

# Fundamental Forex Foundations

## 3. Consumer Confidence

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This Data Point largely measures the Sentiment of The U.S. Economy, Consumer Spending, and Employment, and is released on the Final Tuesday of each Month at approximately 14:00 GMT.

- The Consumer with a high level of Confidence is more likely to Travel, Shop, and Invest Capital which leads to Short-Term and Long-Term Economic Growth.
- The Consumer with a low level of Confidence is less likely to Travel, Shop, and Invest Capital which leads to Short-Term and Long-Term Economic Stagnancy.
- Overall Consumer spending consists of approximately 50% of the total Demand of the Country, and is closely monitored by Investors, Economists, and Policy Makers.

### **The Numbers and How They are Derived**

Approximately 5000 Households will receive Surveys nationwide, although less than about 3000 historically respond resulting in about a 60% Retention Rate with a general “Positive”, “Negative” or “Neutral” Response.

1. Respondents' appraisal of current business conditions.
2. Respondents' expectations regarding business conditions six months hence.
3. Respondents' appraisal of the current employment conditions.
4. Respondents' expectations regarding employment conditions six months hence.
5. Respondents' expectations regarding their total family income six months hence.

For each of the five questions, there are three response options: POSITIVE, NEGATIVE, and NEUTRAL.

The Response Proportions to each Question are “Seasonally adjusted”.

For each of the five Inquiries, the Positive Figure is divided by the sum of the Positive and Negative to give a Proportion, which is called the "Relative Value". For each question, the average Relative for the Calendar Year 1985 is then used as a benchmark to yield the Index Value for that question.

Intermittent Inclusion of other Inquiries will exist to vary the Sample Rate, such as Refinancing a Mortgage in the next Six Months.

This Data is given to The Conference Board which then produces Three Indices:

- Present Situations: Averages of Questions 1 and 3.
- Consumer Confidence: Averages of ALL Five Questions.
- Expectations: Averages of Questions 2, 4, and 5.

### **Trading Ideas**

Some Market Reactions to Consumer Confidence prior to and after the Release are:

**CURRENCIES:** Falling Numbers in Confidence will decrease the inherent Value of The Dollar or other underlying Currency. Increasing Numbers signifies greater Confidence, and in turn increases the underlying Value of The Currency at hand.

**BONDS:** Healthy Consumer Confidence over time does lead to Inflationary Concerns and Bond Sell-Off. The increase in Consumer Spending and Borrowing in this case leads to increased Economic Growth, which does eventually result in higher Interest Rates and Inflation going forward.

**EQUITIES:** Falling Numbers in Confidence will lead to Weakness in the overall Equity/Stock Markets, as opposed to increasing Confidence resulting in Equity Market Strength and Corporate Health.

Traders may take Cues from the previous Release of The University of Michigan Sentiment Index as a comprehensive “Bellwether” of where Consumer

Confidence Consensus may lie... hence underlying Currency Strength or Weakness will be affected going into the Release, prompting Traders to adjust Positions and Strategies.

Traders will want to be Mindful of the Consensus, as any "Expectation" of a 5% or more Adjustment between Previous Release Numbers and Consensus will "lean" towards a Directional Change of the Economy.



