

## **Datanote: Consumer Confidence, February**

### **In one line: Not as bad as the headline suggests**

- The Conference Board's index of consumer confidence dropped to 106.7 in February, from a downwardly-revised 110.9, much weaker than the consensus, 114.8.

The drop in the Conference Board index is in contrast to the further

uptick in the Michigan index this month, and comes off the back of three consecutive monthly increases. Part of the miss relative to consensus reflects a sharp 3.9-point downward revision to January, but February's 4.2-point monthly decline is still substantial. Most of that fall was due to a 7.6-point plunge in the present situation index, which is hard to square with the continued rally in stock prices. That said, gasoline prices—which also often drive short-term shifts in the index—have crept up in recent weeks.

Consumers' view of the labour market also deteriorated a little, with January's exceptional surge in respondents saying that jobs were plentiful versus hard to get reversing almost entirely. That brings this measure closer into line with other indicators suggesting that the labour market is gradually softening rather than strengthening.

The much smaller 1.7-point decline in the expectations index probably tells us more about spending than the plunge in the headline. The previously reliable

relationship between expectations and real growth in consumers' spending broke down around 2016, probably due to political factors. But it has been a better guide more recently, signalling the strength of consumption last year. Despite the dip in the index in this month, the average for January and February, 80.7, is still an improvement on the average of 77.3 in Q4, and consistent with respectable growth in consumers' spending. The relatively resilient level of confidence mean we think that a moderation in consumption

growth is much more likely than a collapse over the next couple of quarters.



