



Economics Group

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Consumer Confidence Surges in January

Consumers clearly feel more upbeat about the economy. The Consumer Confidence Index jumped 9.8 points to 102.9 in January, with solid gains in both the present situation and expectations series.

Consumers Seem to be Looking Past the Headlines

On a day that the Dow Jones Industrial Average opened down 300 points and durable goods orders plunged unexpectedly, news that consumers were decidedly upbeat in January is clearly a ray of sunshine. The more upbeat tone from consumers is not an anomaly. Consumer confidence reflects economic conditions within the United States while the recent weakness in the financial markets, slide in oil prices and troubling earnings announcements at big multinational firms primarily reflect weakness overseas or the associated surge in the value of the U.S. dollar.

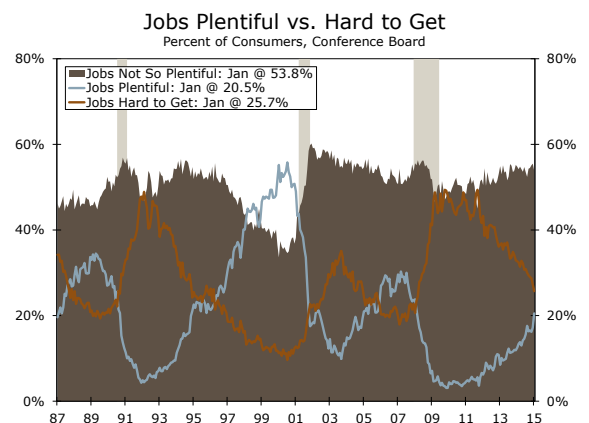
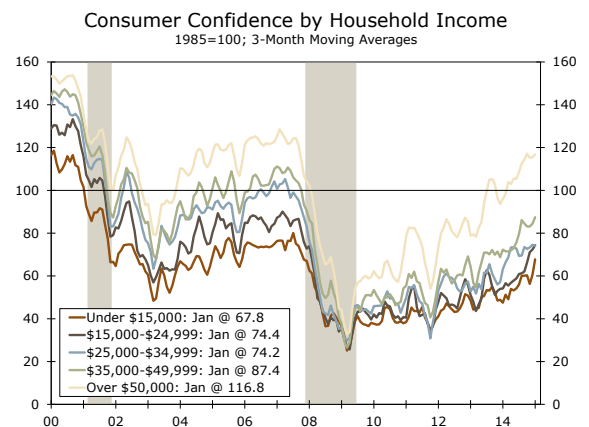
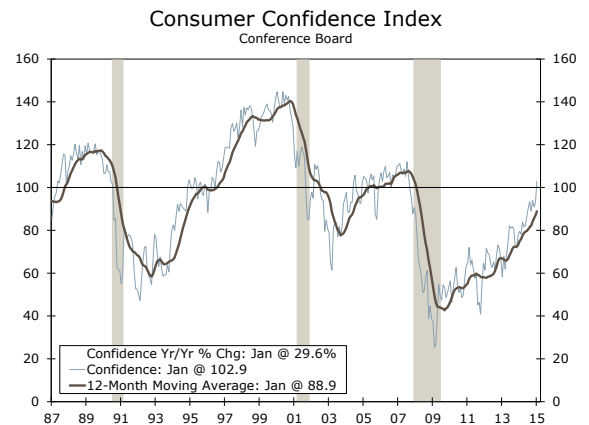
The stronger relative position of the U.S. economy owes a great deal of its success to the early adoption of aggressive monetary policy by the Federal Reserve in 2008. Other nations have been slower to adopt the Fed's methods. While much of the initial benefit from Quantitative Easing was to asset prices and upper income households, Main Street now appears to be hitting its stride. Much of the recent gain in consumer confidence has occurred at households earning less than \$50,000 a year.

January's 9.8-point rise in consumer confidence was driven by a 12.7-point jump in consumers' view of the present situation. The proportion of consumers rating current conditions as good rose 3.4 points to 28.1, while the proportion stating current conditions as bad fell 2.1 points to 16.8. Both readings are the best we have seen since the recession ended.

Attitudes toward the labor market also improved, with the proportion of consumers stating that jobs were plentiful rising 3.3 points to 20.5 percent, while the proportion feeling that jobs were hard to get fell 1.6 points to 25.7 percent. The remaining 53.8 percent felt jobs were not so plentiful. While the latter two series have improved, both remain fairly high for an economy five and a half years into recovery. The shadow of the crisis may not be as evident as it once was, but it is still apparent in the job market.

Consumers also feel more upbeat about the economy's future prospects. The expectations series, which accounts for two-thirds of the overall index, rose 7.9 points in January. Attitudes about future business conditions, employment growth and income prospects all improved but remain more guarded relative to past economic expansions, particularly attitudes toward income growth. Just 20 percent of consumers expect their income to rise in the next six months, while 11.3 percent expect income to drop and a whopping 68.7 percent expect income to remain unchanged.

Buying plans were generally mixed in January, with plans to buy a car rising 0.8 points to a lofty 13 percent and plans to buy a home slipping 0.1 points to 4.8 percent. Plans to buy a major appliance, however, fell 8.3 points to 43.6 percent. Attitudes on inflation were unchanged, which is a bit surprising given the steep drop in gasoline prices in recent weeks.



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