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Consumer Confidence™ s Unexpected Seven Month High

By [JENNIFER DEPAUL](#), The Fiscal Times January 25, 2011

Consumer confidence remains at historically depressed levels, but jumped to a [seven-month high in January](#), as Americans report more optimism for an [improving labor market](#).

The January Conference Board Consumer Confidence Index rose 7.3 points to 60.6 (on a 100 point scale) up from 53.3 in December. Analysts had expected a gain of up to 54.4. One component of the index — measuring how consumers feel about the economy — increased to 9.8 percent from 7.7 percent. Consumers' appraisal of the job market was also more upbeat, with those claiming jobs are plentiful rising to 5.2 percent from 4.2 percent, the highest reading since May 2009. Those claiming jobs are hard to get declined slightly to 43.4 percent from 46 percent.

Income expectations improved as well — 9.9 percent to 11.4 percent. The improvement was driven by increases in both the expectations index, to 80.3 from 72.3, and the present situation index, to 31.0 from 24.9.

While there were encouraging gains across all component questions, a healthy index reading is considered to be 90 or above — a metric that hasn't been reached since the recession began in 2007.

“It's not a great reading but we are moving in the right direction and hopefully as the economy continues to grow and add jobs we will begin to see an uptick in confidence,” said Lynn Franco, director of the Conference Board's Consumer Research Center. “We still have a ways to go.”

Consumer confidence is an important economic indicator because it helps determine spending, which accounts for 70 percent of U.S. economic growth. Concerns about high unemployment and lower home values are the most obvious drivers of consumer confidence, said Scott Hoyt, an economist with Moody's.

“If we can reduce uncertainty and increase confidence that will be a good stimulus to the economy,” said Jack Kleinhenz, chief economist with the National Retail Federation. While the stubbornly [high unemployment rate](#) has dropped to 9.4 percent, more people have dropped out of the labor workforce. Additionally, rising [gas prices](#) weigh on confidence. The average price of gas is \$3.09 according to [gasbuddy.com](#), a level not seen since the fall of 2008.

Home prices also continue to be a drag on economic recovery. The [Case-Shiller Home Price Index](#) fell 1.6 percent for the fourth straight month. This is the second straight month where annual growth decelerated in 17 of the 20 major metro areas. “With these numbers more analysts will be calling for a double-dip in home prices,” said David Blitzer, chairman of the Index Committee at Standard & Poor's. Blitzer said a double dip could be confirmed before spring.

“It appears that the most recent gains in stock markets and improving labor market conditions trumped the negative impact from higher gasoline prices and falling house prices,” added Paul Dales with Capital Economics.

Celia Chen, an economist with Moody’s, expects home prices to decline another three percent until the third quarter of this year as inventory of distressed homes are sorted out. “We are very close to the bottom and housing is pretty inexpensive right now” Chen said.

The indices come hours before President Obama’s second [State of the Union address](#) in which he is expected to address the nation on the economy, jobs and bipartisanship. He is also expected to introduce new initiatives for investment in infrastructure.

“The two pieces of data out today tell us that the president’s overall economic programs have been broadly successful as reflected in the rising consumer confidence but that there is a significant piece of unfinished business and that’s the housing market,” said Robert Shapiro, former U.S. Undersecretary of Commerce for President Bill Clinton.

Shapiro added that a greater confidence in the economy translates into support for new initiatives the president will propose. As consumer confidence in the economy and the president rise, Americans will more likely support his agenda, he said. [President Obama’s approval rating](#) has been on the upswing in recent weeks reaching 50 percent in the middle of January.