

American Mood Trend

Consumers' confidence in present conditions further erodes in July

The Conference Board Consumer Confidence Index **dropped 2.7 points in July to 95.7,¹** continuing its decline to its lowest level since February 2021. The present situation component dropped for the third straight month to 141.3, the steepest decline (-5.9 points) since August of 2021.

The future expectations component of the Index dropped only marginally—from 65.8 to 65.3—after a steep decline in June, but remains at its lowest point since early 2013.

Consumers' increased pessimism about their short-term financial prospects likely drove the July decline. Respondents reported decreased intentions to purchase homes, autos, and major appliances.

Inflation expectations eased slightly, with median expectations over the coming 12 months at 7.6 percent, off the cycle high of 8.0 percent in June. Consumers remain concerned about persistently-high food and gas prices, but that may abate in the coming months as gas prices have started to recede. **Income expectations flipped negative**, with a slightly higher percentage of consumers anticipating incomes to decrease over the coming six months.

The Index has been somewhat propped up in 2022 by sanguine views of the present. While future expectations have been on the downswing since December, views of the present also started to erode in June and July. Consumers' perceptions of present business conditions worsened, and cracks also formed in their view of the present job market, which had been seen as very strong previously.

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Key Points:



The present situation component drove a decline in the July Consumer Confidence Index



Consumers became more pessimistic about present business conditions, but stayed negative on future job prospects and business conditions

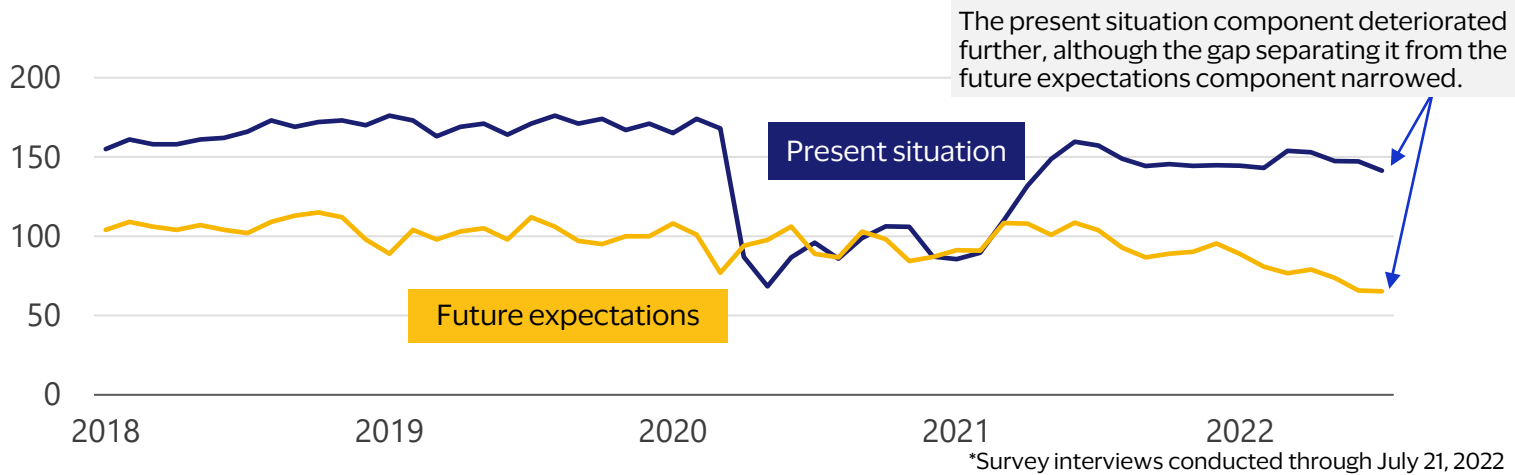


Higher-income consumers remain mired in uncertainty and their mood will likely impact the spending outlook more directly over the coming months

¹The Conference Board Consumer Confidence Index, released July 26, 2022



Fig. 1: Both components of the Consumer Confidence Index declined in July
(Consumer Confidence Index – Present Situation Index and Future Expectations Index*)



The decline in the Consumer Confidence Index is now squarely hitting consumer perceptions of both the present and the future. This change has come to light in the past few months as consumers had held on to some positive impressions of the present throughout the first half of the year.

Consumers were still positive about the job market in July but became less so, with 38 percent more consumers seeing jobs as “plentiful” rather than “hard to get.”² This reading continues to trend downward from historical highs of early in the year. Expectations of future labor market conditions remain negative. Nearly six percent more consumers expected fewer jobs in six months—a notable erosion from recent months.

Income expectations over the coming months turned negative, with one percent more consumers expecting their incomes to decrease in the next six months. This has been notably strong

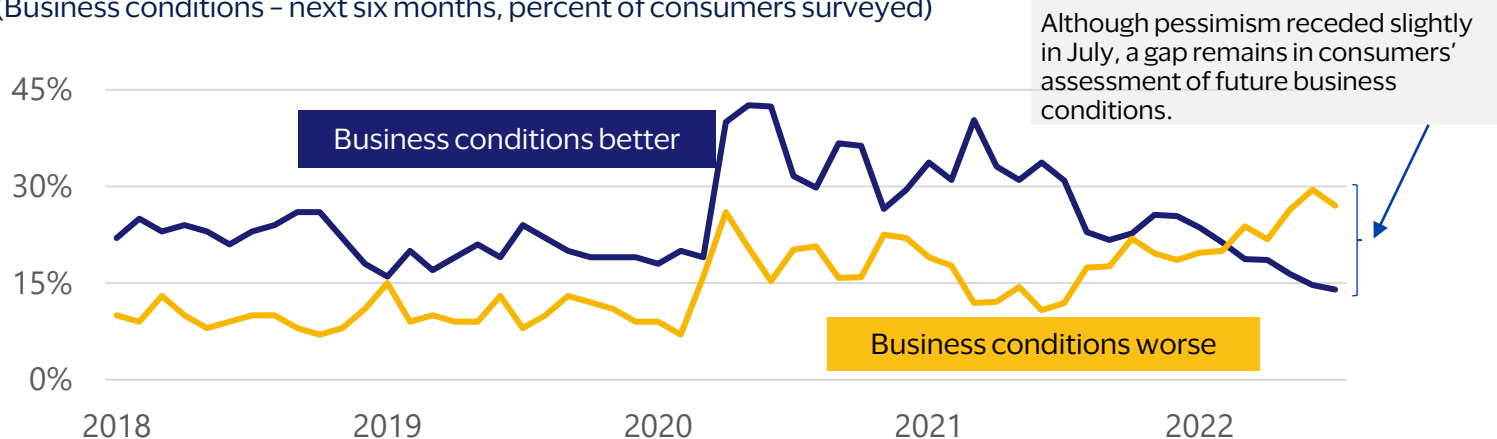
and could foreshadow softer consumer spending in the coming months should it remain negative.

Fewer consumers expected future business conditions to worsen, but fewer expected them to improve leaving the negative differential relatively unchanged from June at -13.2 percent. This differential has worsened from -3.1 percent in April and continues to weigh on consumer expectations.

The present business conditions measurement moved downward considerably, with 7 percent more consumers seeing conditions as “bad” than those seeing them as “good,” a primary contributor to the decline in the present situation component.

The decrease in the overall Index is no longer a measure of uncertainty in the future. The labor market, inflation, and present business conditions are now driving the present consumer mood.

Fig. 2: Growth in consumer pessimism leaves a gap in future business expectations
(Business conditions – next six months, percent of consumers surveyed)



Sources: Visa Business and Economic Insights; Conference Board, Consumer Confidence Index, released July 26, 2022

²The Conference Board Consumer Confidence Index, released July 26, 2022

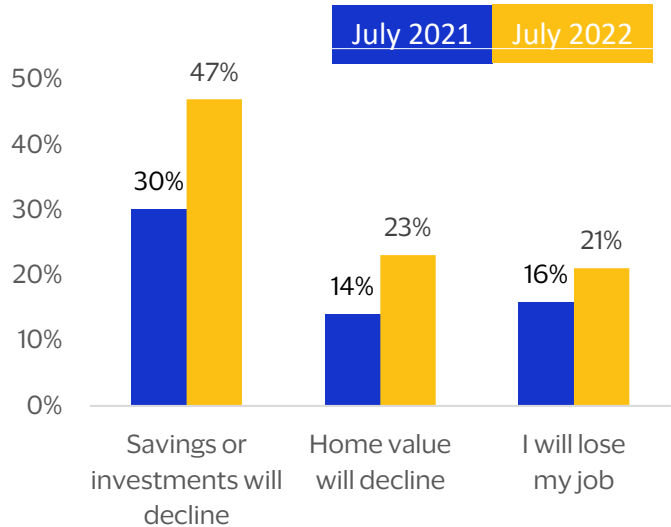
Will concerns start to affect spending?

Financial concerns on a variety of issues have increased in the past year among a broad swath of consumers. Nearly half of consumers show concern that their savings or investments will decline, up from 30 percent in July of 2021. Additionally, 23 percent are concerned their home value will decline, and a further 21 percent worry that they will lose their job—both increases from the same time last year.

Although consumers have not yet fully acted on these heightened concerns, further corrective action may happen quickly, most pointedly through reductions in discretionary spending. If consumers believe their financial or home wealth is in danger of declining, they tend to curtail spending. Further declines in the stock market or declines in home prices could exacerbate these issues among consumers.

Fig. 3: Consumer concerns that directly affect discretionary spending are on the rise

Question: What is your level of concern with the following?



Source: Visa Business and Economic Insights; Prosper Analytics consumer survey, July 2021 and July 2022

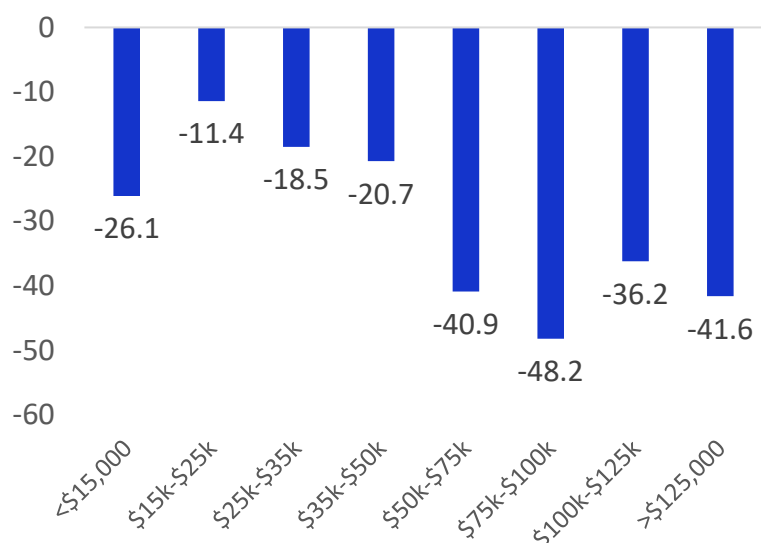
High-income consumers' weak confidence may be an issue just when the economy needs them most

The Consumer Confidence Index remains nearly 37 points lower in July than it was in February 2020 at the start of the pandemic. Even though higher-income consumers have supposedly weathered the pandemic better economically, this is not reflected in their confidence.

Consumers with annual household incomes above \$50,000 show confidence levels roughly 40 points below their February 2020 levels. Those with incomes below \$50,000, while still less confident than at the start of the pandemic, are down by an average of just under 20 points.

As the fragility of the economy becomes more evident, the possibility of avoiding a recession in the coming months firmly rests with continued spending among the affluent, particularly as lower-income consumers face more pressure with rising prices affecting their ability to make discretionary purchases. However, persistently weak confidence among the affluent may not bode well for their continued spending.

Fig. 4: Drop in confidence correlates with income
Consumer confidence point difference by income, February 2020 to July 2022



Source: Conference Board Consumer Confidence Index, July 2022

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Accessibility notes

Figure 1: Line chart showing the present situation component of the Consumer Confidence Index, starting at 155.0 in Jan-2018, reaching a high of 176.0 in Jan-2019 and Aug-2019, then making a sharp drop to 68.4 in May-2020. The index steadily recovered, began to plateau above 140 in May-2021 and currently stands at 141.3, down from 147.2 in June. In comparison, the future expectations component of the Index started at 104.0 in Jan-2018, reaching a high of 115.0 in Oct-2018, a low of 77.0 in Mar-2020 and had rebounded to a cycle high of 108.5 in June-2021. It currently stands at 65.3, down from 73.7 in May, and 65.8 in June.

Figure 2: Line chart showing the percentage of consumers who believe future business conditions will be better, ranging from 22% in Jan-2018 to a pre-pandemic low of 16% in Jan-2019, a high of 43% in May-2020, and steadily declining since then to the latest reading of 14% in Jul-2022. In comparison, those who believe future business conditions will get worse ranged from 10% in Jan-2018 to a low of 7% in Oct-2018 and Feb-2020, then increasing to 26% in Apr-2020 and a high of 30% in Jun-2022. The latest reading stands at 27%.

Figure 3: Column chart showing the level of concern among consumers surveyed, with 30% saying they were concerned that their savings or investments would decline in Jul-2021, compared to 47% who were concerned about it in Jul-2022; 14% saying they were concerned that the value of their home would decline in Jul-2021 compared to 23% who were concerned about it in Jul-2022; and 16% were concerned they would lose their job in Jul-2021 compared to 21% who were concerned about it in Jul- 2022.

Figure 4: Column chart showing the point drop in the Conference Board Consumer Confidence Index levels between Feb-2020 and Jul-2022 by income, with confidence down 26.1 points for those with an annual household income level of \$0-\$15,000; down 11.4 points for those with an annual household income level of \$15,000-\$25,000; down 18.5 points for those with an annual household income level of \$25,000-\$35,000; down 20.7 points for those with an annual household income level of \$35,000-\$50,000; down 40.9 points for those with an annual household income level of \$50,000-\$75,000; down 48.2 points for those with an annual household income level of \$75,000-\$100,000; down 36.2 points for those with an annual household income level of \$100,000-\$125,000; and down 41.6 points for those with an annual household income level of over \$125,000.