fell convincingly during the month, with the present situation series falling to its lowest level of this cycle and lowest since 1983.

The drop in the Consumer Confidence index is a real wake-up call for those who thought the economy was out of the woods. **The cash for clunkers program and first-time home-buyer tax credit appear to have accounted for more of the bounce the economy saw this summer than was widely thought.** The winding down of those programs and lack of improvement elsewhere is readily apparent in today's report. The number of respondents stating that current business conditions are bad rose 0.8 percentage points to 47.1, while the number that said conditions were good fell 0.9 percentage points to 7.7 percent.

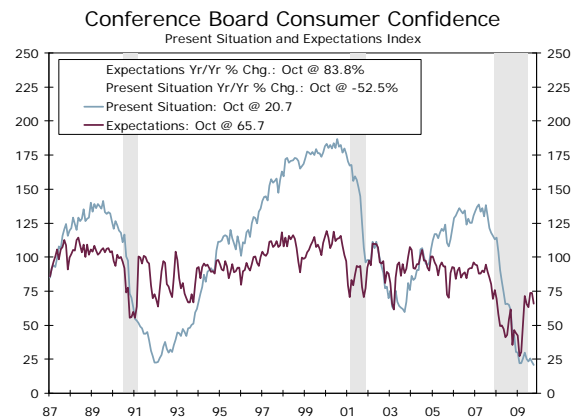
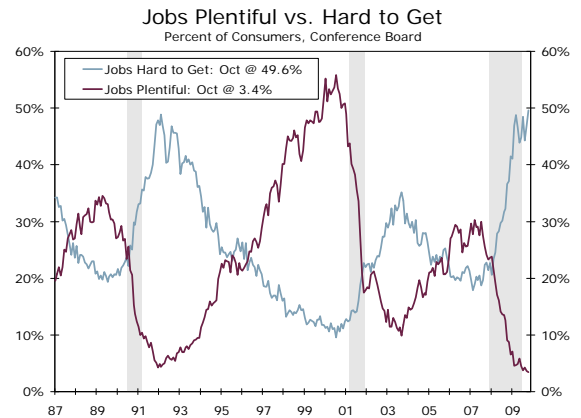
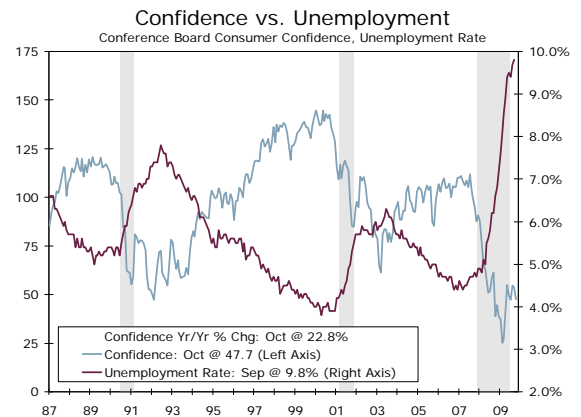
Consumers' assessment of labor market conditions is even more troubling. The percentage of households reporting that jobs were plentiful fell 0.2 percentage points to 3.4 points, while the percentage stating that jobs were hard to get rose 2.6 points to 49.6. The weakness in the employment components suggests that nonfarm payrolls will decline by at least 200,000 jobs in October and also point to an additional 0.1 percentage point increase in the unemployment rate to 9.9 percent. The behavior of the labor market series are very similar to what occurred following the last two recoveries, both of which are widely referred to as "jobless recoveries."

Diminished Expectations About Future Conditions

After bouncing back earlier this year, expectation for business conditions six months ahead have fallen back a bit. Expectations fell 8.0 points in October, with fewer consumers expecting conditions to get better during the next six months and more expecting conditions to get worse. The number of respondents expecting fewer jobs to be created over the next six months jumped 3.7 points to 26.6 percent, while the share expecting more jobs to be created fell 1.7 points to 16.3 percent. Expectations for income growth also diminished but less so than with the other components.

A Surprising Payback From Temporary Stimulus Programs

Buying plans weakened across most major categories, with plans to buy a new car tumbling 0.8 points to 1.4 percent. The apparent payback from the cash-for-clunkers program took buying plans for new cars back to their all-time lows hit back in November. Plans to buy a new home also declined sharply, suggesting the winding down of the first-time home-buyers tax credit is going to have a meaningful impact on new home sales.



Wells Fargo Securities, LLC Economics Group

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

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