

THE ECONOMIC OUTLOOK GROUP



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ECONOMIC TALKING POINTS

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Relief at the Gas Pump Lifts Confidence Off the Floor

The increase in July's consumer confidence was microscopic and not a signal that Americans are finally turning more upbeat about the economy. The slight blip to 51.9 this month, from 51 in June, reflects nothing more than a brief sigh of relief at seeing gasoline prices come off their record highs in recent weeks. Gas prices have been surging all year so it's not terribly ironic that this uptick in confidence, the first since December, closely parallels the behavior of gasoline. We do not view the slight improvement in July's mood as a sign household confidence has finally bottomed out for this cycle.

Indeed, the present situations index was essentially unchanged at 65.3 this month, compared with 65.4 in June, though the expectations index rose a bit more, to 43 from 41.3. All these numbers, however, remain very close to their historic lows --- and for good reasons. The economy is still shedding jobs, home prices are now plummeting at the fastest pace ever, inflation is at a 17-year high, household purchasing power has been falling for nearly a year, and the rebate checks have just been spent. This is hardly the backdrop normally associated with a rebound in consumer confidence.

When you dig deeper into the components, July's consumer confidence survey looks quite bleak:

- Americans claiming business conditions are "bad" rose to 32.8% from 31.9%

- Consumers still view the labor market as poor. Those saying jobs are "hard to get" increased to 30.3% from 29.7 in June, and those claiming jobs are "plentiful" fell to 13.5% from 14.1%.
- The proportion of consumers expecting their incomes to increase edged up to 14.2% from 13.1%. (But bear in mind it now stands a whisper above its 41-year low of 12.3)

With the benefits of the tax rebates fading fast, household wealth continuing to deteriorate (thanks to the fall in home values and stock prices), and foreign economies slowing, the odds have increased for the economy to be in recession the second half of this year.

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