

Confidence in US Economy Surges

With the brief recession likely over at this stage, US consumer confidence surged in March, jumping by a much higher than expected 15 points to 110.2. This was the biggest monthly increase in 25 years. Both expectations and the assessment of current conditions improved dramatically. The present situation assessment rose to 111.5 from 96.4, while the more important expectations component rose to 109.3. While a rebound in expectations was expected, the much stronger current conditions component, up 15 points, reflects immediate improvements in the economy. The pick-up in confidence is most likely due to the improvement in the labour market and gains by the stock market over the survey period. Those who expect higher stock prices rose to 46.5% from 37.6% in February.

The trend in the labour market continues to be the most important determinant of consumer sentiment. According to the survey, more than 20% of consumers now believe that jobs are plentiful, up from 18.2% in February, and the highest share since last October. This fall in the Jobs-Hard-To-Get component would be consistent with a fall in the Unemployment Rate. Those who expect fewer jobs in 6 months time fell to 13.6% from 19.5%.

Buying plans, however, did not improve in March. This can be explained in part by the expectation that interest rates are going to rise and by the lack of pent-up demand; 53% of consumers believe that interest rates are on the way up.

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