THE CONNECTION

Economic Development and Our Community

Making Sense of Confidence Measurements

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What is a Confidence Index?

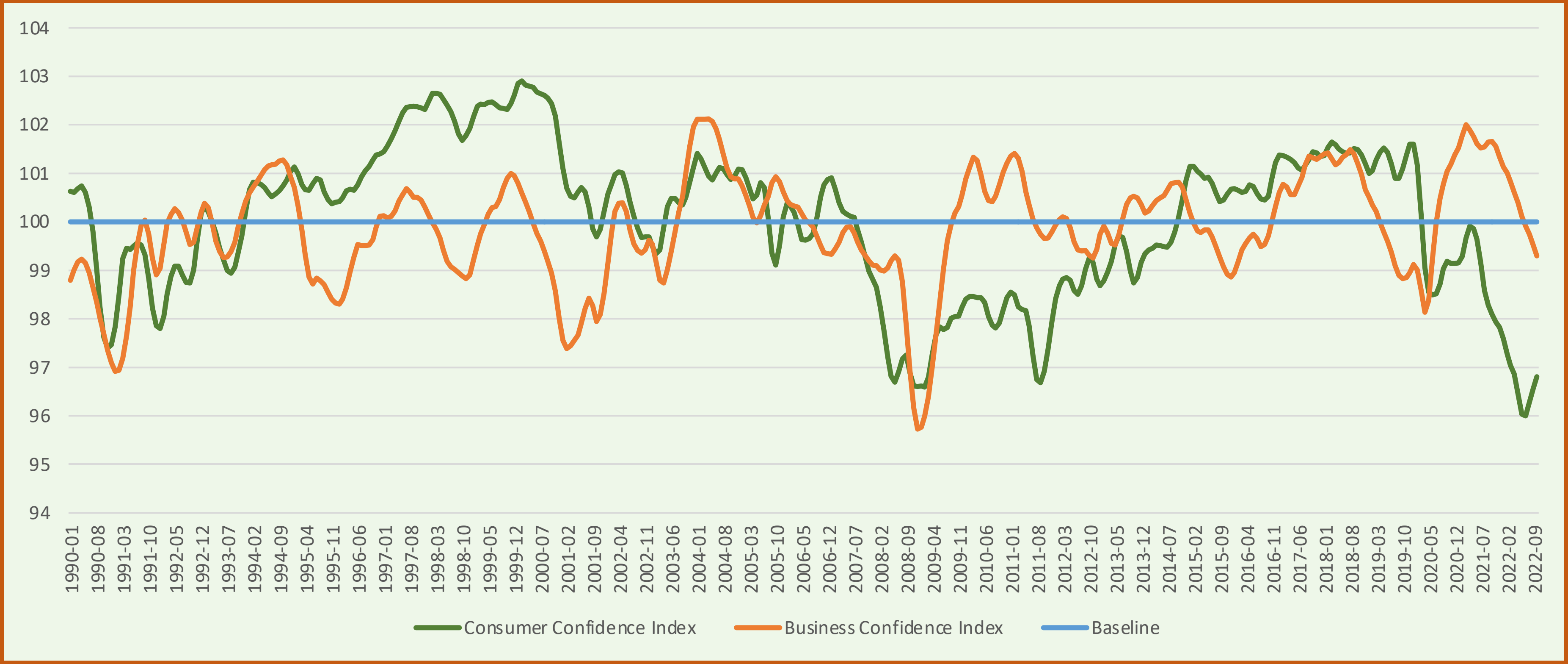
When measuring the overall health of the economy it is fairly common practice to focus on the easy to quantify metrics. Job creation, GDP, imports and exports are some of the common indicators that are used to judge the overall direction that things are moving. While these are incredibly important to monitor, they do not always tell the full story and often leave out critical information on more qualitative measurements.

Confidence indexes are a way to try and address this shortcoming. Instead of measuring the tangible exchange of money or resources in a system they instead measure the sentiment that people have of their economic prospects. Indexes above 100 generally suggest that they feel optimistic about the direction of the economy, indexes under 100 suggest they are pessimistic. This has immense value for economic developers to better plan for near-term changes and address the concerns of their stakeholders.

There are two primary types of confidence indexes; consumer and business. If the index is high, the survey group is confident that things are good right now or will at least improve in the future – meaning they are more likely to take advantage of new opportunities and consume more. If the index is low, then that means they suspect conditions might be getting worse and will take measures to try and prepare for a downturn like saving more money or avoiding risks.

Here, we will explore some of the different indexes and what sorts of information you can learn from studying them.

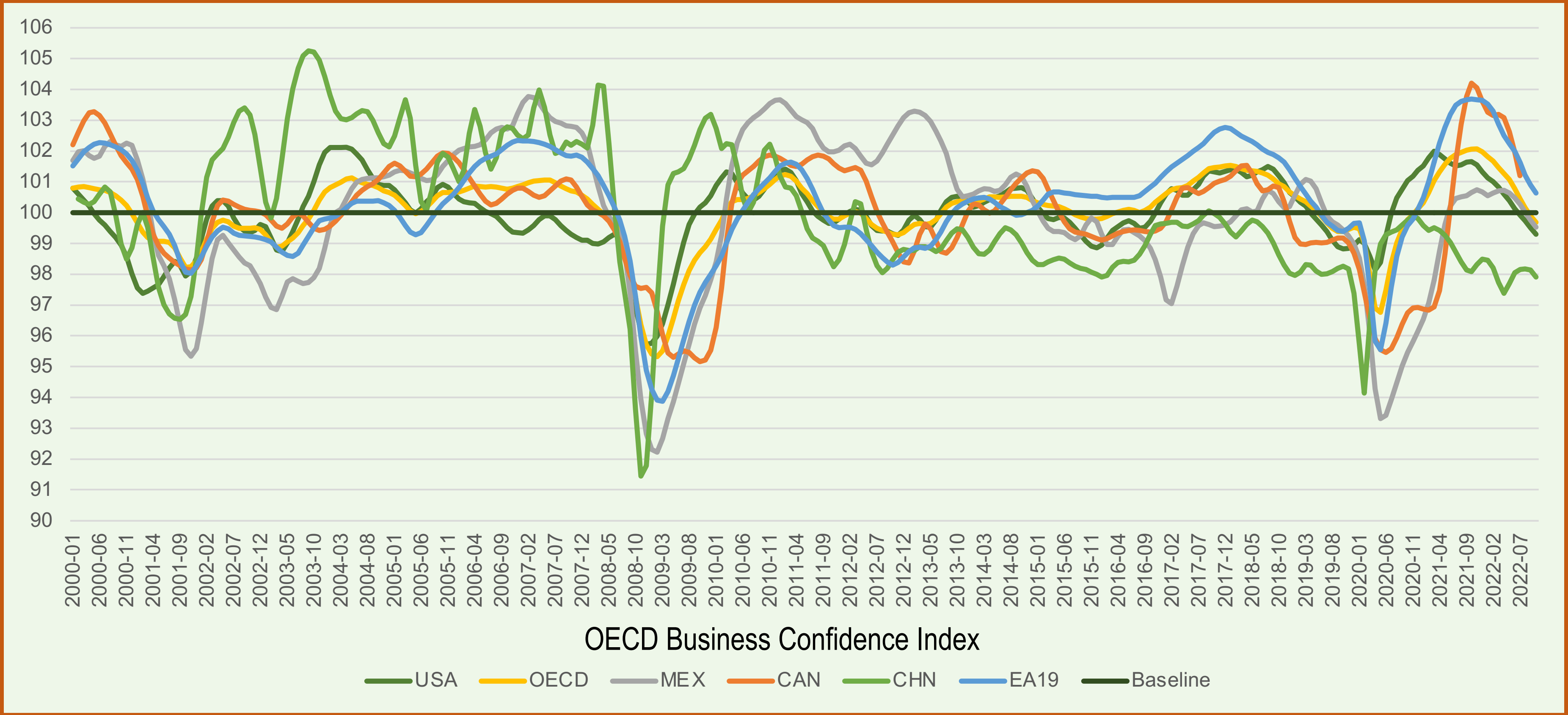
Consumer vs. Business Confidence



The Organization for Economic Cooperation and Development (OECD) publishes regular data on these indexes. Consumer and business confidence indexes are not always in alignment. For instance, following the 2007-08 Recession the business confidence index (BCI) was relatively quick to recover – showing an optimism for the overall direction of the economy. In contrast, the consumer confidence index (CCI) took nearly seven years to recover back into the positive. Likewise, since the beginning of the COVID-19 pandemic CCI has been permanently below 100 while business rebounded before slipping again in 2022.

Sources: OECD (2022), Consumer Confidence Index (CCI) and Business Confidence Index (BCI), accessed November 2022.

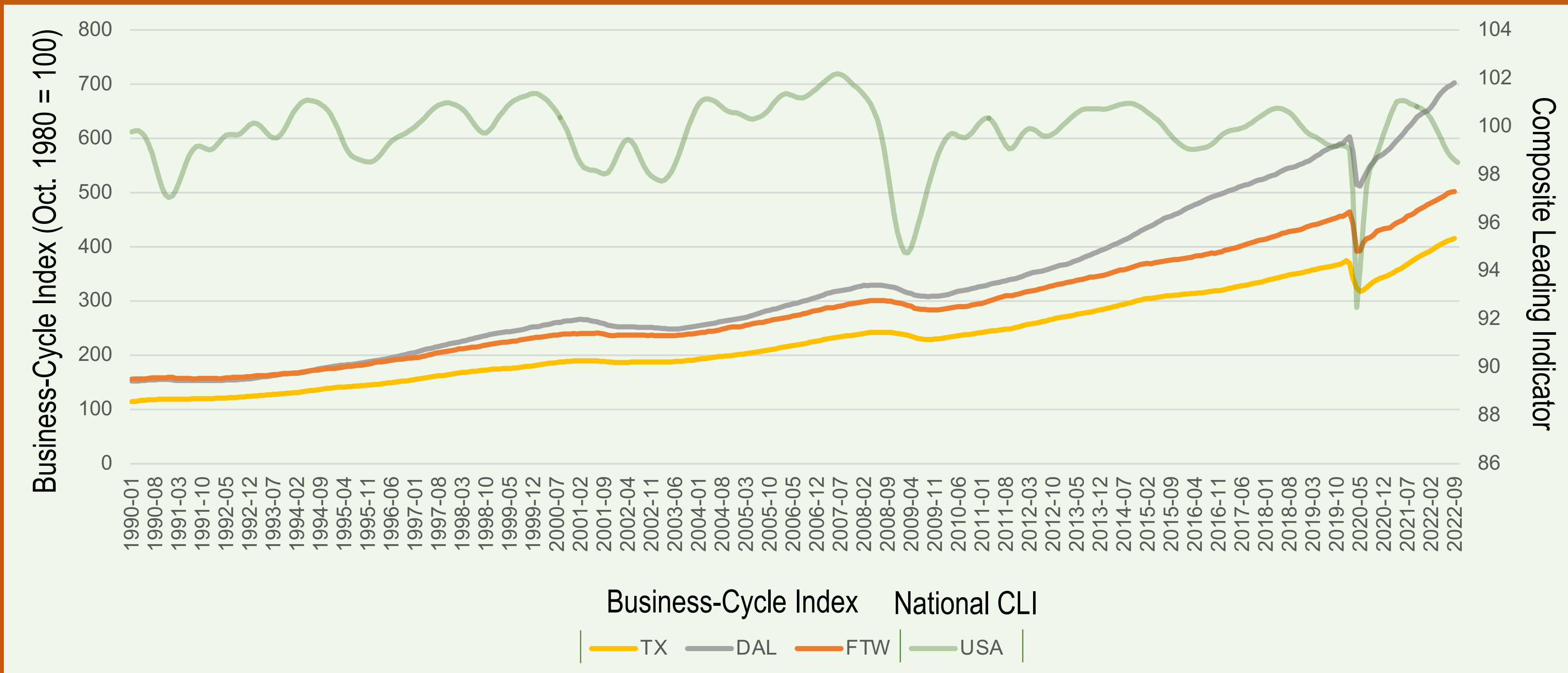
International Business Confidence



These measurements can also be viewed on an international level. This is particularly relevant for communities that are reliant on foreign investment or have companies that rely on trade with specific countries. For example, a car manufacturer that gets most of their parts from Mexico might reconsider expanding if the Mexican BCI implies that businesses are pessimistic about their economic situation.

Sources: OECD (2022), Business Confidence Index (BCI), accessed November 2022.

Business Cycle Index



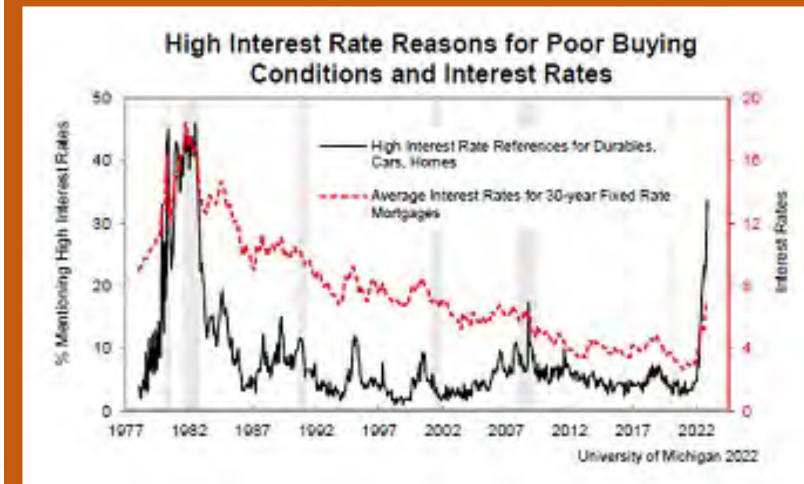
Another valuable metric from the OECD is the Composite Leading Indicator (CLI), which is designed to provide early signals of changes in the business cycle using short-term qualitative data. This includes data on the number of hours worked, spread of interest rates, and various other factors to capture the overall condition of the economy. When tied with the other confidence intervals it can prove to be a powerful leading economic indicator.

Sources: OECD (2022), Composite Leading Index (CLI), accessed November 2022.
Federal Reserve Bank of Dallas (2022), Business-Cycle Index, accessed November 2022.

Other Consumer Confidence Indexes

The Conference Board

University of Michigan



In addition to the OECD's Statistics there are many other valuable sources for this information. One source is the Consumer Confidence Survey from the Conference Board. The strength of their survey is that they separate the data between the present situation and expectations of the economy.

Another credible source is the University of Michigan's Survey of Consumers, which tends to focus more on financial and income situations of consumers than other measurements.

It is worth noting that while all of these statistics are considered industry-standard, many times they will show conflicting results with one another. Because of this it is critical to understand how these indexes are created and sourced in order to determine which is more useful for your organization or community.

Sources: The Conference Board (2022), October 2022 Consumer Confidence Survey, accessed November 2022
The University of Michigan (2022), Survey of Consumers, accessed November 2022

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