Nagel: These turbulent times still impact consumer confidence

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March 19, 2022

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When reflecting on economic growth for 2010-19, it is hard to conclude that decade to be anything other than superior.

No matter how it's measured, it was a prosperous time.

Then came COVID. Economics began to get a little weird.

Some advisors, me included, attribute the Great Resignation of 2020 and 2021 to the relative prosperity of the prior decade. The wealth effect of sustained low interest rates, rising home values and large gains in the financial markets all contributed to a growing consumer confidence.

During this period, that confidence began to exhibit itself in ways uncommon in our economic history.

Suddenly, traditional careers and vocations gave way to newfound paths for household incomes. Think about your friends and neighbors who started that internet business or bought a food truck during the COVID quarantine.

And what about those common folks who made huge gains in cryptocurrency? Perceived wealth allowed risk tolerance to soar.

If the confidence of perceived wealth from growing 401k balances and rising home prices were not enough, the government's direct payments to taxpayers in stimulus payments, Paycheck Protection Program loans and advanced child credits added to consumer confidence.

Extended unemployment compensation encouraged the less ambitious to simply not work. Then came inflation. Predictably.

So, what may occur if this period of perceived wealth that has been driving our prosperous economy begins to decline? Will we begin to suffer from a negative wealth effect? It sure seems likely.

Consumer confidence can be influenced by many factors.

Some Wall Street advisors suggest that stock market values will stay steady or continue to rise if corporate earnings continue to grow. For that to happen, consumers must continue to spend.

Recently, consumer debt has been rising. As supply shortages in consumer goods like autos and appliances drive up prices, demand has not subsided. With sustained low-rate mortgages, housing prices have hit historic highs.

To control inflation, the Fed has announced it will raise interest rates. Commodity prices alone, like food and gasoline, have begun to dampen consumer confidence.

I submit that many startup businesses formed in the past two years will close as their owners realize how hard it is to make a profit with little capital, fickle labor and burdensome regulation. Many small business owners will see their savings disappear.

What effect will the war in Ukraine have on consumer confidence? Will that change with increased U.S. involvement? How will the recent resurgence of COVID in Asia and Europe affect consumer behavior if or when it returns to the U.S.? Will global uncertainty lower our exuberance?

Unfortunately, these are very real questions that may be answered only by the passage of time; however, they justify monitoring. After all, taking on more consumer debt, or a larger mortgage with a higher interest rate, may limit your child's college choices.

Now may be a good time to tighten the belt and commit to retirement savings as a hedge against an uncertain future.

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