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FINANCIAL SERIES

RICHARD YAMARONE

THE ECONOMIC INDICATOR HANDBOOK

HOW TO EVALUATE ECONOMIC TRENDS TO
MAXIMIZE PROFITS AND MINIMIZE LOSSES



THE ECONOMIC INDICATOR HANDBOOK

**How to Evaluate Economic Trends to Maximize
Profits and Minimize Losses**

Richard Yamarone

WILEY

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Dedicated to the loving memory of Milton and Nash Yamarone.

Acknowledgments

This project is overwhelmingly related to economics as seen from the Bloomberg terminal. So it is only natural that I express my gratitude to the countless—and I do mean countless—Bloomberg employees that have provided invaluable help over the last 20-plus years that I have been associated with Bloomberg either as a client (since 1992) or as an employee (October 26, 2009). There's a real reason why Bloomberg, LP is so successful, and it is undoubtedly due to its employees. I've never seen such dedication to a company and to the client in my more than 30 years on the Street. If you know anyone that has ever worked at Bloomberg, you know exactly what I am talking about.

I have the great fortune to work with some of the brightest and hardest-working people in all of business. At any hour of the day or evening, weekend, or holiday, I feel I could reach out with an issue and get an immediate response . . . that's an incredible team to draw upon. I call each of them my friend as well as co-worker.

My thanks are extended first to the Bloomberg Intelligence Economics team. At the top is Mike McDonough, the global director of economics who has set up this solid powerhouse and is responsible for making it the preeminent economic research group on all of Wall Street that it is today. He is a great leader. Carl Riccadonna is the sharpest economist I have ever worked with and is the best “big picture” economics writer on the Street today; I learn from him every day. Yelena Shulyatyeva has a gifted ability to find the most meaningful detail in economic indicators, draw intelligent inferences, and place them in a macro context. She does this masterfully, despite having the tremendous misfortune of having to sit next to me for over 10 hours a day. Bless you.

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Bloomberg Intelligence is an incredible research group, undoubtedly the best on the Street, and as helpful as they are insightful. Imagine what a joy it is (especially as an economist) to be able to draw upon the knowledge from industry legends—yeah, legends—like Poonam Goyal, Ken Hoffman, Kevin Tynan,

Kit Konolige, Paul Sweeney, Josh Zaret, Lee Klaskow, John Butler, Karen Ulbelhart, and Jason Miner. Seriously, who couldn't form an accurate economic perspective with so many talented professionals feeding the information channel with top-tier insights and analyses? Additional thanks are extended to Richard Salditt, Dragos Aoloie, and Mike McGlone.

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Thank you all.

About the Author

Richard Yamarone is a Bloomberg senior economist with more than three decades of experience on monetary and fiscal policy, economic indicators, fixed income, commodities, and general macroeconomic conditions.

As a member of Bloomberg Intelligence–Economics, he is a contributor to the Real-Time Economics product that features analysis, data, and news on the forces shaping the global economy. Mr. Yamarone and the Bloomberg Intelligence–Economics team provide in-depth analysis of macroeconomic data, policy, and trends and how they will impact financial markets.

He is also the creator of the Bloomberg Orange Book of CEO Comments, a compilation of macroeconomic anecdotes gleaned from comments C-suite executives made on quarterly earnings conference calls. He travels extensively to speak to clients and corporate executives on the economic outlook, public speaking, and career and management coaching. The author of *Trader's Guide to Key Economic Indicators* (Bloomberg Press, 2012), Mr. Yamarone is a member of the National Association for Business Economists, the American Economic Association, the New York State Economics Association, and the Money Marketeers of New York University. He has won numerous accolades for his work, including being featured as one of the top 10 economists in the United States by *USA Today* in 2007 and “Nostradamus of the Financial Industry” by Bank Advisor in 2008 for his prediction of the financial crises.

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CHAPTER 1

The Daily Blotter

Perhaps the best way to appreciate the most important and meaningful economic indicators used by Wall Street economists is to present them in the manner that they are used by those professionals. Every bank, money manager, hedge fund, or financial institution has an interest in economic indicators, and each of those producing the analysis possesses their own individual routine in which they obtain the data, produce a product, and disseminate their respective analysis. For the most part, Wall Street economists use the Bloomberg Professional service for their data, write a daily newsletter—with oftentimes several updates a day—and send it electronically to their clients, investment professionals, and the media.

This chapter attempts to present the most important information used on Wall Street trading desks, and how the desk economist goes about prepping for the day, understanding and appreciating anything that might move the financial markets or alter the outlook for the economy.

The traditional market reaction to news, events, and economic data—particularly the top tier economic indicators—is usually with respect to what insight the news brings to the entire financial market. While some equity analysts use economic releases to determine the trends in some of their respective industries and stocks, most investment professionals look to see how information will influence the broader markets.

For example, should news break about a refinery fire at an integrated oil company, then there may be an immediate negative reaction to that specific company's stock price. Depending on how severe the damage was to its facilities and how long that refinery would be out of commission would dictate the value of the price adjustment. Similarly, if the refinery was large, producing a tremendous amount of gasoline, then the lost supply could disrupt the commodity market, and send prices higher. This wouldn't upset the entire stock, bond, or currency market, with the damage being concentrated in just the trading of some energy products.

When a major economic release hits the newswires, market participants look at the details with respect to how the information contained in the report will influence the prices of a security.

When economic releases are better than expectations, that is, with a positive or bullish implication, equity prices rise and bond prices fall. Yields on bonds (or fixed-income securities) rise since they are inversely related to prices). The economics behind this is that a stronger economic posting like a large number of jobs added in a month, an increase in the orders for durable goods, or an extremely upbeat reading in consumer confidence, implies companies will be conducting a greater amount of business, which is good for revenues and profits.

The reaction to strong economic data in the fixed income market would be very different. Stronger economic conditions possess potentially inflationary conditions. An increase in demand or production is usually accompanied by greater prices. So exceptionally stronger gains in activity are viewed as inflationary, which erodes the value of a fixed income security. The yields on those bonds would rise since they are inversely related.

The opposite holds true for weak economic reports. In the event that one of the manufacturing condition surveys is less than expectations, industrial production contracts, or housing starts fall, stock prices would sour on that news and bond prices would rise (yields would fall).

While each Wall Street economist has varying responsibilities and individual routines, they do share some common traits. Knowing what releases are scheduled for any given day is atop that list. The economic calendar is so important that vacations and time off is planned around economic releases by order of importance. You never call in sick or walk in late for an Employment Situation release, an FOMC meeting, or a day when three or more top-tier indicators are slated for release.

The Economic Calendar

The Bloomberg calendar depicted in Exhibit 1.1 may be obtained by typing ECO <GO> on the Bloomberg Professional terminal. It is the most comprehensive and trusted source for releases in all of finance, detailing the name of the release, date, time, previous value, and the current Street consensus estimate. There's also a relative importance graph identifying how the Street views each index—the larger the number of subscription alerts there are for an individual indicator, the greater the number of bars highlighted in the bar graph located in the "R" column (relative importance) to the left of the Event column. In the associated exhibit, the ISM Milwaukee index clearly is not considered to be as important as the Chicago Purchasing Managers Index.

The Bloomberg ECO calendar may be customized to include economic releases like durable goods orders and economic events like speeches by policy

EXHIBIT 1.1 The Economic Calendar

| Date | Time | AM/PM | Event | Period | Surv(M) | Actual | Prior | Revised |
|------|----------|-------|---|--------|---------|--------|--------|---------|
| 21) | 08/29/15 | 12:00 | U.S. Fed Vice Chair Fischer Remarks on Inflation Developments | | | | | |
| 22) | 08/29/15 | 12:00 | BOE's Mark Carney Speaks at Jackson Hole Symposium | | | | | |
| 23) | 08/29/15 | 12:00 | ECB Vice President Constancio Speaks at Jackson Hole Panel | | | | | |
| 24) | 08/29/15 | 12:00 | Triple Crown Winner American Pharoah Runs in Travers Stakes | | | | | |
| 25) | 08/29/15 | 12:00 | Kansas City Fed Hosts Symposium in Jackson Hole, Wyoming | | | | | |
| 26) | 08/30/15 | 09:00 | U.S. Henry Ford's Leadership Conference in Ann Arbor | | | | | |
| 27) | 08/30/15 | 09:00 | The American Legion Holds Its 74th National Convention | | | | | |
| 28) | 08/31/15 | 08:00 | The Intelligence and National Security Alliance (INSA) | | | | | |
| 29) | 08/31/15 | 09:00 | ISM Milwaukee | Aug | 50.00 | | 47.70 | |
| 30) | 08/31/15 | 09:45 | Chicago Purchasing Manager | Aug | 54.5 | | 54.0 | |
| 31) | 08/31/15 | 10:00 | Dallas Fed Mgmt. Activity | Aug | 3.8 | | 1.0 | |
| 32) | 08/31/15 | 11:00 | Export Inspector's - Corn | Aug 27 | | | 55.00 | |
| 33) | 08/31/15 | 11:00 | Export Inspector's - Soybeans | Aug 27 | | | 70.00 | |
| 34) | 08/31/15 | 11:00 | Export Inspector's - Wheat | Aug 27 | | | 27.00 | |
| 35) | 08/31/15 | 11:00 | ISM North Field Rate | Aug 31 | | | 0.0000 | |

| Overview | 12) Real GDP YoY | 13) Unempl. Rate | 14) CPI YoY15) | Central Bank R16) | Indust. Prod. Y |
|----------|------------------|------------------|----------------|-------------------|-----------------|
| Survey | | 5.3 | | 50 | |
| Actual | 2.4 | 5.0 | | 2% | 1.0 |
| Prior | | 5.5 | | 2% | 1.0 |

| | | | | | | | | | | | | | | | | | | | | | | |
|--|----|---|------|------|-----------|------|------|------|--------|----|-----|------|------|-----------|------|-----------|---------|------|-----------|-----|------|------|
| Australia | 61 | 2 | 9777 | 8600 | Brazil | 5511 | 2395 | 9000 | Europe | 44 | 20 | 7330 | 7500 | Germany | 49 | 69 | 8204 | 1110 | Hong Kong | 652 | 2977 | 6000 |
| Japan | 61 | 3 | 3201 | 6900 | Singapore | 65 | 6212 | 1000 | U.S. | 1 | 242 | 319 | 3000 | Copyright | 2015 | Bloomberg | Finance | L.P. | | | | |
| 2N 238159 EDT GMT-4:00 K353-512-0 62-mgr-2015 18:02 04 | | | | | | | | | | | | | | | | | | | | | | |

Source: Bloomberg

makers or Federal Reserve Open Market Committee meeting announcements. The addition of all the government conferences and speeches like those from the secretaries of the Departments of Treasury or State are also available. All Treasury financing auctions are listed as well. Even the commodity reports such as crop conditions or crude oil inventory levels are available. While we are only addressing the U.S. economic indicators, the ECO calendar is available for 189 countries and regions (e.g., Eurozone, G8, G20).

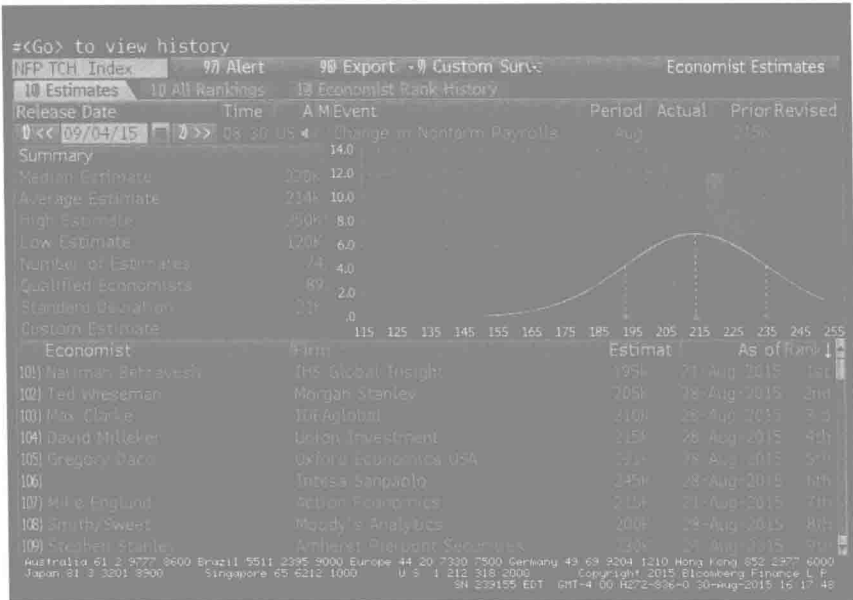
Traders, analysts, and economists always want to know what the market is thinking, so when an economic release hits the tape, they know whether the report is stronger, weaker, or in line with Street expectations.

With respect to the calendar on economic releases, right-clicking on any of the indexes will reveal the detail of all those economists polled and their respective forecast history for that specific indicator (ECOS). The most popular economic releases possess upwards of 100 individual forecasts.

Economist Estimates and Expectations

Once in the calendar on economic releases, right-clicking on any of the indexes reveals the Street expectations, as seen in Exhibit 1.2. Here we see the graphical distribution for nonfarm payroll estimates by 74 economists, as well as the

EXHIBIT 1.2 Economist Estimates



Source: Bloomberg

average, median, high, low, and standard deviation. There is also a ranking of the economist for that indicator in the lower-right-hand corner, which is based on two years of contributed estimates.

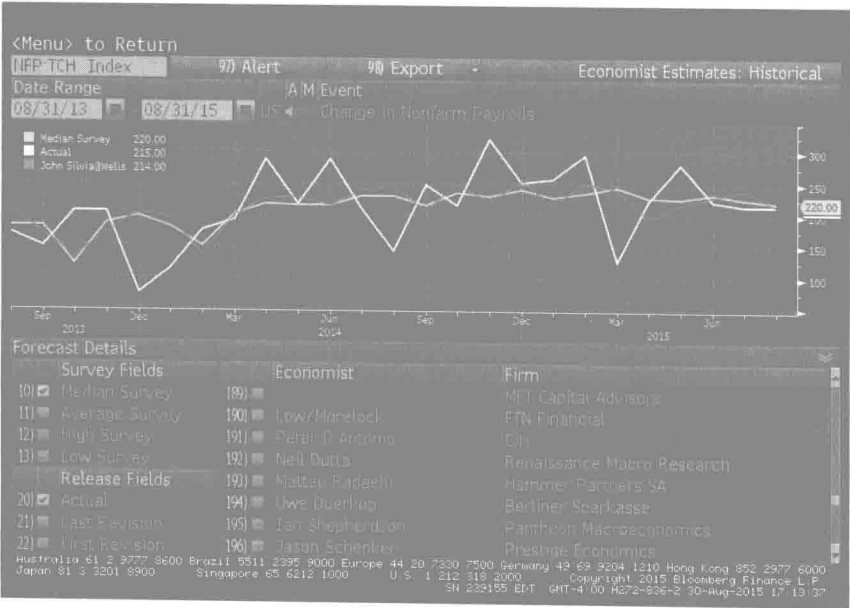
Then, clicking again on an individual economist or firm reveals a chart of the forecasting history of that particular forecaster for that economic release (Exhibit 1.3), as well as the median and actual number. You can also select several economists at a time. Now we are capable of seeing just how good some are at the estimating game.

And since we have the Street estimates for dozens of indicators—and history—we can plot to see how far off the experts as a consensus were with respect to the actual number. Exhibit 1.4 shows the Economic Surprise Monitor (ECSU <GO>), which contains a dashboard of the latest top-tier indicators and their associated postings (by date) and the amount that each differed from the survey median as polled by Bloomberg, divided by the survey standard deviation.

The Bloomberg Economic Surprise Index

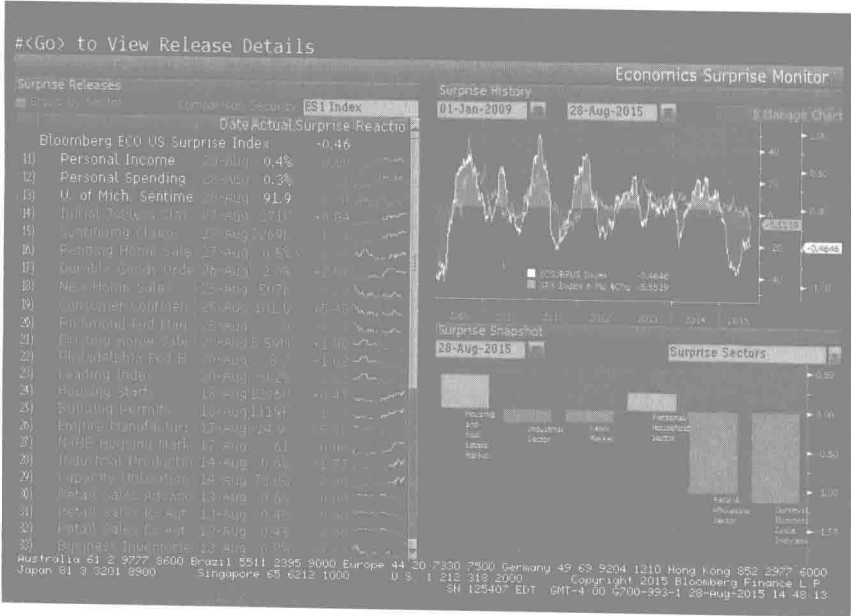
The Bloomberg Economic Surprise Index (ESI) shows the degree to which Street economists either under- or overestimate those top-tier indicators posted in ECO <GO>.

EXHIBIT 1.3 Economist/Firm Forecast History



Source: Bloomberg

EXHIBIT 1.4 The Economic Surprise Monitor



Source: Bloomberg

When the actual number exceeds the Street estimates, it's a sign that the measured performance of a particular economic indicator bettered Street expectations, implying the economy may be performing better than the pros believe. Conversely, lower actual values suggest weaker economic conditions compared to what the forecasters believe. The associated exhibit lists the most recent releases in the Bloomberg ECO U.S. Surprise Index and whether they missed to the upside (green) or to the downside (red).

Formal releases of economic data aren't the only incidents that move the market or may change the outlook of the economy. The daily events calendar is an extremely important tool used in the analysis of the economic environment. While there are rarely specific data or indexes revealed in the countless events that occur during any given trading session, there are nuggets of information in many of the conference calls or releases—the sharp analyst just has to know where to look.

Most analysts and economists know days in advance about what is on the docket regarding investor meetings, industry or bank-sponsored conferences, earnings calls, corporate updates, annual meetings, and special company announcements like a merger or acquisition. The Bloomberg Events Calendar in Exhibit 1.5 (EVTS <GO>) identifies one page of the thousands that exist on the terminal.

EXHIBIT 1.5 Events Calendar

Enter all values and hit <Go>.

99 Calendars - 98 Output - 97 Actions - 96 AutoSync... Page 8/74 Events Calendar

Source: All Securities - Input: United States - Event: Custom - 09/15/15 - 09/04/15

Location: <Enter Location> - Broker: <Enter Broker> - Filter: BCB - Filter: All

Event Type: 21 All Event Types 22 Earnings Releases 23 Earnings Calls 24 Earnings Releases & Calls 25 Other

30 Daily 31 Monthly

32 Analyze List

| Company | Date | Time ET | Event Description | P | T | S | A | C |
|--------------------------------------|-------|----------|--|---|---|---|---|---|
| 1) Searchers Financial | 09/15 | 09:00 ET | Searchers Financial Conference Call | | | | | |
| 2) 09/16/2015 150 Events | | | | | | | | |
| 3) KinetiQ Bioscience Inc. | 09/16 | 09:00 ET | KinetiQ Bioscience Inc. Conference Call | | | | | |
| 4) Gaining Innovation Group | 09/16 | 09:00 ET | Gaining Innovation Group Conference Call | | | | | |
| 5) Eco-Intelligence AG | 09/16 | 09:00 ET | Eco-Intelligence AG Conference Call | | | | | |
| 6) Home Depot Inc/The | 09/16 | 09:00 ET | Home Depot Inc/The Conference Call | | | | | |
| 7) Home Depot Inc/The | 09/16 | 09:00 ET | Home Depot Inc/The Conference Call | | | | | |
| 8) Home Depot Inc/The | 09/16 | 09:00 ET | Home Depot Inc/The Conference Call | | | | | |
| 9) Home Depot Inc/The | 09/16 | 09:00 ET | Home Depot Inc/The Conference Call | | | | | |
| 10) American Bankers Association Inc | 09/16 | 09:00 ET | American Bankers Association Inc Conference Call | | | | | |
| 11) Syneos Health Inc | 09/16 | 09:00 ET | Syneos Health Inc Conference Call | | | | | |
| 12) Syneos Health Inc | 09/16 | 09:00 ET | Syneos Health Inc Conference Call | | | | | |
| 13) Equi-Pharm Group Inc | 09/16 | 09:00 ET | Equi-Pharm Group Inc Conference Call | | | | | |
| 14) Blue Bird Corp | 09/16 | 09:00 ET | Blue Bird Corp Conference Call | | | | | |
| 15) BBAT Corp | 09/16 | 09:00 ET | BBAT Corp Conference Call | | | | | |
| 16) Rainforest Group Inc/The | 09/16 | 09:00 ET | Rainforest Group Inc/The Conference Call | | | | | |
| 17) Rainforest Group Inc/The | 09/16 | 09:00 ET | Rainforest Group Inc/The Conference Call | | | | | |
| 18) Rainforest Group Inc/The | 09/16 | 09:00 ET | Rainforest Group Inc/The Conference Call | | | | | |
| 19) Rainforest Group Inc/The | 09/16 | 09:00 ET | Rainforest Group Inc/The Conference Call | | | | | |
| 20) Home Depot Inc/The | 09/16 | 09:00 ET | Home Depot Inc/The Conference Call | | | | | |

australia 61 2 9277 8600 Brazil 55 11 2355 3000 Europe 44 20 7230 7500 Germany 49 69 3204 1210 Hong Kong 852 2309 4000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 818 2000 Copyright 2015 Bloomberg Finance L.P. SH 125407 EDT GMT-4:00 0700-993-1 28-Aug-2015 14:14:26

Source: Bloomberg

The Events Calendar

The company is identified, as well as a description of the event type. Where applicable, the dial-in number is listed along with the necessary PIN code in the event that the listener would like to call in directly and ask questions.

The last five columns are functions that permit the user to read the associated press release (P), download a PDF file of the transcript of the entire conference call (T), read a transcript summary (S), listen to an audio file of the entire conference call (A), or sync the event to your calendar (C). These, of course, are all archived and available on an historical basis.

To be sure, not every call will generate insight to the goings on of the economy. But the wise desk economist should listen to (or read the transcripts of) the most economically sensitive companies that may be complaining of a high-interest-rate environment, stagnant spending by the consumer, or high input prices. Just about anything that can disrupt a company's performance will be mentioned in these calls. Many times, the comments made by executives on these calls forewarn changes in the economic data.

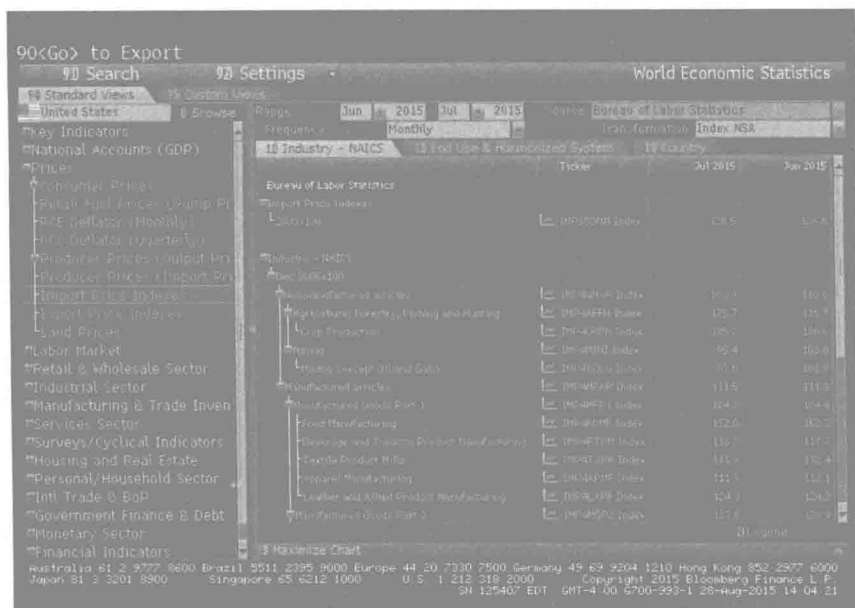
In Exhibit 1.5, it would be wise to listen to what Home Depot, Wal-Mart, and TJX Companies might have to say. The information contained in those calls might identify the underlying tone of the consumer. And since the consumer is responsible for a large portion of economic activity, the anecdotes can be invaluable to the forecasting process.

Having a treasury of economic data is essential for every economist or analyst. The Bloomberg Professional terminal provides a trove of economic and financial market data ranging from the common government reports and all the associated detail like GDP, consumption expenditures, the price indexes, and the confidence measures to the more obscure North American rail carloads of forest products. Just think of how valuable the latest data on industrial production of veneer, plywood, and engineered wood products, the retail price of carbonated drinks, or the number of persons employed in museums, historical sites, and parks can be to a housing, beverage, or not-for-profit industry analyst.

The Economic Statistics Table (ECST)

As Exhibit 1.6 highlights, the data are available on tens of thousands of indicators and are easily searchable and downloadable with a mere click on the menu—all in one place.

Having the ability to work with data is also critical in the analysis process. All of the charts in this book were created using data from the Bloomberg terminal, and almost all have been produced in the Economic Workbench (ECWB <GO>). This function permits you to “play” with data. That is, insert different indicators or indexes and look at relationships, ideally identifying the

EXHIBIT 1.6 Economic Statistics Table

Source: Bloomberg

temperature of the economic climate or other key indicators to better appreciate the tone of an industry, the possible direction of a stock or bond, or changes in the business cycle.

The Powerful Economic Workbench

Exhibit 1.7 displays the Bloomberg Economic Workbench. Basically, this is a charting tool. Any of the historical data on the terminal may be loaded into a field and then altered to identify a particular pattern or association. Sometimes economists want to compare data that are reported in different bases, like a quarterly GDP and weekly initial jobless claims, or daily commodity prices and monthly producer price indexes.

In Exhibit 1.7, we chart the U.S. Treasury cash balance of federal tax deposits withheld from employment income and tax receipts against the monthly nonfarm payrolls. The economic explanation behind this is that the more people employed, the greater will be the amount of tax withholdings by the federal government.

There are several other applications that analysts like to apply to data such as moving averages—especially for volatile economic time series or for high frequency daily or weekly data. Year-over-year analysis of indicators is often the