



# Economics Group

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## Consumer Confidence Bounces Back in July

*Consumer confidence rose in July as consumer’s expectations for the future rose more than the decline in their present situation. A slight rise in the stock market combined with falling claims supported some optimism.*

### Concerns Among Consumers Continue

Consumers’ confidence about the present economic situation fell to 46.2 from June’s 46.6, while the future expectations component rose to 79.1 from 73.4 in June. Inflation expectations rose slightly on the month, while consumers’ expectations of lower incomes six months from now rose slightly, suggesting that plans for longer-term purchases may decline in the coming months.

### Current Conditions Slip Less Than Expected

Surprisingly, the drop in current expectations was quite small even in light of increased economic uncertainty and weaker economic data over the past month. In addition, gasoline prices rose throughout the survey period. The details of the report provide some guidance on the reason for the report’s deviation from other economic data trends.

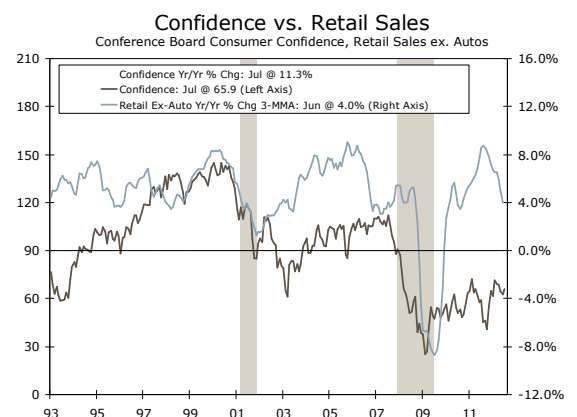
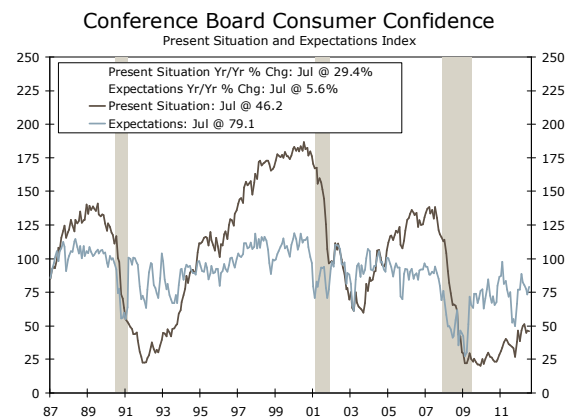
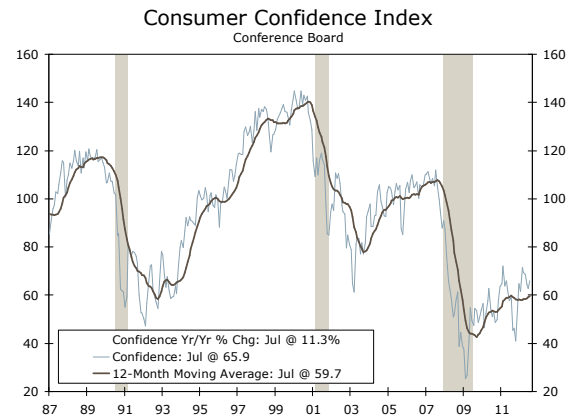
The number of individuals reporting improving business conditions fell slightly, with more than half of respondents reporting normal business conditions. The increase in the percent of respondents reporting “normal” business conditions can likely be attributed to stronger stock market returns during the survey week. In addition, initial jobless claims fell during the survey period, which was reflected in the slight drop in the jobs hard to get category.

### Expectations of Future Conditions Improve

Consumers’ expectations of the future rose as more consumers expected better business conditions six months from now. In addition, consumers expected that more jobs will be available six months from now. With consumers likely weighting current conditions as the basis for future expectations (known as a recency bias), the rise in this month’s overall confidence index level may be a bit overstated.

Even with expectations of the future rising, the absolute level of consumer confidence remains depressed. The three-month moving average of the headline index fell to 64.3 from 65.3 in June, suggesting that a downward trend in consumer confidence remains in place. We continue to expect consumer confidence to trend downward as more uncertainty about the situation in the Eurozone rattles financial markets and increased political rhetoric around the impending fiscal cliff raises fears among consumers. In addition, rising gasoline prices over the past month, which increased from an average of \$3.33 per gallon to \$3.50 per gallon, should also put some downward pressure on consumer confidence.

In a separate release, we found out this morning that consumer spending in June remained flat in a sign that consumers remain extremely cautious. As confidence erodes in the second half of the year, we expect consumer spending to remain restrained as well. Our current forecast calls for consumer spending to average 1.7 percent in the second half of the year.



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