



## Industry Watch

By Rich Walker



### Consumer Confidence and the Wisdom of Crowds

**D**o average people, collectively, have a better crystal ball than the professional pundits? In “The Wisdom of Crowds: Why the Many Are Smarter Than the Few and How Collective Wisdom Shapes Business, Economies, Societies and Nations” (2004), author James Surowiecki argues that a diverse collection of independently deciding individuals is likely to make certain types of decisions and predictions better than individuals or even experts.

If this holds true, recent attitudes about the future gleaned from an assessment of John Q. Homebuyer bode well for us all. Lynn Franco, director of economic indicators at The Conference Board, reports that consumer confidence increased sharply in

March to the highest level of the Consumer Confidence Index, at 125.6, since December 2000, which was 128.6. “Consumers’ assessment of current business and labor market conditions improved considerably. Consumers also expressed much greater optimism regarding the short-term outlook for business, jobs and personal income prospects,” Franco says.

The Conference Board also reported the share of respondents planning to buy a home within six months, with 6 percent indicating they plan to buy a home in March, compared with 6.5 percent in February. Despite this sort of monthly volatility, the trend has been climbing since bottoming out around an average of 4.5 percent in late 2013.

“**The Conference Board reports that consumer confidence increased sharply in March to the highest level of the Consumer Confidence Index since December 2000.**”

#### According to the experts

Looking at a smaller crowd, the National Association of Manufacturers reported that the Index of Small Business Optimism—derived from a sampling of the membership of the National Federation of Independent Business—was not far from its 12-year high in March, based largely on predictions of more pro-growth policies post-election, the Index found. Optimism has not faded, but its manifestation in terms of spending and hiring will require progress on the agenda that business owners voted for, NAHB says.

Focusing on a still more circumscribed group, the outlook on the part of homebuilders repeats the same theme. NAHB reports that optimism among single-family builders in March was the highest since 2005 per the NAHB/Wells Fargo Housing Market Index. Much of this positive sentiment stems from the widely-anticipated reductions of government regulations, according to the North Coast Building Industry Association. NCBIA wrote that a prime example of this was the recent executive order to roll back the Waters of the United States rule that affects builders’ and developers’ wetlands permits.

In line with the optimism, The Census Bureau and the U.S. Department of Housing and Urban Development reported that new housing starts rose 3.0 percent in February, which represents a 6.2 percent increase on a year-over-year basis. Starts have now exceeded 1.2 million for

## “NAHB reports that optimism among single-family builders in March was the highest since 2005 per the NAHB/Wells Fargo Housing Market Index.”

the fourth time in the past five months—a psychological threshold that we appear to have finally sustained.

Of these, single-family housing starts jumped from 819,000 to 872,000, a pace not seen since October 2007, according to the Census Bureau and HUD. Permits for single-family homes were also up in February by an encouraging 13.5 percent over the same month in 2016, registering the highest rate in almost 10 years. The Pending Home Sales Index increased 5.5 percent in February 2017 to its highest level since April 2016, and the second highest since May 2006.

Bolstering the underlying demand, the housing crunch doesn't look like it will be getting better any time soon, according to the latest report on new construction. Spending on home improvements is also expected to increase this year in 43 of the nation's 50 largest metropolitan areas, according to Harvard's latest Joint Center for Housing Studies report about the home improvement industry, Demographic Change and the Remodeling Outlook.

### **Back to the masses**

Going back to consumers in general, as reflected in the CCI, surely the average

person isn't basing their optimism on the somewhat esoteric statistics just listed. It looks like Surowiecki may be on to something in terms of the collective wisdom of the uninitiated.

Can everyone be wrong? Surowiecki looks at situations such as stock market bubbles in which the crowd produces very bad judgment. He argues that, in such situations, their “wisdom” failed because, in one way or another, the members of the crowd were too conscious of the opinions of others and began to emulate each other rather than think differently. In other words, don't listen too closely to the news as, these days, it can be indistinguishable from opinion. ☐

---

Rich Walker is president and CEO of the American Architectural Manufacturers Association, 847/303-5664, [rwalker@amanet.org](mailto:rwalker@amanet.org).