



# Economics Group

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## Job Worries Weigh On Consumer Confidence

*Consumer confidence fell 3.2 points in June to 58.5. The recent deluge of weak economic reports has led to more concerns about employment prospects, which more than offsets any relief from falling gasoline prices.*

### Job Worries Trump Falling Gasoline Prices

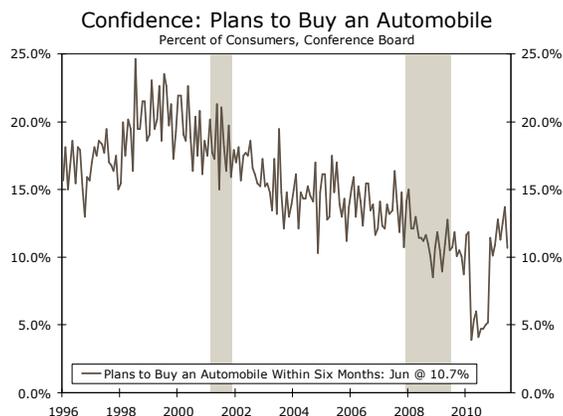
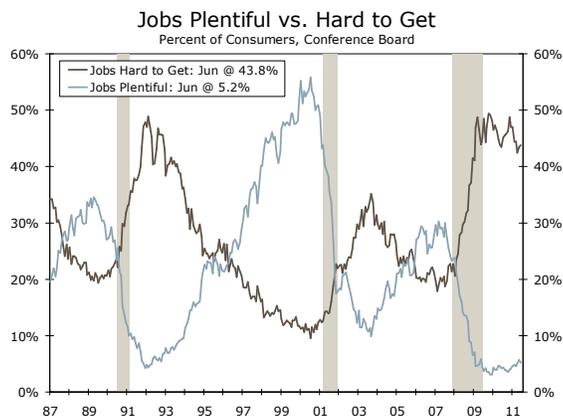
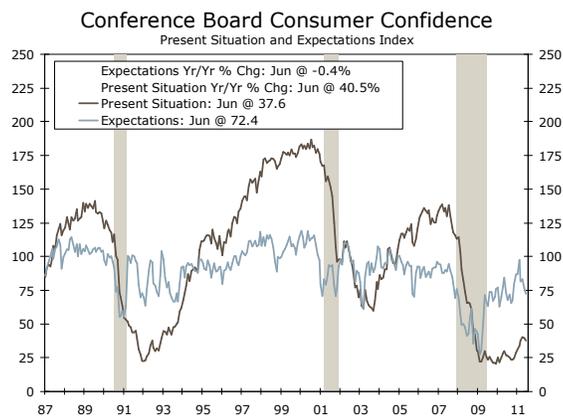
Consumer confidence fell 3.2 points to 58.5 in June as consumers showed more concern about both current and future economic conditions. The present situation index fell 1.7 points to 37.6, while the future expectations series fell 4.3 points to 72.4. With the June decline, the Consumer Confidence Index is now down to its lowest level since November 2010.

June's drop in consumer confidence should raise some doubts about how much of a rebound we can reasonably expect during the second half of the year. The big story in recent months has been that economic growth has stumbled a bit due to a rash of temporary factors, including the run-up in gasoline prices earlier this spring, supply shortages emanating from the Japanese earthquake and the string of severe storms that hit many parts of the South and Midwest during April and May. The clouds were expected to break this summer, however, with gasoline prices falling and motor vehicle production ramping back up. The details within this morning's weaker consumer confidence report raise a number of red flags on this premise.

To start with, consumers do appear to be aware that gasoline prices are falling. The average price of a gallon of regular unleaded gasoline fell \$0.35 a gallon between May 6 and June 24. The drop still leaves gasoline prices fairly elevated, however, at \$3.60 a gallon. Still, the drop was enough that consumer expectations for inflation over the next 12 months fell half a percentage point in June to 6.0 percent, which is the lowest it has been since gasoline prices began to rise sharply back in early March.

Despite the improvement in inflation expectations, consumers' expectations for overall inflation remain elevated at a time when relatively few consumers expect income to increase. Only 13.9 percent of households expect incomes to rise in the next six months, while 16.5 percent expect incomes to decline. As a result, plans to make major purchases have been scaled back. Plans to purchase an automobile fell 3.0 points to 10.7 and plans to purchase a home fell 1.8 points to 3.7. Both drops are unusually large and bring the two series back to their lowest level since December 2010. The decline in buying plans casts some doubt as to how much of the recent weakness was due to severe weather and may also be an early indication that home sales and motor vehicle assemblies may not ramp up as much as some of the early projections have suggested.

We believe the weakness in consumer confidence and the dip in buying plans is partly due to continued worries about employment prospects. Slightly more households found jobs were "hard to get" in June, and fewer said jobs were "plentiful." The lack of real income growth and tighter credit underwriting are also likely restraining consumers. Today's report should raise red flags about how growth will improve in the second half of the year.



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