Consumer Confidence

by Sophia Tutorial

WHAT'S COVERED

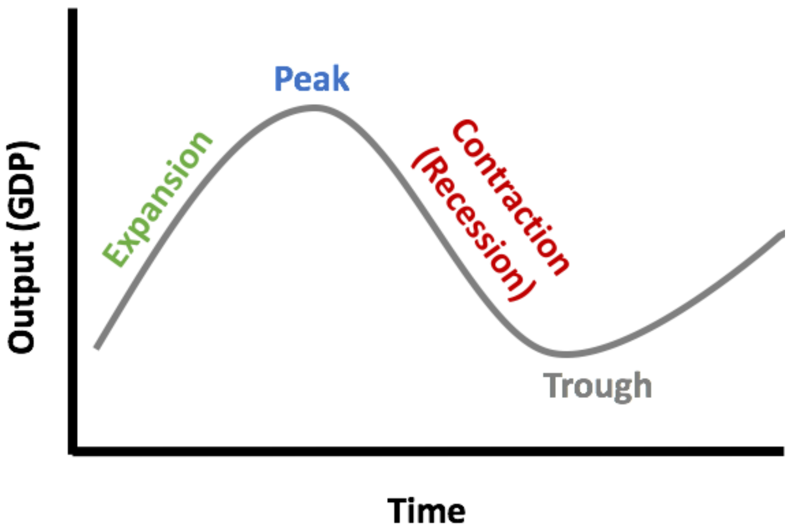
This tutorial will cover the concept of consumer confidence and how it is used as an economic indicator.

Our discussion breaks down as follows:

1. Consumer Confidence
   a. Macroeconomic View
   b. Consumer Confidence Index
2. Consumer Confidence as a Coincident Indicator

1. Consumer Confidence

You've seen a business cycle before and understand that it is normal for the economy to go through periods of growth and contraction.



Economists use many different kinds of data and indicators to help them determine three things:

- Predict where the economy is headed
- Explain what has just occurred in the economy

- Look at what is currently happening in the economy

Assessing **consumer confidence** is one way or indicator economists describe what is currently happening.

Consumer confidence is an indicator that is compiled and assessed by a non-government entity, the Conference Board. It is a coincident measure--which is one that describes what is happening right now--of consumer sentiment with respect to the present situation of the economy and the six-month outlook for the economy.

Consumer confidence is highly sensitive to media and marketing influence on consumers' opinion formation, and as a result, it can be volatile and inconsistent over time intervals.

It is measured each month by the Conference Board, which is an independent economic research organization. The Conference Board surveys 5,000 households and asks them to respond "positive," "negative," or "neutral" to questions concerning current conditions and conditions in the next six months on the following:

- Business conditions
- Personal employment conditions
- Total family income

HINT

Consumer confidence is one indicator that is not calculated by the Bureau of Labor Statistics.

Consumer confidence can actually tell us a lot about the economy. If consumers are confident, they continue to make purchases.

> EXAMPLE For instance, if you feel positively about your own situation and the economy, you are more likely to go on that summer vacation and continue to eat out at restaurants instead of saving for a rainy day.

These kinds of purchases and consumer demand are important because they keep firms profitable--and when firms are profitable, they continue producing and retaining employees. People with jobs have money to continue spending.

TERM TO KNOW

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1a. Macroeconomic View

On the other hand, if consumers are even slightly fearful of the future economy, they tend to save any extra money versus engaging in activities like vacations and dining out.
This drop-off in spending definitely starts to impact firms. Firms scale back on production, perhaps laying off employees or cutting hours. People without jobs do not have money to continue spending and the economy

tends to get worse.

This is how macroeconomists look at consumer confidence what it indicates about our economy. Simply put, when confidence is rising, consumers spend money, indicating a healthy economy.

When confidence is decreasing, consumers are saving more than they are spending, indicating the economy is in trouble.

BIG IDEA

When we feel good about the stability of our incomes, we are more likely to make purchases.

1b. Consumer Confidence Index

The Conference Board reports the Consumer Confidence Index, which reflects the index relative to 100, where it was set in 1985, the first year it was calculated.

TRY IT

You can access this link to view the most current report: **http://www.conference-board.org/data/consumerconfidence.cfm**

Here is an excerpt from the January 2014 report. You can see that although the index is lower relative to 1985, it increased versus December 2013.

> The Conference Board Consumer Confidence Index®, which had rebounded in December, increased again in January. The Index now stands at 80.7 (1985 = 100), up from 77.5 in December.

2. Consumer Confidence as a Coincident Indicator

Consumer confidence a coincident indicator because consumers are responding to questions about their *current* attitudes about the economy and about recent or upcoming purchases, in addition to responding about what they think will happen in the next six months after the survey.

However, there are some issues with consumer confidence as an indicator.

It is a very popular indicator reported in the media, because it is something that viewers can relate to.

But really, how valuable is it as a predictor? Well, consumers are heavily influenced by the media and marketing. Therefore, in reality, it is a volatile and sometimes inconsistent indicator because of this.

This reinforces the idea that the more educated people are, as voters and citizens, the more there is consistent consumer confidence. However, there is no doubt that people are very much influenced by our media reporting.

EXAMPLE During a recent government debt ceiling crisis, which was highly covered in the media, the

Conference Board that month reported a huge decline in consumer confidence. However, later on when it was released, in that exact same month, retail sales actually rose 0.4%. In this case, it turned out that what consumers *did* was quite different from how consumers responded they actually *felt* about the economy, as reported by the Consumer Confidence Index.

SUMMARY

Today we learned about **consumer confidence** and how it is used as an economic indicator, by exploring the **macroeconomic view** and the **consumer confidence index**. We explored why consumer confidence is considered to be a **coincident indicator**, although, because of media influence, consumer confidence can sometimes be inconsistent and volatile when used as an indicator.

Source: Adapted from Sophia instructor Kate Eskra.

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