



Economics Group

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Consumer Confidence Dips Slightly In January

Some of the optimism consumers expressed at the turn of the year appears to have given way. Consumer confidence fell 3.7 points to 61.1 in January, as concerns about job and income prospects intensified a bit.

Optimism Gives Way, Just Like Many New Year's Resolutions

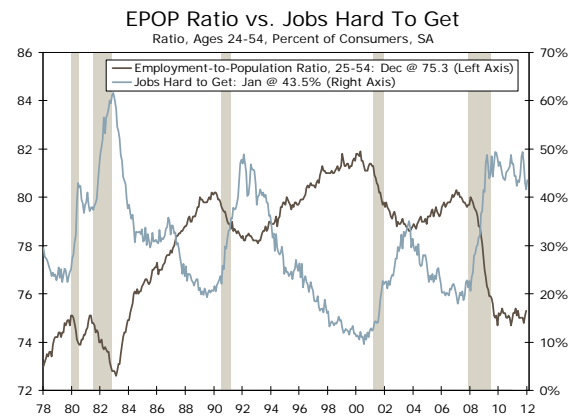
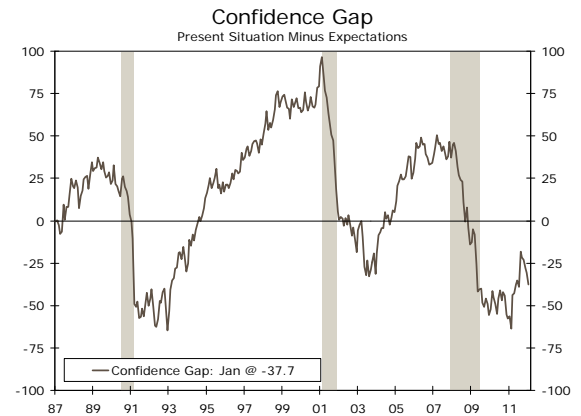
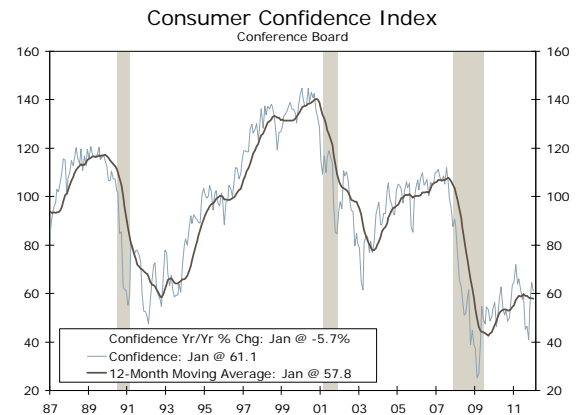
One month into the New Year consumers appear to have a decidedly less optimistic view of the 2012 economy. While the Consumer Confidence Index only fell 3.7 points in January, the drop was evident in nearly every key component of the survey, including questions concerning employment and income.

Most of the drop was in the present situation series, which fell 8.1 points to 38.4, nearly reversing all of the previous month's gain. The proportion rating current economic conditions as good fell 3.0 points to 13.3, while the proportion rating conditions as bad rose 5.2 points to 38.7. The proportion that felt jobs were plentiful fell 0.5 percent to 6.1, while the proportion that felt jobs were hard to get rose 1.9 points to 43.5. The labor market differential, which is the difference between these two series, rose 2.4 points to 37.4, which is where it was in November.

Expectations for economic conditions six months from now fell much less, sliding 0.8 points to 76.2 in January. That said, consumers are somewhat optimistic that business conditions will improve over the next six months, but are more concerned that their incomes will not keep pace with inflation. The proportion of consumers stating that they expect their income to fall over the next six months rose 0.4 points to 14.7, while the proportion expecting their income to remain unchanged increased 2.1 points to 71.5. The proportion expecting incomes to rise fell 2.5 points to 13.8. Consumers' continued worries about income growth are bad news for retailers hoping for a rebound from December's lackluster sales. Early data for January suggest that sales were disappointing that month as well. Along these lines, buying plans for automobiles, homes and major appliances all declined in January.

The sharp deterioration in the present situation index relative to the modest drop in the expectations series is noteworthy. The expectations series has typically been a better predictor of consumer behavior. But with so many consumers viewing current conditions so negatively, the better expectations number may simply reflect the realization that conditions can only improve from here. From a more practical standpoint, the recovery cannot reach escape velocity, or move into a self-reinforcing mode, until the present situation series has risen above the expectations series, or when the confidence gap has moved back into positive territory.

Consumers' views on the economy are likely to continue to be shaped by the job market. On that front, we believe the relationship between the jobs hard to get series and the unemployment rate has broken down. A better comparison may be made with this series and the employment-to-population ratio for prime working age adults. Both show only modest improvement over the past couple of years.



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