



News

Consumer Confidence Inches Up after 2 Months of Decline

By JENNIFER DePAUL, The Fiscal Times on Aug 31, 2010

Consumers' mood improved slightly in August, but don't get too excited. Economists warn that a rocky stock market, elevated jobless claims and a drastic plunge in the housing market continue to leave consumers uncertain about the path of the U.S. economy, and it's likely to stay this way for months to come.

The Conference Board's [Consumer Confidence Index](#) inched up in August to 53.5 (on a 100 point scale), from a revised 51.0 in July. The gain beat analysts' expectations that the August Index would be 51 and comes after two straight months of decline. However, "it will be a few months, maybe the end of the year, before we see a significant improvement in confidence," said Scott Hoyt, senior director of Consumer Economics at Moody's Economy.com. "There are too many sources of drag out there right now."

The Conference Board said consumers are about as confident today as they were a year ago, when the index reading stood at 54.5, a gloomy outlook for retailers and jobseekers. A healthy index reading is considered to be 90 or above — something that hasn't happened since the recession began in 2007.

Lingering Apprehension

"We are at pretty depressed levels historically, certainly not consistent to where you would expect nine months or one year into an economic recovery," said Joshua Shapiro, chief U.S. economist at MFR, an economic advisory firm.

The August report showed Americans more downbeat about current economic conditions, despite the slight overall improvement in their outlook. "Employment concerns continue to weigh heavily on consumers' attitudes," said Lynn Franco, director of the Conference Board's Consumer Research Center. "Expectations about future business and labor market conditions have brightened somewhat, but overall, consumers remain apprehensive about the future."

Hoyt noted that the current situation is reminiscent of the 1990-1991 recession, when widespread uncertainties kept the public's confidence low. That was also a relatively jobless recovery. Most consumers have not lived through a recession as severe as the recent one, he said, and fears of a "double dip" are growing as [economic growth slowed](#) to 1.6 percent in the second quarter.

But the survey also showed the number of Americans expecting better business conditions in coming months rose to 17.0 percent from 15.8 percent, while those expecting conditions to get worse declined to 13.4 percent from 15.3 percent.

Consumer confidence is an important economic indicator because it helps determine spending, which accounts for 70 percent of U.S. economic growth. Consumer spending rose by 0.4 percent in July, the fastest pace in fourth months, suggesting consumers have not totally shut their wallets. But experts say there are few signs households are willing or able to ramp up spending. Personal incomes also rose 0.2 percent, which was less than expected.

"The nice thing is that consumers are spending in spite of the dreary figures we are seeing," Hoyt said. "It's not terrific growth but it is some. We need spending growth to keep the economy moving."

Monday's consumer spending report showed that Americans are saving more, balancing their checkbooks and reducing their debt burdens. The savings rate for July was high — almost 6 percent — nearly three times higher than it was before the recession and some of the highest rates over the last 15 years. "If we stayed here that would make a big difference in how the economy

operates,” said Robert Shapiro, former undersecretary of Commerce during the Clinton Administration. “We would need to get more demand from exports and business investments because we would have less demand from consumers who are saving their money instead.”

So what would reverse a continued gloomy consumer mindset? Experts are unanimous when they say powerful job gains would significantly improve overall confidence.

Economists will closely monitor this Friday’s employment report for August. Economists surveyed by Thomson Reuters expect nonfarm payrolls to have dropped by 100,000, dragged down by government cutbacks on the state and local level. The unemployment rate is expected to climb to 9.6 percent from 9.5 percent.

Related Links:

[Consumers Lose Confidence; Some Fear Double Dip Recession \(The Fiscal Times\)](#)

[U.S. Economy: Consumers Confidence Climbs More than Forecast \(Bloomberg\)](#)

[U.S. Stocks Turn Positive after Consumer Confidence Data \(Wall Street Journal\)](#)