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Consumer Confidence Falls Flat in November

Worries over future job and income prospects pulled Consumer Confidence lower in November. The expectations series fell 2.9 points in November, following a 12.5-point plunge the previous month.

A Puzzling Drop

November's 2.0 percentage point drop in Consumer Confidence is puzzling for a number of reasons. The general consensus had called for a modest rebound, following October's decline, which was widely thought to have been tied to the partial federal government shutdown. While we had projected a smaller than consensus rise, at least a modest rebound seemed likely, particularly given the continued drop in weekly jobless claims and continued slide in retail gasoline prices. One possible explanation is that consumers are still frustrated with the unsettled policy debate over the federal budget and debt ceiling, which were merely pushed into early 2014. In addition, the rocky rollout of the Affordable Care Act may have also influenced consumers' responses. We would caution, however, that these big picture issues tend to influence consumers' expectations for future economic conditions more than their view of the present situation. Both series weakened in November, which suggest there may be something more fundamental at play.

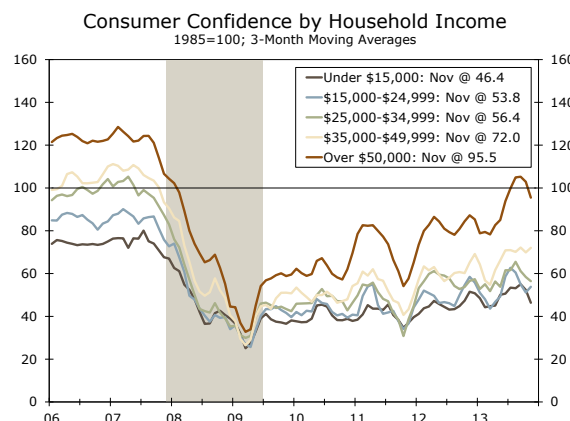
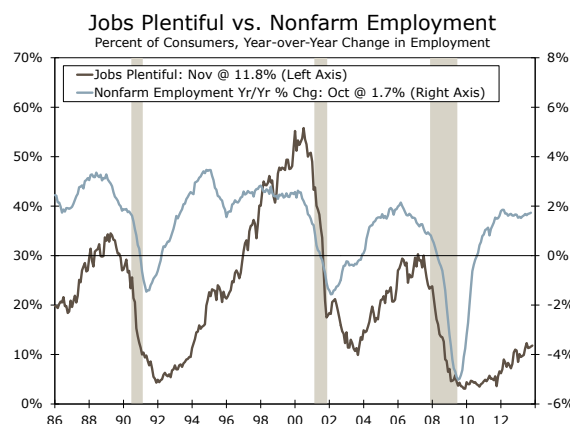
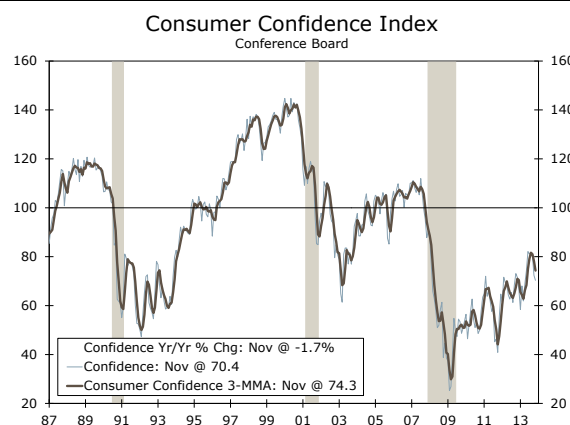
We tend to look for consistencies and inconsistencies in the Consumer Confidence report to gauge whether it contains meaningful information about consumer behavior. On this basis, the report seems consistent with other data available for November. The continued improvement in the labor market is evident in the report, with 0.2 percentage points more respondents noting that jobs are plentiful (11.8) and 0.9 percentage points fewer noting that jobs are hard to get (34.0). The improvement would be consistent with job growth maintaining its recent pace of around 180,000 net new jobs a month, and no change in the unemployment rate.

A Possible Explanation for Reduced Expectations

While many analysts may be quick to pour cold water on today's disappointing Consumer Confidence number, we believe the continued weakness in the expectation series likely reflects real concerns. November saw a reduction in food stamp payments, as supplemental benefits expired at the start of the month. Consumer Confidence among lower income households has declined sharply over the past two months.

Rising health insurance premiums tied to the Affordable Care Act may also be weighing on consumers' expectations. Confidence among higher income households has taken a huge hit over the past two months, with confidence among those earning \$50,000 or more a year falling 16.3 points since September, compared to a 9.8-point drop in the overall index.

The November Consumer Confidence numbers are closely scrutinized because they come just as the important holiday shopping season begins. Our expectations call for a modest 3.7 percent rise in holiday spending, which we believe will be constrained by sluggish wage and salary growth.



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