



Economics Group

Mark Vitner, Senior Economist
mark.vitner@wellsfargo.com • (704) 383-5635
Tim Quinlan, Economist
tim.quinlan@wellsfargo.com • (704) 374-4407

Consumer Confidence Rises Solidly in January

Consumer confidence jumped 7.3 points in January to 60.6. All the key components increased solidly during the month, making this the best report for consumer confidence since the onset of the financial crisis.

Consumers Weigh in With Their Own State of the Union

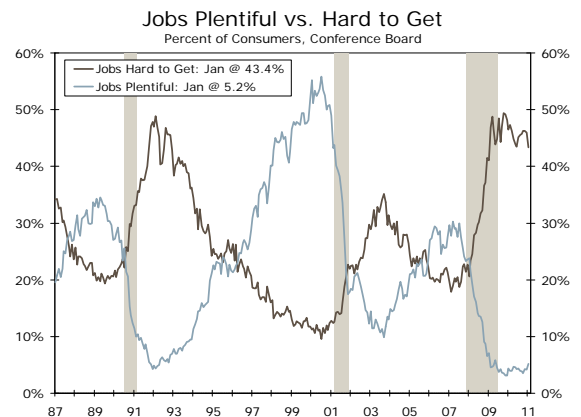
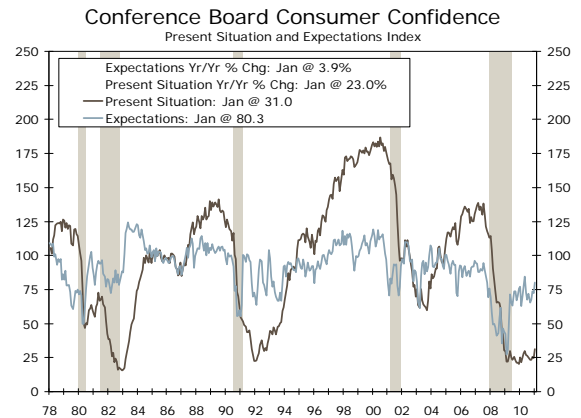
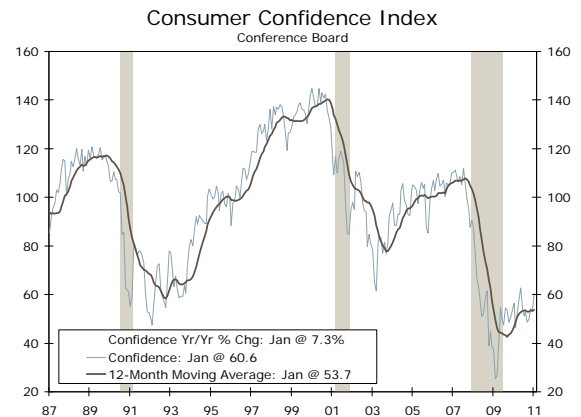
More consumers now appear to believe the economy is on the mend. Consumer confidence rose 7.3 points in January to 60.6, which brought the index to its highest level since May 2010. All of the key components of the survey improved during the month, including the categories relating to the labor market. Consumer confidence is likely benefitting from the tax compromise brokered between the President and the new Republican Congress. Declining unemployment claims, increased hiring plans along with December's drop in the unemployment rate are also likely giving expectations a boost.

While confidence has increased, consumers remain unusually guarded. The absolute level of consumer confidence remains exceptionally low. Moreover, consumers' assessment of current economic conditions is only marginally higher today (31.0) than it was two years ago (29.7). The low level of expectations likely reflects persistently high unemployment. The unemployment rate has remained above 9.0 percent for the past 20 months, which is a post-World War II record. Many of those out of work today have been without a job for a very long time. The Bureau of Labor Statistics notes that 6.44 million people have been unemployed for 27 weeks or more.

There is a Greater Sense Conditions Are Improving

While persistently high unemployment will likely continue to weigh on consumer confidence for months to come, there is clearly a greater sense that economic conditions are finally improving. The percentage of households rating current business conditions as good rose 2.1 points in January to a post-recession high of 9.8 percent. More consumers also report that jobs are plentiful (5.2 percent) and fewer consumers report that jobs are hard to get (43.4 percent). Both measures, however, remain near their historic extremes. The gap between the two series, known as the labor market differential, rose 3.6 points to 38.2 in January. That improvement may cause some forecasters to boost their estimate for nonfarm employment growth in January and cut their estimates for the unemployment rate. One caveat is that a negative feedback loop exists between the unemployment rate and consumer confidence. Big drops in the unemployment rate, like we saw in December, tend to trigger big gains in consumer confidence the following month.

Regardless of whether the magnitude of the improvement in consumer confidence has been exaggerated or not, the direction now seems much clearer. Improvement is evident in nearly every key component of the survey, including expectations for employment and income. All of this bodes well for consumer spending and the broader economy in 2011.



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	(704) 715-0314	eugenio.j.aleman@wellsfargo.com
Sam Bullard	Senior 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
Ed Kashmarek	Economist	(612) 667-0479	ed.kashmarek@wellsfargo.com
Tim Quinlan	Economist	(704) 374-4407	tim.quinlan@wellsfargo.com
Michael Brown	Economist	(704) 715-0569	michael.brown4@wellsfargo.com
Tyler B. Kruse	Economic Analyst	(704) 715-1030	tyler.kruse@wellsfargo.com
Joe Seydl	Economic Analyst	(704) 715-1488	joseph.seydl@wellsfargo.com
Sarah Watt	Economic Analyst	(704) 374-7142	sarah.watt@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A, Wells Fargo Advisors, LLC, and Wells Fargo Securities International Limited. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2011 Wells Fargo Securities, LLC.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE