



Economics Group

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Consumer Confidence Slips Again in April

Consumer confidence slipped again in April, declining to 69.2 from the 69.5 reading in March. The recent rise in gasoline prices along with a disappointing March jobs report likely pulled the index down for the month.

The Less Confident Consumer

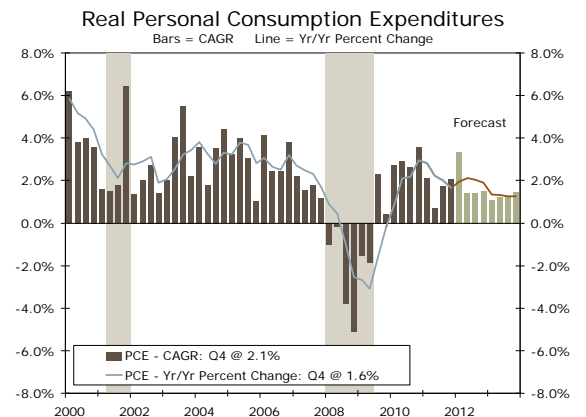
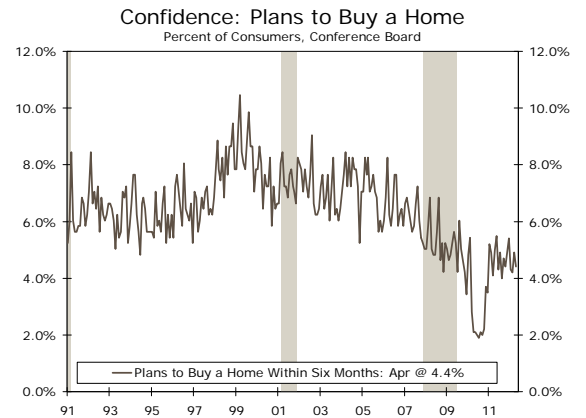
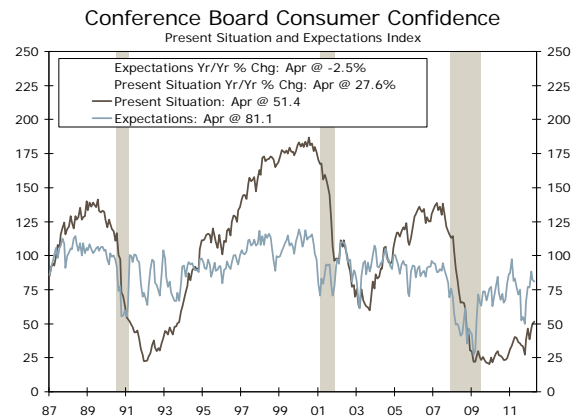
Consumer confidence was weighed down in April by a pullback in the future expectations component. Consumers' attitudes about current economic conditions have continued to improve since the start of the year. However, consumers' expectations for the future have eroded over the past couple of months, falling from 88.4 in February to 81.1 in April. The disappointing jobs report for March likely affected consumer psychology, as fewer respondents expected that more jobs would be available over the next six months. Expectations of future income growth were equally disappointing, as more respondents believed that future incomes will remain about the same—likely a result of the upward trend in gasoline prices. Given the pullback in consumers' expectations for future income growth, consumer spending may grow less rapidly in the coming months.

Seasonal Effect on Confidence?

Given the prominent role that unseasonably warm weather played earlier in the year for other economic indicators, consumer confidence may also have been affected. The unseasonably warm weather helped to support more homebuying activity earlier in the year, thus effectively pulling demand forward for housing. Consumers' plans to purchase a home fell in April after rising in March, which likely reflects the unusually early arrival of spring-like weather. Another key component that may have been affected by unseasonably warm weather is automobile purchases. The pickup in job growth at the start of the year likely supported stronger auto sales in February and March. With job growth slowing from the roughly 250K pace witnessed at the beginning of the year, purchases of automobiles may slow. In April, fewer consumers reported plans to buy an automobile within the next six months.

Potential Impact On Consumer Spending

The lower confidence readings in March and April point to the potential slowing of personal consumption in the second quarter. All indications up to this point suggest that consumer spending has been robust in the first quarter, with retail sales in March up 6.5 percent over last year's levels. The gradual erosion of consumer confidence along with the slower pace of personal income growth will likely play a role in restraining consumer spending in the second quarter. We believe that personal consumption will only grow 1.5 percent (annualized) in the second quarter as opposed to the estimated 3.3 percent growth in the first quarter. Beyond the second quarter, there could also be downside risks to consumer confidence and spending, due to uncertainty around the November elections combined with political wrangling in the fourth quarter over fiscal policy in 2013. In light of both policy and economic uncertainty, we continue to expect that consumer spending will remain in the 2 percent range for this year.



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