

Economics Group

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Consumer Confidence Rises in May

The Consumer Confidence Index rose 5.6 points in May to 63.3, which is its highest reading since March 2008. Concerns about employment prospects are subsiding a bit and buying plans for automobiles have increased.

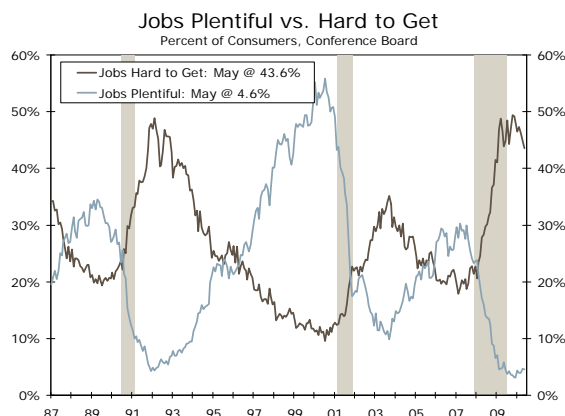
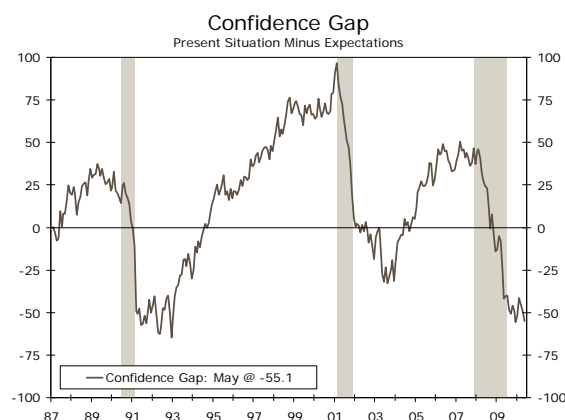
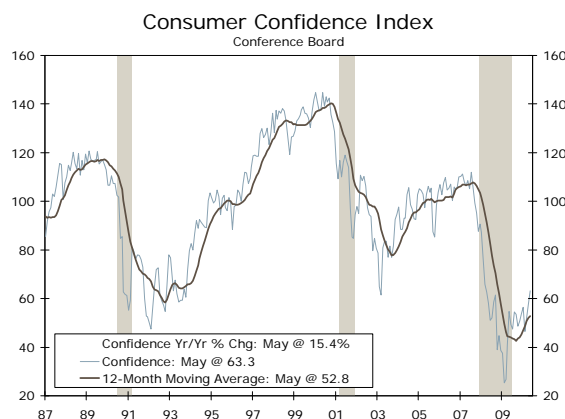
Unfazed by European Economic Troubles, So Far

So far, consumers seem far less concerned by the European economic crisis and related stock market turmoil that has developed over the past month. The Conference Board's Consumer Confidence Index rose 5.6 points in May, with both the present situation and expectations series rising during the month. Consumer confidence has now risen for three consecutive months and the uptrend looks similar to what occurred during the early stages of the past two recoveries. U.S. consumers typically are not swayed much by events overseas unless they are directly impacted by them. While the European debt crisis has pulled the stock market down, lower equity prices tend to have a stronger relationship with the University of Michigan's Index of Consumer Sentiment than they do with the Conference Board's Consumer Confidence Index. Another reason why consumer confidence appears to be unfazed by the turmoil in the global financial markets is that confidence was already so low. The Consumer Confidence Index is only 38 points above the low hit back in February 2009, and is just 1.9 points higher than the low hit following the 2001 recession.

Consumer assessment of current economic conditions is particularly troubling. While the present situation index rose 2 points to 30.2 in May, it is only 10 points higher than its low hit back in December 2009. Moreover, the gap between the present situation index and the expectation index has widened to 55.1 points, which is about as bad as it has been in this cycle. Our middle chart shows the gap between the present situation and expectations index. The present situation index typically needs to rise above the expectations index before a self-sustaining recovery takes hold. This took 40 months following the 1990-91 recession and 30 months following the 2001 downturn.

Employment Prospects Look a Little Brighter

The percentage of consumers reporting that jobs were hard to get fell for the third month in a row and has fallen during seven of the past eight months. Layoff announcements and weekly first-time unemployment claims have generally declined during this period. Hiring has been slower to turn up, however, and this is reflected by the paltry increase in the jobs plentiful series. The number of consumers reporting that jobs were plentiful in May actually dropped slightly, which is a bit of a surprise given the consensus' upbeat job forecasts for the May employment report. The dip may signal that there is not much hiring beyond the temporary Census jobs. Plans to purchase an automobile jumped 0.6 points to 6.0, which is higher than it was back in the cash-for-clunker days. Plans to purchase a home dropped for the second straight month, falling to 1.9 percent, reflecting the winding down of the homebuyer tax credit program.



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