The influence of consumer confidence by Bill Clark

Article published on May 26th 2012 | Jewelry

The consumer is king when it comes to the business community. Therefore, when consumer confidence takes a beating the business community sits up and takes notice. Every time consumers are confident of their economy and their financial status, they will spend more and that is good for businesses. But it can also work the other way round as well.

Because of the increased importance given to consumer confidence, it came to be included in the Bureau of Economic Analysis of the US Dept of Commerceâ€™s Index of Leading Indicators. The measurement of this confidence, the related surveys etc are regulated by several bodies including that of the Federal reserve board, which keeps an eye on things along with all the other aspects that affect a countryâ€™s economy.

There is however a slight bit of confusion as to the exact meaning of consumer attitude reports and what this can mean for trends in future spending. This is the result of there being two reports that one can refer to. The first one is called the Consumer Confidence Index and is put together by the Industrial Conference Board. What it looks at is how many people are actually willing to make a big ticket purchase some time soon. The same is also done by the Index of Current Economic Conditions which is put together by the Survey Research Center of the University of Michigan. In the second one what is measured is the extent to which people believe their riches are going to go in the near future and their beliefs on the conditions of national business and economy.

Considering that they measure different aspects there is confusion as to their exact benefits. There are three major opinions on the advantages of these indexes and their functioning. One of it believes that a consumers attitude is shaped by a variety of information that he gets and this is quite subjective. These thoughts that he builds are completely made before a buy. Another opinion is that in a regularly functioning society and economy, purchasing trends will be based on the economic trends as observed by individuals. If there is uncertainty, then people will hold on to their liquid assets bringing down purchasing power. The third opinion basically measures the amount of uncertainty a consumer feels over time.

How useful these indexes are is a matter of debate and a great deal of research has gone into its understanding as well as debunking. Numerous researchers have over time included it in their forecasting as well. Over time, they have gained a large amount of credibility and is now an ideal indicator of the health of our economy.

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Article Keywords:
gold buyers oklahoma city,sell gold oklahoma city,cash for gold oklahoma city

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