

THE ECONOMIC OUTLOOK GROUP



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ECONOMIC TALKING POINTS

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Just How Real is the Drop in February Consumer Confidence?

The steep fall in confidence this month stunned economists and unnerved investors. These numbers were disturbing ---but also a bit suspicious. The Conference Board's consumer confidence index unexpectedly plunged to a 10-month low of 46.0, from 56.5 in January. The Present Situation Index went into free-fall and plummeted from 25.2 to 19.4 this month, the lowest in 27 years. The 6-month Expectations Index tumbled to 63.8 from 77.3.

What's going on here? Are consumers about to retrench again? Is the recovery in danger?

Hardly. Let's step back for a moment and figure out what led to these bizarre figures. As bad as they were, it's important to recall what households were facing when they filled out this particularly survey. Here are four factors that may have influenced their responses.

1. The deadline for respondents to return the latest survey was February 17th. During the first two weeks of the month, there were several events that likely depressed consumer spirits. First was the disappointing employment report for January. A growing number of forecasters expected January payrolls to show a net gain. Instead, it fell another 20,000 -- - and that news was only made worse when the government also revised the loss for December to show 150,000 jobs gone, when it was originally half that number.
2. The stock market also took a dive in the first week and a half, as the weak jobs report heightened investor concerns about consumer spending and corporate earnings. The

persistent fall in stock prices eroded household wealth, reversing the recovery that was underway the last several months.

3. We believe the constant gridlock in Washington also depressed Americans. Rather than seek some common ground on health care and financial reforms, both political parties behaved as if legislative incompetence and ideological rigidity were aspiring virtues. The constant bickering, growing political tribalism, and utter lack of progress in the nation's capital just doesn't engender much optimism among households.

4. Lastly, let's not forget the massive snowstorms that afflicted the U.S. during the first weeks of the month. Aside from the loss in productivity and even income among some workers, we wonder whether the back-to-back blizzards also undermined the statistical validity of the latest confidence survey. Typically, 50% to 60% of the 5,000 surveys sent out each month arrive on time for the preliminary release. So we asked the Conference Board whether the record snowstorms weakened the integrity of February's results. They claim weather was not a factor and that they still received responses from more than half of those surveyed.

Intuitively, however, we feel the powerful winter storms did play a role in some manner. That is, if the latest survey was not statistically flawed, at the very least the snow frustrated lots of Americans who struggled to travel between work and home those weeks.

In any event, one fact can be stated. There is no month-to-month correlation between consumer confidence and spending. Yes, the February numbers were disconcerting but we suspect they will prove to be an anomaly. Remember, when the University of Michigan released its preliminary results on consumer sentiment for February earlier this month, their survey covered essentially the same period. Its headline confidence measure slipped by just a fraction of a single point, from 74.4 in January to 73.7 this month. We'll get the final U of M sentiment numbers for February in a few days and it may well show a fall. But it won't be as steep as the Conference Board's measure. More importantly, we believe consumer confidence will quickly recover in the coming months.

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