

Economic Analysis

Expectations Drive up Consumer Confidence

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- **Consumer confidence increased in March, driven by improved expectations**
- **The outlook on job availability improved but income prospects worsened**
- **Despite ongoing strength in domestic consumption, buying plans do not hint at a significant boost in big ticket purchases in the next six months**

Consumer confidence increased more than expected in March to 96.2, beating February’s figure but holding below levels seen in December and January. Data for February were revised from the disappointing 92.2 to 94.0, adding to the positive news. The index is now close to its average level for the last twelve months and is almost back at its pre-crisis peak. Consumer expectations have been driving confidence in recent months, with weak current conditions forcing consumers to think that things will get better. In February, the expectations index increased from 79.9 to 84.7, while the present situation index fell slightly from 115.0 to 113.5 (Chart 1).

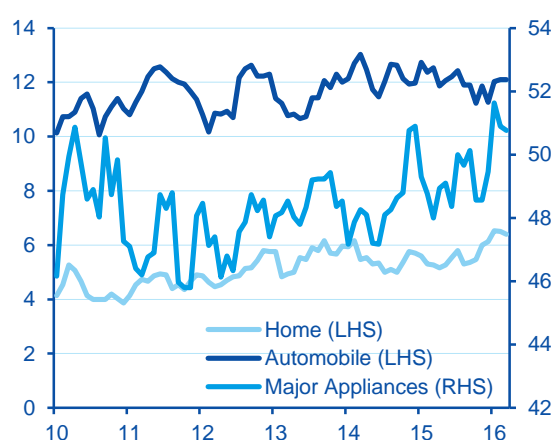
Overall, the employment outlook for the next couple of months was positive, but with some mixed signals. Those anticipating more jobs in the months ahead increased from 12.2% to 12.9%, while those anticipating fewer jobs decreased from 17.7% to 16.3%. However, income expectations worsened, as the share of consumers expecting their incomes to increase declined while the share expecting a reduction in income increased. This coincides with the payroll data for February, which showed decrease in average hourly earnings and average weekly hours despite an improvement in job growth. When it comes to current business conditions, consumers’ assessment worsened slightly, but expectations improved. The share of consumers expecting business conditions to improve over the next six months increased from 14.5% to 15.0%, while those expecting them to worsen decreased from 11.6% to 9.2%.

Chart 1
Consumer Confidence Index, SA, 1985=100



Source: The Conference Board and BBVA Research

Chart 2
Plans to Buy in Next Six Months % 3mma



Source: The Conference Board and BBVA Research

Consumer activity has been, and will continue to be, the key driver of the domestic economy, yet buying plans for the next six months appear uncertain. Looking at consumer expectations, plans to buy homes remained unchanged and lower than at the end of last year, while plans to purchase appliances increased. Plans to buy a new or used auto in the next 6 months declined sharply from February, though this tends to be a relatively volatile indicator on a month-to-month basis and its 3 month moving average is in line with what we saw last year (Chart 2). In general, the improvement in consumer confidence in March builds on the positive labor market developments in February, as well as the relative calm in global financial markets after the turbulent start to the year. This should support consumer spending in the coming months. March's employment report coming at the end of this week will be important to watch to see if the trend in average hourly earnings and average weekly hours improves, which would indicate that the economy is not only adding jobs, but also higher quality jobs. If this happens, it would further increase the likelihood of ongoing gains in consumer confidence in the coming months.

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