



Economics Group

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Consumer Confidence Tumbles in August

Uncertainty surrounding the debt-ceiling agreement, the S&P downgrade and a shaky stock market pulled consumer confidence down 14.7 points in August, with reduced expectations accounting for most of the drop.

Stock Market Volatility Likely Weighed on Confidence in August

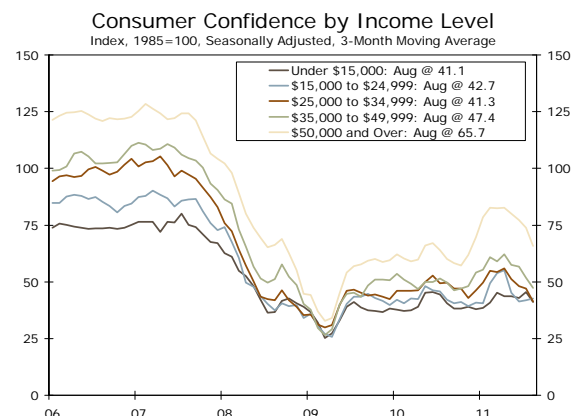
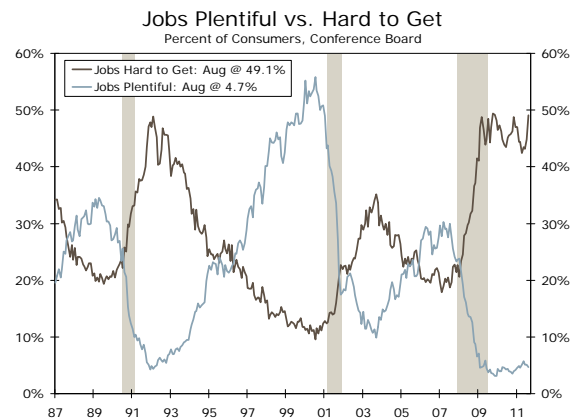
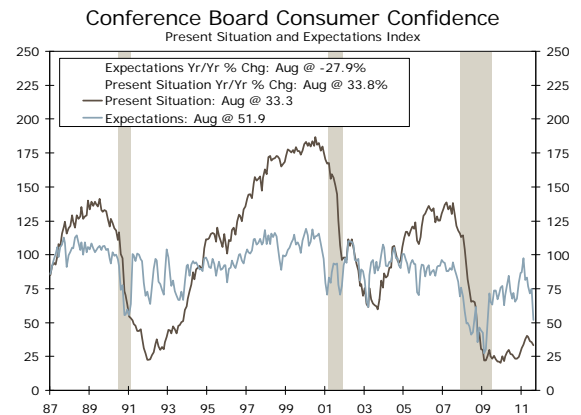
Consumer confidence plunged 14.7 points in August to 44.5. The drop in the overall index was the largest since October 2008, which occurred in the aftermath of the collapse of Lehman Brothers and massive intensification of the financial crisis. Consumers were undoubtedly spooked by the extreme uncertainty that followed the debt-ceiling agreement and the downgrade of the U.S. credit rating by Standard & Poor's. Most of the drop was in the expectations series, which tends to be influenced by swings in the stock market. Expectations plummeted 23.0 points in August to 51.9, marking the lowest level since April 2009. By contrast, consumers' assessment of present conditions fell just 2.4 points, sliding to 33.3.

While the slide in expectations was likely exaggerated by the extreme volatility in the financial markets earlier in the month, expectations had risen up to levels that were consistent with much stronger growth than what materialized. Six months ago, the expectations series was running at a heady 97.5, while the present situation series was stuck at 33.8.

Hopes for a stronger economy never materialized, however, as real GDP growth averaged a paltry 0.7 percent pace in the first half of the year and the unemployment rate rose back above 9.0 percent. With hopes for a stronger economy dashed and renewed uncertainty about economic policy, expectations plummeted 45.6 points over that period. The drop is evident in all the key components, but it is particularly pronounced in those relating to employment. The percentage of households expecting more jobs to be created in the next six months has fallen from 21.2 in February to just 11.4 in August, while the share expecting fewer jobs to be created has more than doubled, rising from 15.0 in February to 31.5 in August.

The sharp drop in consumer confidence, and expectations in particular, should set off alarm bells at retailers. The expectations series has the strongest links to consumer spending and is also a component of the leading economic index. With more consumers worried about their job and income prospects, fewer are likely to spend as freely as they have in the past. This is true across all income cohorts. Confidence plunged across all income groups, but the greatest slide over the past six months has clearly been among those earning \$50,000 or more, which has fallen from a relatively healthy 86.4 in February to just 54.7 in August. Many of the initial anecdotal reports for the back-to-school season, which is itself a harbinger for holiday season sales, have been mixed.

Oddly enough, buying plans actually rose for automobiles and major appliances in August, reversing weaker readings from the prior month. Plans to purchase a home fell sharply, however, with most of the drop concentrated in plans to purchase new homes.



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