



Economics Group

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Consumer Confidence Rebounds in September

A huge 12.6 point jump in expectations about future economic conditions sent consumer confidence up 9.0 points in September. The rise in expectations mirrors the recent improvement in the stock market.

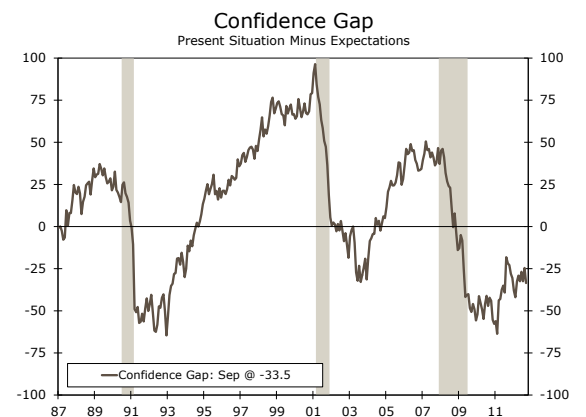
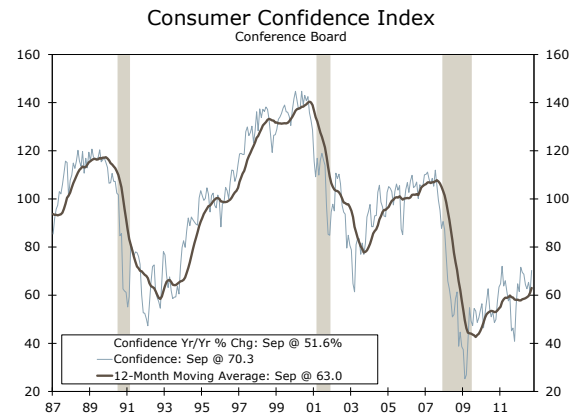
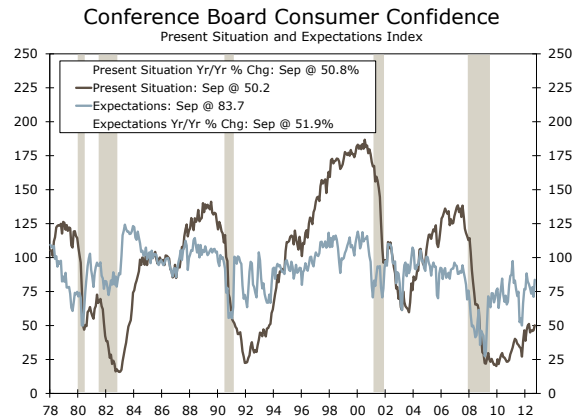
Consumers' Fears Subside in September

The Consumer Confidence Index rose a larger-than-expected 9.0 points in September, as fears about soaring gasoline prices and the approaching fiscal cliff appear to have subsided somewhat. Consumers' view on both the present economic situation and expectations for future economic conditions improved during the month, with most of the improvement coming in expectations. The expectations series jumped 12.6 points to 83.7 in September, marking its highest reading since February. The expectations series tends correspond to swings in the stock market, and the increase in share prices through much of the month is likely behind most of the improvement. Consumers remain more guarded about current economic conditions, particularly as they relate to the job market. The present situation index rose just 3.7 points in September and remains exceptionally low at 50.2.

With the approaching presidential election, the 9.0 point jump in consumer confidence is likely to become a hot topic. The overall index is now back to 70.3, marking the highest reading since February. September's gain followed a surprisingly large drop in August, however, and it is probably best to take the 3-month average of the series, which has averaged 63 over the past 12 months. Consumers also remain extremely cautious about overall business conditions and employment. Only 15.5 percent of households rate current business conditions as good, while 33.3 percent rate conditions as bad. The remaining 51.2 percent rate conditions as normal. Jobs are still seen as fairly hard to get, with 39.9 percent of households stating jobs are hard to get and another 51.8 percent stating that jobs are not so plentiful. The number stating that jobs were plentiful rose 1.1 percentage points to 8.3 percent in September, which is close to its average for the year.

The 12.6 percent rise in the expectations series is evident in all three of its subcomponents. Slightly more consumers see business conditions getting better in the next six months, while slightly fewer see them as getting worse. Consumers are also slightly more upbeat about future employment conditions, and fewer see their income falling over the next six months.

The persistent weakness in how consumers view the present economic situation essentially lowers the bar for future expectations. With so many consumers seeing the present situation as unusually dreary, it only makes sense that many would also see conditions getting better from here. Unfortunately, the reverse needs to happen before the economic recovery achieves the escape velocity needed to break free of its recent low altitude orbit of around 2.0 percent real GDP growth. In other words, consumers need to feel even better about current conditions than they do about the future in order for economic growth to really take off.



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