



Economics Group

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Consumer Confidence Declines in May

Consumer confidence fell 5.2 points to 60.8 in May, falling to its lowest level since November. Both the present situation and expectations series declined in May, and the job and income outlook also darkened a bit.

Consumer Confidence Is Still Lagging

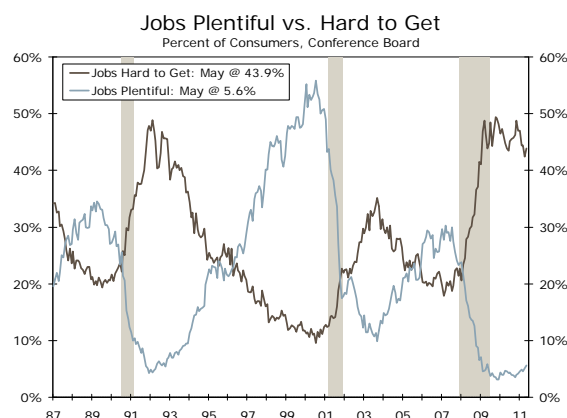
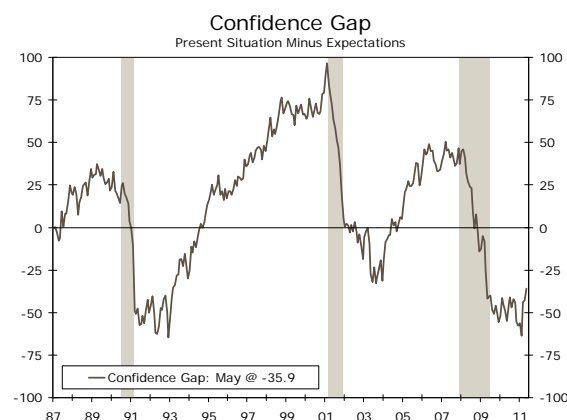
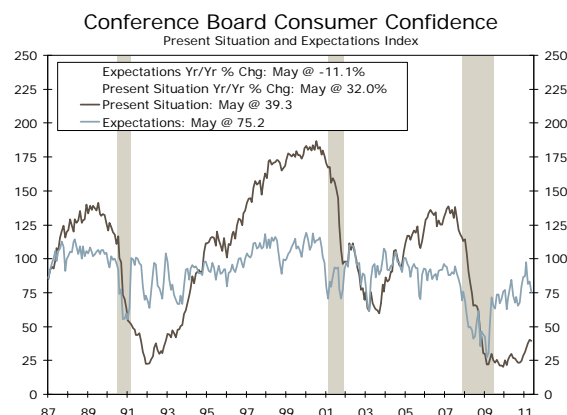
Consumer confidence fell 5.2 points, which was well below the consensus expectations. Consumers voiced a bit more concern about the near-term economic situation and are less optimistic about economic conditions six months down the road. The current situation fell 0.9 points to 39.3, while the expectations series fell 8.0 points to 75.2. The declines come in a month when we saw unseasonably harsh weather across much of the country and also dealt with production cuts in the auto sector, tied to parts shortages emanating from the Japanese earthquake. Stock prices also declined during the month, and, while gasoline prices moved lower in May, much of the drop was late in the month and may not have been picked up in the survey.

The Confidence Gap Remains Exceptionally Low

With so much of the improvement in consumer confidence since the recession's end coming from rising expectations, a huge gap has opened up between the present situation and expectations series. One reason expectations have increased is that consumers' assessment of the current situation is so low. The present situation index is only 19.1 points above its recession low. Typically, the recovery does not really get rolling until the confidence gap moves back into positive territory. At that point, consumers believe business conditions are good and expect them to get even better. And that is when we would have a self-reinforcing expansion.

The labor market differential, which measures the jobs "plentiful" index minus the jobs "hard to get" index, fell 1.0 point to -38.3 in May. The series had improved for five consecutive months, as the number of households reporting that jobs were "hard to get" steadily declined. May saw a bit of a reversal with the "hard to get" series rising 1.5 points to 43.9. All of the increase came out of the middle component, which is labeled jobs are "not so plentiful." The number of respondents stating that jobs were "plentiful" rose 0.5 points to 5.6, which is the highest since May 2009. While it may seem odd that the jobs "plentiful" and "hard to get" series would both rise in the same month, the gains are consistent with the notion that there are huge skill mismatches in the labor market today.

Consumers are not all that optimistic conditions will improve anytime soon. The share of consumers expecting business conditions to improve over the next six months fell 2.2 points to 17.0 percent in May, which is the lowest it has been since October. Fewer households expect more jobs to be created over the next six months and consumers are also less upbeat about the prospect for income growth. The latest numbers add to concerns about a slowing economy, but do not suggest much more than that. Plans to buy a car actually increased in May, and buying plans for homes and major appliances remained near their recent highs.



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