

Be Confident in the Recovery

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Senior Economist
Strider Elass – Economic Analyst

Two prominent measures of consumer confidence dropped unexpectedly in recent weeks. This provided plenty of fodder to those who still think the US economy is teetering on the brink of a long awaited double-dip.

But when it comes to the consumer confidence data, the only thing we're confident about is that confidence doesn't matter. Not one bit.

There is no consistency between what consumers are actually doing and how they tell pollsters they feel. They may talk the talk, but they aren't walking the walk. While saying they lack confidence, consumers are buying vehicles at a relatively rapid rate. Auto and light truck sales jumped to a 14.2 million annual rate in January, the fastest pace since early 2008, even beating August 2009, which was the sales peak for cash-for-clunkers. At the same time, chain-store retail sales were up 4.8% from a year ago, and that only includes sales at stores open more than twelve months.

As we look ahead to this week's indicators (see our weekly table below), it is clear that the economy remains solidly in recovery mode. Industrial production, manufacturing surveys, housing starts and initial claims should all reaffirm the growth story.

And yet, consumer confidence measures remain deeply depressed. The Conference Board's measure is currently

61.1, well below its 20-year average of 93.0. The University of Michigan's measure of confidence is 72.5 versus a 20-year average of 87.6.

Both measures of confidence are lower than they were a year ago, despite roughly 2 million more payroll jobs – 2.2 million in the private sector – and more hours of work per worker, which signal even more jobs to come. Initial claims for jobless benefits are way down and manufacturing production is up more than 3.5% from a year ago.

The idea that "how people feel about things" is a driver of economic activity has taken a huge hit in recent times. But don't believe just one data point. Consumers were never more confident than in late 1999, just before the market crash and recession of 2000/2001. And in 2007, confidence hit its high point just before the sub-prime crisis and Panic of 2008 occurred.

Nonetheless, the popular press and many analysts still seem to regard these data as important. Our advice is to ignore it – confidence won't tell you where we are going.

Think of confidence like personal health. When do you finally get the flu? - after not being sick for a while, that's when. And when do you get better? - after you've been sick, that's when. In other words, the lower confidence is the more likely a recovery is either on-its-way, or underway.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
2-14 / 7:30 am	Retail Sales - Jan	+0.8%	+1.4%		+0.1%
7:30 am	Retail Sales Ex-Auto - Jan	+0.5%	+1.2%		-0.2%
7:30 am	Export Prices - Jan	-0.1%	+0.0%		-0.5%
7:30 am	Import Prices - Jan	+0.3%	+0.1%		-0.1%
7:30 am	Business Inventories - Dec	+0.4%	+0.4%		+0.3%
2-15 / 7:30 am	Empire State Mfg Index - Feb	14.8	17.5		13.5
8:15 am	Industrial Production - Jan	+0.6%	+0.8%		+0.4%
8:15 am	Capacity Utilization - Jan	78.6%	78.6%		78.1%
2-16 / 7:30 am	PPI - Jan	+0.4%	+0.5%		-0.1%
7:30 am	"Core" PPI - Jan	+0.2%	+0.1%		+0.3%
7:30 am	Housing Starts - Jan	0.671 Mil	0.685 Mil		0.657 Mil
7:30 am	Initial Claims - Feb 11	365K	360K		358K
9:00 am	Philly Fed Survey - Feb	9.0	9.5		7.3
2-17 / 7:30 am	CPI - Jan	+0.3%	+0.2%		+0.0%
7:30 am	"Core" CPI - Jan	+0.2%	+0.2%		+0.1%
9:00 am	Leading Indicators - Jan	+0.5%	+0.4%		+0.4%