

Much Less Pessimism!

By Harlan Green, Special to VOICE

IS THE IRRATIONAL PESSIMISM I've been writing about finally turning?

The two major measures of consumer confidence—the Conference Board's Confidence Index and University of Michigan's Consumer Sentiment Index are showing the mood of most Americans is improving, after the sudden inflation shock brought on by the COVID pandemic.

Yet there are still doubters that 2024 will cement the recovery. Why?

It's mainly due to geopolitical uncertainties from regional wars and the lagging recoveries of EU countries and China still suffering the aftereffects of the pandemic.

The most recent predictions of the Conference Board's Index of Leading Economic Indicators, that is supposed to predict future activity, is one example.

"The US LEI fell slightly in December, continuing to signal underlying weakness in the US economy," Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators said at The Conference Board, though six of the ten indicators have turned

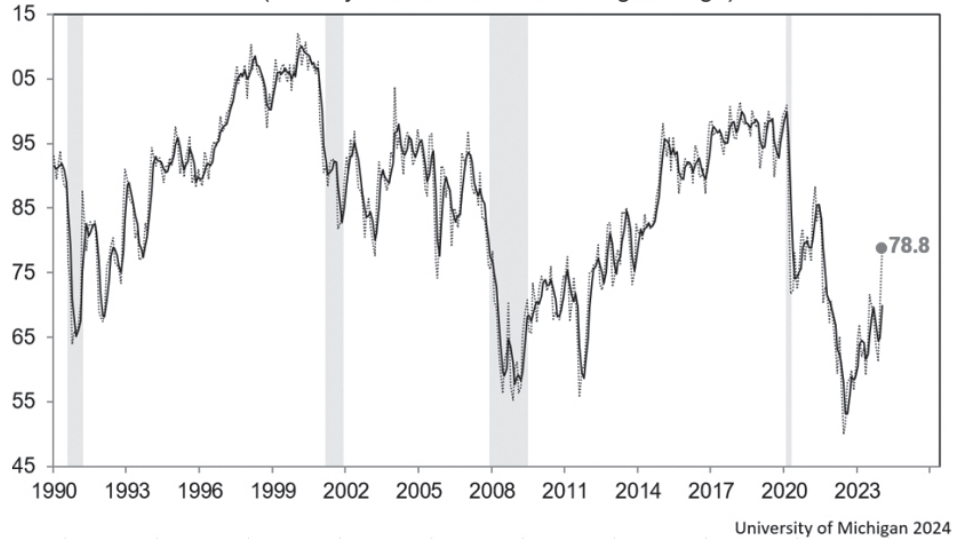
positive. "Nonetheless, these improvements were more than offset by weak conditions in manufacturing, the high interest-rate environment, and low consumer confidence. As the magnitude of monthly declines has lessened, the LEI's six-month and twelve-month growth rates have turned upward but remain negative, continuing to signal the risk of recession ahead."

But interest rates have fallen sharply, manufacturing is showing signs of recovery, and consumer confidence has just shot up. So maybe the LEI is now looking through the rear-view mirror, just as consumers still in a foul mood have been doing because of damage done from the pandemic for the Fed to begin to drop interest rates sooner, maybe in the spring. Wouldn't shoppers love that!

The University of Michigan's survey jump was huge: "Consumer sentiment soared 13 percent in January to reach its highest level since July 2021, showing that the sharp increase in December was no fluke," said Survey Director Joanne Hsu. "Consumer views were supported by confidence that inflation has turned a corner and strengthening income expectations. Over the last two months, sentiment has climbed a



Index of Consumer Sentiment (Monthly and three month moving average)



University of Michigan 2024

cumulative 29 percent, the largest two-month increase since 1991 as a recession ended (my emphasis).

Nobelist Paul Krugman in a recent *New York Times* Opinion also points out another sentiment index by the San Francisco Fed, its Daily News Sentiment Index that looks at 200

publications for favorable/unfavorable coverage of economic news.

It has been trending positive since mid-year 2023.

Such surveys don't portend a looming recession, rather the end of one. Shouldn't we be listening to consumers that are the final arbiter of business cycles since they account for 70 percent of economic activity?



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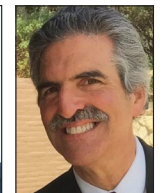
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