

Making Everything Easier!™

Economic Indicators

FOR
DUMMIES®

Learn to:

- Understand how indicators affect stocks, bonds, commodities, and international markets
- Use various reports to make investment decisions
- Plan strategic goals for business growth

Michael Griffis, MBA

Coauthor, *Trading For Dummies*



Economic Indicators FOR **DUMMIES®**

by Michael Griffis, MBA
Coauthor of *Trading For Dummies*



WILEY

John Wiley & Sons, Inc.

Economic Indicators For Dummies®

Published by
John Wiley & Sons, Inc.
111 River St.
Hoboken, NJ 07030-5774
www.wiley.com

Copyright © 2011 by John Wiley & Sons, Inc., Hoboken, New Jersey

Published by John Wiley & Sons, Inc., Hoboken, New Jersey

Published simultaneously in Canada

No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning or otherwise, except as permitted under Sections 107 or 108 of the 1976 United States Copyright Act, without the prior written permission of the Publisher. Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, (201) 748-6011, fax (201) 748-6008, or online at <http://www.wiley.com/go/permissions>.

Trademarks: Wiley, the Wiley logo, For Dummies, the Dummies Man logo, A Reference for the Rest of Us!, The Dummies Way, Dummies Daily, The Fun and Easy Way, Dummies.com, Making Everything Easier, and related trade dress are trademarks or registered trademarks of John Wiley & Sons, Inc., and/or its affiliates in the United States and other countries, and may not be used without written permission. All other trademarks are the property of their respective owners. John Wiley & Sons, Inc., is not associated with any product or vendor mentioned in this book.

LIMIT OF LIABILITY/DISCLAIMER OF WARRANTY: THE PUBLISHER AND THE AUTHOR MAKE NO REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE CONTENTS OF THIS WORK AND SPECIFICALLY DISCLAIM ALL WARRANTIES, INCLUDING WITHOUT LIMITATION WARRANTIES OF FITNESS FOR A PARTICULAR PURPOSE. NO WARRANTY MAY BE CREATED OR EXTENDED BY SALES OR PROMOTIONAL MATERIALS. THE ADVICE AND STRATEGIES CONTAINED HEREIN MAY NOT BE SUITABLE FOR EVERY SITUATION. THIS WORK IS SOLD WITH THE UNDERSTANDING THAT THE PUBLISHER IS NOT ENGAGED IN RENDERING LEGAL, ACCOUNTING, OR OTHER PROFESSIONAL SERVICES. IF PROFESSIONAL ASSISTANCE IS REQUIRED, THE SERVICES OF A COMPETENT PROFESSIONAL PERSON SHOULD BE SOUGHT. NEITHER THE PUBLISHER NOR THE AUTHOR SHALL BE LIABLE FOR DAMAGES ARISING HEREFROM. THE FACT THAT AN ORGANIZATION OR WEBSITE IS REFERRED TO IN THIS WORK AS A CITATION AND/OR A POTENTIAL SOURCE OF FURTHER INFORMATION DOES NOT MEAN THAT THE AUTHOR OR THE PUBLISHER ENDORSES THE INFORMATION THE ORGANIZATION OR WEBSITE MAY PROVIDE OR RECOMMENDATIONS IT MAY MAKE. FURTHER, READERS SHOULD BE AWARE THAT INTERNET WEBSITES LISTED IN THIS WORK MAY HAVE CHANGED OR DISAPPEARED BETWEEN WHEN THIS WORK WAS WRITTEN AND WHEN IT IS READ.

For general information on our other products and services, please contact our Customer Care Department within the U.S. at 877-762-2974, outside the U.S. at 317-572-3993, or fax 317-572-4002.

For technical support, please visit www.wiley.com/techsupport.

Wiley also publishes its books in a variety of electronic formats and by print-on-demand. Some content that appears in standard print versions of this book may not be available in other formats. For more information about Wiley products, visit us at www.wiley.com.

Library of Congress Control Number: 2011936924

ISBN 978-1-118-03762-1 (pbk); ISBN 978-1-118-16387-0 (ebk); ISBN 978-1-118-16388-7 (ebk); ISBN 978-1-118-16389-4 (ebk)

Manufactured in the United States of America

10 9 8 7 6 5 4 3 2



About the Author

Michael Griffis is an author, trader, speaker, and business owner. His MBA from Crummer Graduate School of Business at Rollins College was the first step down his multi-faceted career path.

The MBA program emphasized economics, forecasting, and marketing. Its case-study style forced him to write more in a single semester than he had written in his entire Computer Sciences undergraduate program at the University of Florida. (As you may know, coders aren't normally noted for their English composition skills.) Mike's experience in the MBA program was his first hint that he enjoyed writing and was at least competent if not inspired.

Mike first became an active trader — for his own account — in the mid-1980s. He later became a stock broker who helped businesses and individuals manage employee and personal investments. Today he is again trading for his own account.

Mike has business interests in two marketing agencies that help clients address traditional and Internet marketing challenges. Through these agencies, he's able to incorporate his economic knowledge and skills with economic indicators to help clients fine-tune their marketing forecasts. He first began writing about stocks online when the Internet was new and shiny. You can now find him at www.mikegriffis.com.

Dedication

This book would never have been without the love, support, and assistance of my wife Susan. I'm also deeply indebted to Zeki and Harley, the feline duo whose endless fascination with all things laptop led to endless comic relief.

Author's Acknowledgments

I would like to express my gratitude to my editors at John Wiley & Sons, Inc., including acquisitions editor Michael Lewis, project editor Chad Sievers, copy editor Amanda Langferman, and technical editor Steve Russell, who made this book possible and made me sound like a better writer than I really am. Although I couldn't have done it without their help and oversight, any errors or oversights are my responsibility alone.

Publisher's Acknowledgments

We're proud of this book; please send us your comments at <http://dummies.custhelp.com>. For other comments, please contact our Customer Care Department within the U.S. at 877-762-2974, outside the U.S. at 317-572-3993, or fax 317-572-4002.

Some of the people who helped bring this book to market include the following:

Acquisitions, Editorial, and Vertical Websites

Senior Project Editor: Chad R. Sievers

Acquisitions Editor: Michael Lewis

Copy Editor: Amanda M. Langferman

Assistant Editor: David Lutton

Editorial Program Coordinator: Joe Niesen

Technical Editor: Steven Russell, PhD

Editorial Manager: Michelle Hacker

Editorial Assistant: Rachelle Amick

Art Coordinator: Alicia B. South

Cover Photos: © iStockphoto.com / Lebazele

Cartoons: Rich Tennant (www.the5thwave.com)

Composition Services

Senior Project Coordinator: Kristie Rees

Layout and Graphics: Claudia Bell,
Samantha Cherolis

Proofreaders: John Greenough, Jessica
Kramer, Bonnie Mikkelsen

Indexer: Valerie Haynes Perry

Special Help: Heike Baird, Christine Pingleton,
Jessica Smith

Publishing and Editorial for Consumer Dummies

Kathleen Nebenhaus, Vice President and Executive Publisher

Kristin Ferguson-Wagstaffe, Product Development Director

Ensley Eikenburg, Associate Publisher, Travel

Kelly Regan, Editorial Director, Travel

Publishing for Technology Dummies

Andy Cummings, Vice President and Publisher

Composition Services

Debbie Stailey, Director of Composition Services

Contents at a Glance

Introduction	1
Part I: Figuring Out the Economy.....	7
Chapter 1: Introducing Economic Indicators	9
Chapter 2: Explaining Economic Jargon	21
Chapter 3: Understanding the Big Picture: The Economy and Its Footprints.....	45
Part II: Making Money, Spending Money: Employment and Consumer Indicators	65
Chapter 4: Counting Jobs and Unemployment	67
Chapter 5: Survey Says: Considering Consumer Sentiment, Confidence, and Comfort	93
Chapter 6: Spreading the Wealth: Consumer Spending and the Economy	113
Part III: The Essence of Business: Product and Service Indicators	133
Chapter 7: GDP: The Whole Enchilada	135
Chapter 8: Following the Fed.....	161
Chapter 9: Profiling Manufacturing: New Orders and Shipments.....	185
Chapter 10: Grappling with Economic Indexes	201
Chapter 11: Spending on Housing and Residential Construction.....	213
Part IV: Inflation, Productivity, Interest Rates, and Commodities: Oh My!	239
Chapter 12: Determining Inflation's Economic Impact	241
Chapter 13: Taking a Closer Look at Productivity and Economic Growth.....	261
Chapter 14: Eyeing Business and Municipal Borrowing in the Bond Market.....	273
Chapter 15: Harvesting Commodity Data.....	289
Part V: International Intrigue: Indicators beyond the United States.....	309
Chapter 16: Trading with the United States	311
Chapter 17: Following Economies Worldwide	325
Chapter 18: Monitoring Emerging Economies.....	345

<i>Part VI: The Part of Tens</i>	353
Chapter 19: Ten Ways to Track the U.S. Economy	355
Chapter 20: Ten (Or So) Money-Making Tips You Can Use with Economic Indicators	361
<i>Glossary</i>	367
<i>Index</i>	375

Table of Contents

.....

***Introduction* 1**

About This Book	1
Conventions Used in This Book.....	2
Foolish Assumptions.....	3
What Not to Read	4
How the Book Is Organized	4
Part I: Figuring Out the Economy.....	4
Part II: Making Money, Spending Money: Employment and Consumer Indicators	4
Part III: The Essence of Business: Product and Service Indicators	5
Part IV: Inflation, Productivity, Interest Rates, and Commodities: Oh My!	5
Part V: International Intrigue: Indicators beyond the United States	5
Part VI: The Part of Tens	6
Icons Used in This Book	6
Where to Go from Here	6

***Part I: Figuring Out the Economy* 7**

Chapter 1: Introducing Economic Indicators. 9

Understanding What Economic Indicators Are	10
Reading the economy through economic indicators	10
Cycling through economic ups and downs	11
Identifying What Indicators Indicate.....	12
Tracking consumer spending.....	12
Looking at the big picture.....	13
Eyeing manufacturing.....	14
Counting up the number of bought, sold, and newly built homes.....	15
Monitoring inflation.....	15
Measuring productivity.....	16
Looking at loans and commodity purchases	16
Following worldwide economies	17
Knowing How to Start Following Economic Indicators	18
Analyzing the data	19
Tracking economic indicator release dates	19

Chapter 2: Explaining Economic Jargon21

Identifying Types of Economic Indicators.....	21
Summarizing economic results.....	22
Surveying for information.....	22
Indexing the economy.....	24
Understanding How Economists Analyze the Data.....	27
Measuring growth.....	27
Annualizing reported data.....	29
Smoothing data with moving averages.....	32
Massaging Economic Data to Make the Results More Useful.....	35
Adjusting for inflation.....	35
Adjusting for seasonal fluctuations.....	37
Considering the Timeliness of Economic Indicators.....	37
Leading indicators make forecasts.....	38
Coincident indicators are no coincidence.....	38
Lagging indicators can't foretell the future.....	39
Looking into the Future with Consensus Forecasts.....	39
Finding consensus forecasts.....	40
Analyzing the accuracy of the consensus.....	40
Amending and Modifying Data with Revision Reports.....	41
Revising previous reports.....	41
Changing benchmarks.....	42
Cha-Ching: Money, Interest Rates, and the Economy.....	43
Understanding the Fed's monetary measures.....	43
Setting short- and long-term interest rates.....	44

**Chapter 3: Understanding the Big Picture: The Economy
and Its Footprints45**

Taking a Closer Look at the Business Cycle.....	46
Identifying the phases of the cycle.....	46
Growing into expansion.....	49
Slowing into recession.....	49
Reviewing the Key Financial Markets.....	50
Investing in stocks.....	50
Holding bonds.....	53
Trading commodities.....	55
Tracking currencies.....	56
Figuring Out What's What in Economic Reports.....	57
Finding what's important in each report.....	58
Seeing how reports are assembled.....	59
Showing Economic Fashions without the Runway.....	59
Understanding market sensitivity.....	60
Determining an indicator's accuracy and timeliness.....	61
Seeing who's interested in what.....	61

Part II: Making Money, Spending Money: Employment and Consumer Indicators..... 65

Chapter 4: Counting Jobs and Unemployment 67

Tracking the BLS Employment Situation Report.....	68
Counting workers and the unemployed.....	68
Highlighting key parts of the jobs report.....	73
Deciphering employment numbers.....	75
Predicting market reactions due to employment changes.....	77
Looking at Unemployment Insurance Claims.....	79
Keeping track of unemployment insurance claims.....	80
Smoothing jobless claim fluctuations.....	81
Analyzing the claims numbers.....	82
Determining how the market may react to increased claims.....	82
Eyeing the ADP National Employment Report®.....	84
Reviewing key parts of ADP's jobs report.....	85
Comparing the ADP and BLS reports.....	86
Figuring out how the market will react to the ADP report.....	87
Advertising for Jobs: The Conference Board Help Wanted	
Online Index.....	88
Measuring the availability of jobs online.....	88
Predicting how the market will react.....	89
Collecting the BLS Mass Layoff Statistics Report.....	90
Surfing Monster Employment Indexes.....	91

Chapter 5: Survey Says: Considering Consumer Sentiment, Confidence, and Comfort. 93

Trying to Figure Out Consumers.....	94
Surveying UM's Consumer Sentiment Index.....	95
Eyeing the importance of this index.....	95
Considering the consumer's expectations.....	96
Correlating consumer sentiment and spending:	
What the data mean.....	97
Looking for unexpected changes.....	99
Knowing how the markets will react.....	100
Understanding the Consumer Confidence Index.....	100
Seeing how people feel about the economy.....	101
Looking for happy consumers.....	103
Comparing and contrasting surveys.....	103
Finding surprises in the confidence survey.....	106
Adjusting your portfolio strategy.....	107

Reviewing the Bloomberg Consumer Comfort Index.....	108
Justifying another consumer survey: What makes this one unique	109
Correlating comfort, recovery, and recession.....	109
Modifying your portfolio strategy	112

Chapter 6: Spreading the Wealth: Consumer Spending and the Economy113

Making and Spending: The BEA's Personal Income and Outlays Report	113
Tracking personal wages, savings, and purchases	115
Highlighting consumers' economic impact: The wealth effect	122
Identifying the relationship between spending, income, and the economy.....	122
Reacting to surprising results	123
Surveying Retail Sales: The Census Bureau's Retail Trade Report	124
Highlighting product purchases	125
Monitoring spending trends.....	126
Investing based on the survey results	127
How Much Consumers Borrow: The Consumer Credit Outstanding Report	128
Tracking Online Sales: The Quarterly Retail E-Commerce Sales Report.....	130

Part III: The Essence of Business: Product and Service Indicators..... 133

Chapter 7: GDP: The Whole Enchilada135

Grasping What the GDP Report Is	135
Breaking down the GDP schedule.....	136
Finding the economy's growth rate.....	137
Counting products and services in the GDP	140
Highlighting the GDP's Importance.....	142
Declaring recessions and recoveries	143
Surveying how businesses use the GDP	144
Understanding how the government uses the GDP	144
Eyeing how investors use the GDP	145
Knowing How the GDP Is Calculated.....	147
Measuring personal consumption	149
Tracking private investments	150
Counting government consumption.....	152
Monitoring imports and exports.....	152
Purchasing and selling domestic products	153
Seeing How GDP Is Adjusted for Inflation.....	154
Chaining dollars to inflation	155
Comparing GDP price indexes over time.....	156

Chapter 8: Following the Fed	161
Understanding the Fed's Role	161
Outlining the Fed's basic structure	162
Understanding central banking	163
Digging into monetary policy	164
Reading the Fed's FOMC Statement	166
Eyeing why this report is important	167
Forecasting the future with the FOMC	167
Reacting to the FOMC Statement	168
Boring into the Beige Book	170
Monitoring Manufacturing with the Industrial Production and Capacity Utilization Report	171
Seeing what the report measures	172
Correlating output, capacity, and growth	174
Repositioning your portfolio	176
Reviewing Regional Fed Reports	179
Surveying business outlook	180
Indexing national activity	181
 Chapter 9: Profiling Manufacturing: New Orders and Shipments	 185
Filling Orders for Durable Goods: The Advance Report on Durable Goods	185
Knowing where the data come from	186
Tracking new factory orders: Why these stats are important	187
Figuring out what the data mean	188
Correlating manufacturing and future growth	191
Manufacturing your portfolio response	193
Monitoring Factory Orders and Sales: The Factory Orders Report	195
Comparing the full and advance versions	196
Investing in the full report	197
Counting Business Inventories: The Manufacturing and Trade Inventories and Sales Report	198
 Chapter 10: Grappling with Economic Indexes	 201
Measuring ISM's Manufacturing Survey	201
Understanding how the ISM surveys purchasing agents	202
Checking the health of manufacturers	203
Surveying purchasing managers' insights for the PMI	206
Monitoring market movement	206
Gauging Non-Manufacturing Companies	208
Looking At the Leading Economic Index	210
 Chapter 11: Spending on Housing and Residential Construction	 213
Growing the Economy One House at a Time	214
Realizing the relationship between housing and GDP	214
Understanding U.S. housing demand	216

Counting One Start at a Time: The New Residential Construction Report.....	217
Eyeing the data: Where the stats come from	217
Monitoring building permits and other housing stats	219
Correlating housing and economic activity	221
Remodeling your investment portfolio.....	222
Reporting New-Home Sales: The New Residential Sales Report.....	223
Comparing new starts with new sales: Is it possible?	224
Recognizing the connection between new-home sales and the economic cycle.....	226
Forecasting investment market reactions	226
Reporting Existing-Home Sales	227
Tracking housing prices.....	229
Understanding how existing-home sales affect investment markets	230
Monitoring Pending Home Sales.....	231
Surveying Mortgages.....	233
Eyeing what data you get at no cost.....	234
Tracking delinquent mortgages	234
Identifying potential market changes.....	235
Pricing the S&P/Case-Shiller Indices	236

Part IV: Inflation, Productivity, Interest Rates, and Commodities: Oh My!..... 239

Chapter 12: Determining Inflation's Economic Impact 241

Gauging Inflation from the Consumer's View: The Consumer Price Index.....	242
Eyeing the parts of the CPI	242
In a basket: How CPI is measured	244
Understanding why inflation matters.....	247
Seeing the different reactions to inflation and the CPI	248
Inflating investment returns	251
Using Manufacturing Costs to Measure Inflation: The Producer Price Index.....	252
Comparing the PPI and CPI.....	253
Inflating the price of business supplies	254
Correlating the PPI and economic growth.....	255
Showing PPI's investment market impact	256
Tracking Inflation through Labor Costs: The Employment Cost Index.....	258
Monitoring and tracking labor costs	258
Seeing how the Fed uses the ECI.....	259
Employing labor costs in investment analysis.....	260

Chapter 13: Taking a Closer Look at Productivity and Economic Growth.....261

Measuring Productivity and Costs: The Labor Productivity and Costs Report	262
Defining productivity.....	263
Correlating productivity to job growth and costs.....	266
Producing investment returns	267
Watching Employee Compensation Costs: The ECEC Report	268
Monitoring labor costs.....	270
Using labor costs to improve investments.....	270
Calculating What Workers Really Make: The Real Earnings Report	272

Chapter 14: Eyeing Business and Municipal Borrowing in the Bond Market.....273

Simplifying the Fixed-Income Market.....	274
Showing Some Interest in Interest.....	275
Grasping how interest rates are set	275
Determining risk.....	276
Finding Current Interest Rates: The Selected Interest Rates Report	277
Taming the TIPS (Treasury Inflation-Protected Securities) Spread	281
Following the Treasury Yield Curve.....	282
Interpreting the yield curve.....	282
Identifying how the curve can look and what the shapes mean	283
Seeing the Bond Market's Impact on the Rest of the Market.....	286
Yielding interesting returns.....	286
Investing in yield.....	286
Forecasting the currency's value.....	287

Chapter 15: Harvesting Commodity Data.....289

Understanding Commodities: Focusing on Supply and Demand	290
Paying cash upfront: Cash markets.....	290
Specifying the purchase terms before you buy:	
Forward contracts.....	291
Bidding for a price: Futures markets.....	292
Delving into Commodities Reports	293
Digging for gold and other precious metals	293
Drilling into the energy markets	295
Growing the agricultural markets.....	299
Mining industrial metals	301
Pricing Commodities.....	302
Finding spot prices	302
Finding futures prices	303

Tracking Commodity Indexes	304
Following Standard & Poor's GSCI.....	304
Digging into the Thomson Reuters/Jefferies CRB Index	306
Reading The Economist's commodity index.....	307
Surveying the Dow Jones-UBS Commodity Indexes	308

***Part V: International Intrigue: Indicators beyond the United States* 309**

Chapter 16: Trading with the United States.....311

Tracking Trade: U.S. International Trade in Goods and Service Report	312
Reporting U.S. exports and imports	313
Finding more trade data in the supplemental tables and online.....	321
Correlating trade and economic growth.....	321
Trading information for investment returns	322
Figuring Out the Balance of Trade	323
Following the TIC (Treasury International Capital) System	323

Chapter 17: Following Economies Worldwide325

Investing in Overseas Markets.....	325
Using Reliable Sources to Find Info on International Indicators	328
Surveying purchasing managers globally.....	329
Surveying purchasing managers in Europe.....	329
Tracking the German Economy	330
Measuring German productivity.....	331
Surveying German businesses	334
Tracking the Japanese Economy	336
Surveying Japanese businesses	336
Measuring Japan's productivity.....	340
Tracking China's Economy.....	341

Chapter 18: Monitoring Emerging Economies.345

Following Emerging Markets	345
Seeing the world through Google's Public Data Explorer	346
Using other sources to track emerging markets.....	347
Monitoring India's Economy	347
Following India's economic progress.....	348
Anticipating India's future growth.....	349
Following Brazil's Economic Future.....	350
Summarizing Brazil's economy.....	350
Understanding Brazil's inflation issue.....	352

Part VI: The Part of Tens..... 353**Chapter 19: Ten Ways to Track the U.S. Economy 355**

Monitoring Jobs and Employment Data	356
Accounting for Consumer Spending	357
Checking Up on Businesses.....	357
Showing an Interest in Interest Rates	358
Building on Housing and Construction.....	358
Following Inflation	359
Surveying Consumers	360
Following the GDP	360

**Chapter 20: Ten (Or So) Money-Making Tips You Can Use with
Economic Indicators 361**

Finding the Big Picture: Distinguishing between Bull and Bear Markets.....	361
Tracking Sector Rotation.....	363
Following the Herd	364
Taking Three Steps, Then a Stumble	364
Balancing Your Portfolio	364
Investing Strategically.....	365
Taking Your Investments Abroad.....	365
Avoiding Big Investment Mistakes	366
Avoiding Analysis Paralysis	366

Glossary 367**Index..... 375**