



Economics Group

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Consumer Confidence Slips in March

Consumer confidence dropped to a three-month low as consumer expectations dropped 16 points, likely reflecting consumer concerns about higher gasoline prices.

Higher Gas Prices Shake Consumer Confidence

Consumer confidence dropped in March to the lowest level since December as rising gasoline prices and unsettling developments in world news rattled sentiment. The decline follows five straight monthly increases that lifted confidence to its highest level in three years as of February, and offers the latest signal that growth in consumer spending may slow in coming quarters.

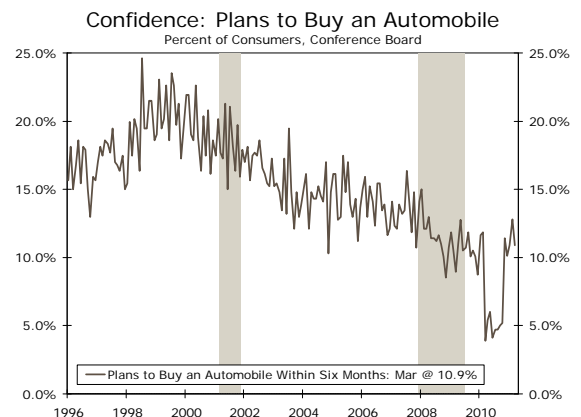
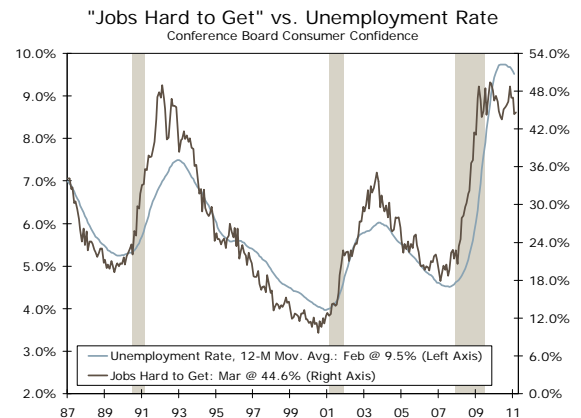
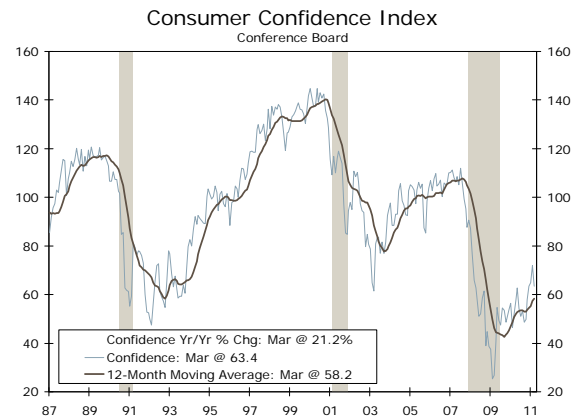
That said, confidence numbers have a tendency to swing fairly dramatically on developments in the job market or price changes for gasoline. The jump in prices at the pump is likely what is weighing on consumers as much as anything. According to AAA, the price of a gallon of regular unleaded gas is averaging \$3.53 across the country this month. That represents a 75 cent jump from the \$2.78 price for a gallon of gas in March 2010. Consumers are seeing higher prices at the grocery store as well and all these price jumps have lifted inflation expectations. Consumers' expectation for inflation 12 months hence rose to 6.7, the highest reading since the middle part of 2008 when oil and other commodity prices spiked. We expect headline inflation to pick up this year, but only modestly with year-over-year price growth topping out around 3 percent in the third quarter of this year.

Along with gasoline prices, another key variable for consumer confidence is employment prospects and they have been improving on trend, though there was some slight deterioration here in March. The labor differential, which is jobs "plentiful" less jobs "hard to get," slipped seven tenths of a point, but still reflect the second best assessment of the job market by consumers in the last few years. Improving employment conditions are somewhat countering worries about higher gasoline prices. But this is a tenuous balance. The job market will need to continue to recover without a hiccup to avoid further deterioration in confidence in an environment of rising food and gas prices.

Images of protests across the Middle East and political instability in that part of the world are likely weighing on sentiment as well. The Japan earthquake hit March 11, but the extent of the damage really was not known until the following week. It is unlikely that developments in Japan had a significant impact on this month's reading, but it certainly adds to the list of concerns going forward.

Auto Sales Set to Slow?

Automobile sales have been a strong spot in the recovery in the U.S. factory sector for the last several months; however, plans to buy an automobile slipped in March, suggesting that the best run for auto sales since the "cash for clunkers" program may be beginning to slow.



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