

Economics Group

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Employment Concerns Continue to Weigh on Confidence

Consumer confidence rose 6.7 points to 54.1 in August, with future expectations accounting for most of the rise. Consumers are still worried about current economic conditions, particularly the scarcity of jobs.

Consumer confidence rose 6.7 points to 54.1 in August, marking the first rise since May. Most of the improvement was in expectations, which rose 10.1 points to 73.5. The number of consumers reported expecting conditions to get better over the next six months rose 4.0 points to 22.4, the highest level since the financial crisis intensified last fall. The number of households expecting conditions to worsen fell 3.2 points. Consumers are also slightly more upbeat about prospects for future job growth, with 18.4 percent expecting more jobs to be created over the next six months.

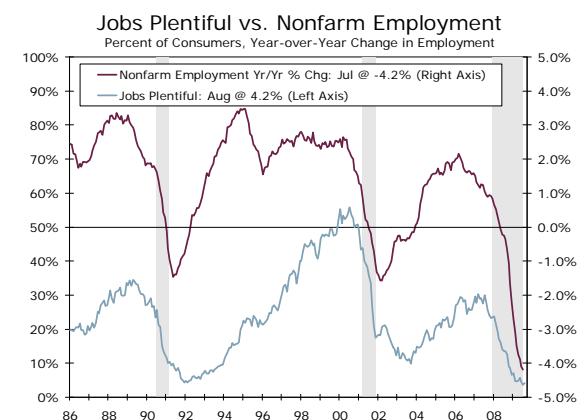
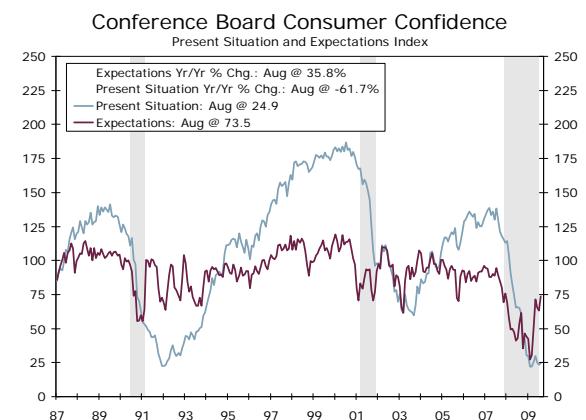
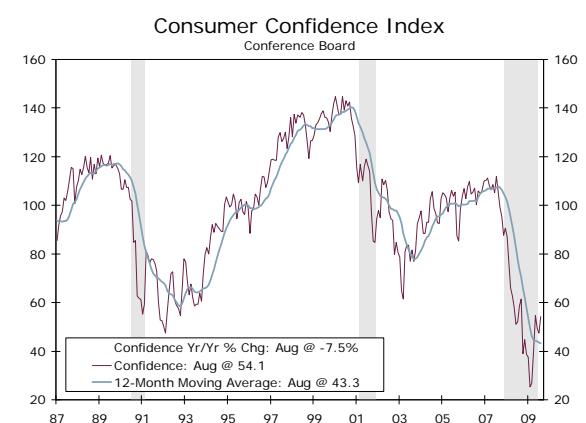
Consumers remain far more troubled about current conditions. The current conditions index rose just 1.6 points to 24.9 in August and remains near its cycle lows. Consumers' ongoing concerns about current conditions reflect the continuing worries about the labor market. Only 4.2 percent of consumers currently believe jobs are plentiful, while 45.1 percent feel jobs are hard to get and another 50.7 percent believe jobs are not so plentiful.

With Consumers Worried, This Is No Time to Rock the Boat

The still fragile state of consumer confidence does a good job of capturing current economic conditions. The economy, like the consumer confidence index, bottomed out earlier this year but remains at perilously low levels. There are reasons to be optimistic but most of the improvement so far has been apparent in the statistics rather than on Main Street. The stock market has improved, the index of leading indicators has increased for five months in a row, home sales have picked up and prices appear to have stopped falling. For consumers, however, the most important component of their view of the economy is their assessment of employment conditions. Layoffs appear to have topped out but hiring has not yet begun to improve. Concerns about employment conditions are evident in the breakout between the number of households reporting that jobs were plentiful versus the number that continue to report that jobs are hard to get.

Consumers' assessment of current economic conditions has the strongest tie to consumer spending and overall economic conditions of any part of the consumer confidence survey. During the past two recoveries, the current conditions component did not improve significantly until nonfarm employment began to increase. This means consumer confidence and spending will likely remain constrained well into early 2010, making for another difficult holiday shopping season.

The delicate state of consumer confidence and the recovery in general is one of the reasons why it was important to reappoint Ben Bernanke as Fed Chairman now, as opposed to waiting a few more months. Bernanke's reappointment removes some of the uncertainty about the future course of monetary policy and the way it was handled indicates the Administration is a strong advocate of the Fed's independence.



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