

“Less Bad” is no Longer Good Enough for Consumers

The Consumer Confidence Index gave back part of its recent gains in June, falling 5.5 points to 49.3. Both the present situation and expectations series fell, with the present situation series giving back all of its gains from April and May. The disappointing Consumer Confidence numbers likely reflect rising unemployment.

Consumer Confidence Gave Back Part of its Recent Gains

We warned last month that the recent run-up in consumer confidence appeared to be getting a bit ahead of itself. The Consumer Confidence Index jumped nearly 14 points in both April and May, with most of the improvement coming in the expectations series. Expectations for business conditions six months from now leapt nearly 40 points in just two months. The increase coincided with a 9.5 percent rally in the Dow Jones Industrial Average and set off a further run-up in the Dow after the better-than-expected May numbers were reported one month ago. Consumer confidence was also bolstered by numerous green shoot sightings. Most of those green shoots were simply reports showing economic conditions were no longer deteriorating as rapidly as they were earlier. Current economic conditions, which matter most, showed much less improvement, rising just 8.8 points between March and May. *This past month's decline in consumer confidence suggests reports that economic conditions are merely less bad than they used to be are no longer good enough.*

The June data saw expectations give back 6.0 points of their earlier rise and current conditions fell 4.9 points to 24.8. *Consumers have grown a little leery of all the talk about green shoots, particularly at a time where the unemployment rate is high and rising.* May's half percentage point jump in the unemployment rate to 9.4 percent undoubtedly weighed on many consumers' minds and is one reason why more consumers noted that jobs were hard to get in June. Longer term expectations for employment also took a hit, with the number of consumers expecting fewer jobs to be created in the next six months rising 1.8 points to 27.3 percent.

Consumers Give the Economy a More Somber Assessment

While April and May's big jumps in consumer confidence were a bit overdone, the June numbers appear to be roughly in line with our own expectations. There is little doubt the worst of the recession has passed. After declining in the second quarter, real GDP should turn solidly positive in the third. That turnaround, however, will largely be driven by a reduction in inventory liquidations. Again, the apparent rebound in economic activity is more a result of things being less bad than good.

There are some tangible improvements. The economic stimulus plan has bolstered after tax income and federal spending is slated to rise in the second half of the year. Motor vehicle assemblies will also ramp-up in the third quarter. Unfortunately, the unemployment rate is rising and the stimulus package is no longer boosting incomes. We expect consumer confidence to grind higher, as headwinds continue to diminish amidst a still very rough environment for consumers and the overall economy.

