



Economics Group

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Consumer Confidence Plummets In January

The resolution of the fiscal cliff brought little comfort to consumers in January. Overall consumer confidence tumbled 8.1 points to 58.6, which is the lowest reading since November 2011.

Higher Payroll Taxes Take A Bite Out of Consumer Confidence

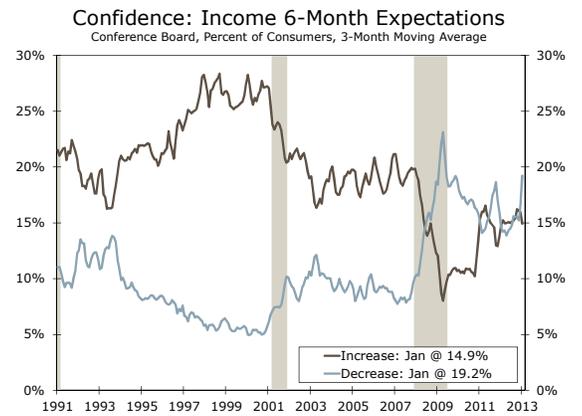
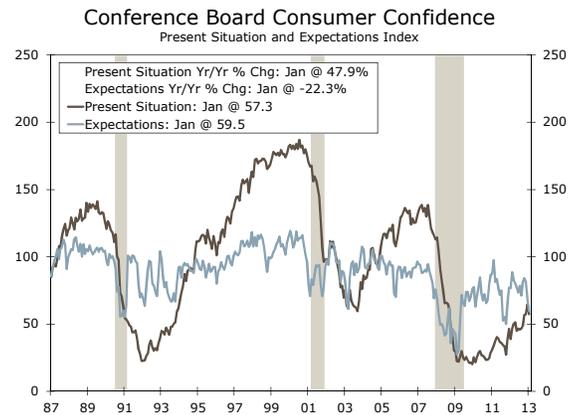
The resolution to the fiscal cliff brought little comfort to consumers in January. Consumers were likely surprised when they received their first paychecks of the year and noticed that their social security payroll taxes had risen 2 percentage points and that their take home pay had shrunk. Views on job prospects also soured considerably, reversing a large part of the improvement seen during the previous four months. Consumers' heightened concerns are evident in both their assessment of the present economic situation and expectations for future economic conditions. The present situation index declined 7.3 points to 57.3, while the expectations series tumbled 8.6 points to 59.5. Weakness is evident across every major component of the survey. Buying plans were mixed, however.

Higher payroll taxes definitely took a bite out of consumer confidence in January. The proportion of consumers stating that they expect their income to decrease over the next six months surged 3.8 percentage points to 22.9, which is the highest it has been since March 2009, when the economy was still in the midst of the recession. The proportion expecting their income to increase over the next six months fell 2 points to 13.6. The income differential, which measures the difference between those consumers expecting their income to decline over the next six months and those expecting their income to increase over the next six months fell to -9.3, which is the lowest it has been since April 2009.

Attitudes about the labor market also deteriorated in January. Many businesses have likely put hiring plans on hold, pending the resolution of the debate on the federal budget sequestration. The proportion of consumers stating that jobs were plentiful plunged 2.2 percentage points to 8.6, while the proportion stating that jobs were hard to get rose 1.6 points to 37.7. Consumers have also become less optimistic about future job growth, with the proportion expecting more jobs to be created over the next six months tumbling 3.6 points to 14.3 and the percentage expecting fewer jobs to be created rising 0.1 point to 27.0.

The drop in take-home pay and increased caution about the labor market will likely take a toll on consumer spending. Buying plans for automobiles did weaken a bit, falling 2.1 points to 10.1. Plans to purchase a home, however, held steady at 5.3 and plans to purchase major household appliances actually rose 1.6 points to 47.7. Inflation expectations also inched up slightly, possibly reflecting the recent rise in gasoline prices.

January's surprisingly large 8.1-point drop in consumer confidence may exaggerate the extent of the damage from the higher payroll tax on economic activity. Most forecasters, including us, were expecting consumers to pull back a bit following the tax hike. We expect spending to rebound later this year once the fiscal cliff fades into the rearview mirror.



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