ECONOMIC UPDATE

REGIONS

April 29, 2020

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April Consumer Confidence: Despite Increase In April, Expectations Not All That Great

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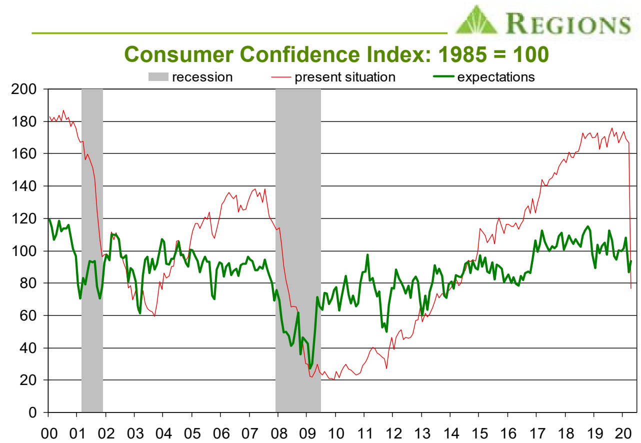
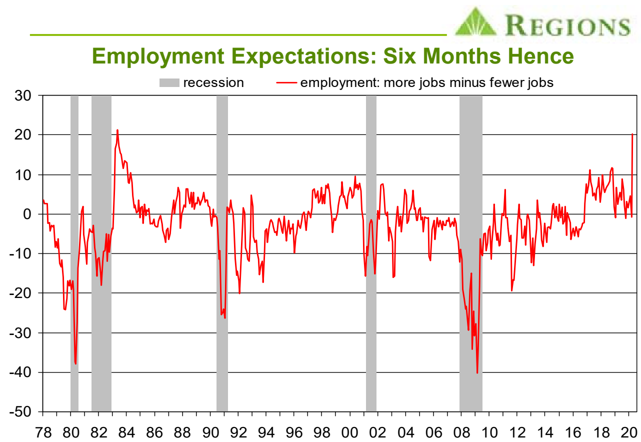
- The present situation index fell to 76.4 in April from 166.7 in March; the expectations index rose to 93.8 percent in April from 86.8 in March

The Conference Board's index of consumer confidence fell to 86.9 percent in April from 118.8 in March, the largest monthly decline on record (there was a larger decline in March 1973 when the survey was conducted every other month). The underlying details, however, offer an interesting contrast, with the present situation index plummeting to 76.4 from 166.7 in March, while the expectations index rose from 86.8 in March to 93.8 in April. The dramatic plunge in the present situation index reflects the sudden stop in economic activity in mid-March that led to rapid and massive layoffs amidst the COVID-19 virus and the efforts to stem its spread. The increase in the expectations index could mean that, though fully aware of the damage being done to the economy in the near term, consumers largely expect things will at least be on the road back to normal, even if not fully there, six months hence. While this is how the increase in the expectations index has generally been interpreted, in media accounts and by many analysts, we're not so sure. A closer look at the details of the April survey suggest a more cautious take on the increase in the expectations index may be in order.



Source: The Conference Board; Regions Economics Division

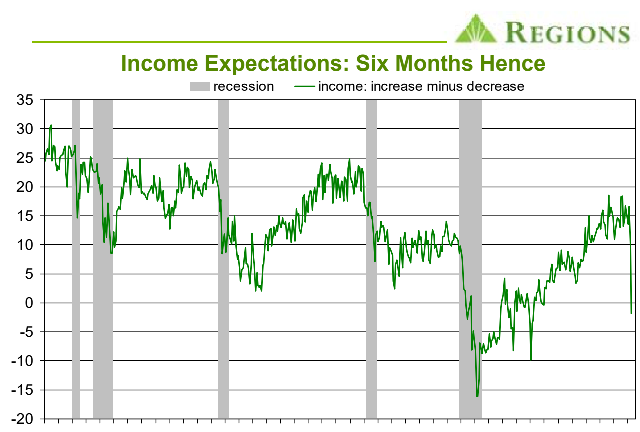
The composite present situation index encompasses responses to two questions – are current business conditions "good," "bad," or "normal," and are jobs "plentiful," "not so plentiful," or "hard to get." In the April survey, 45.2 percent of respondents said business conditions were "bad," the highest share since November 2010, while 20.8 percent said business conditions were "good," the lowest share since August 2013. At the same time, 33.6 characterized jobs as being "hard to get," the highest share since November 2013. As noted above, these responses are not at all surprising – if anything, the surprise comes from 20.8 percent of respondents characterizing business conditions as "good."



Source: The Conference Board; Regions Economics Division

The composite expectations index encompasses responses to three questions, the first of which asks whether respondents expect that business conditions six months hence will be better, worse, or the same, and the second of which asks whether respondents expect that six months hence there will be more jobs, fewer jobs, or no change in the number of jobs. The share expecting business conditions to be worse six months hence rose to 25.7 percent in April, the highest since March 2009, but at the same time, the share expecting business conditions to be better six months hence rose to 40.0 percent, an all-time high. By the same token, while the share of those expecting there will be fewer jobs six months hence rose slightly, the share expecting there will be more jobs jumped to 41.0 percent, up from 16.0 percent in March and an all-time high. As seen in our middle chart, the more jobs/fewer jobs spread rose sharply in April, reaching the second widest in the life of the survey.

These results, however, must be taken in context. These are more or less generic questions pertaining to overall conditions asked at a time when the economy was basically in free fall. In that sense, it would have been more surprising had expectations been for things to have been worse six months hence. That gets us to the third component of the composite expectations index, which asks consumers whether they expect their total household income six months hence will be higher, lower, or the same. Note that, unlike the other two components of the expectations composite, this is a question specific to the individual respondent. In April, the share of those expecting their income to be higher six months hence fell and the share of those expecting their income to be lower rose, leaving the increase/decrease spread negative for the first time since late-2013, as our bottom chart shows. To us, this is the most relevant guide to how consumer spending may evolve over coming months. After all, whether on the whole business conditions are better or worse and whether there are more or fewer jobs is far less relevant to an individual than how they perceive their future income stream. At present, it is unclear whether, to what extent, and for how long consumer attitudes towards how, and how much, they spend will change, and this is clearly a key factor in the path of the U.S. economy on the other side of the COVID-19 virus. As such, expectations of income will be a better guide than the broad expectations composite, making it well worth going beyond the headline numbers and down into the details of the data.



Source: The Conference Board; Regions Economics Division

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