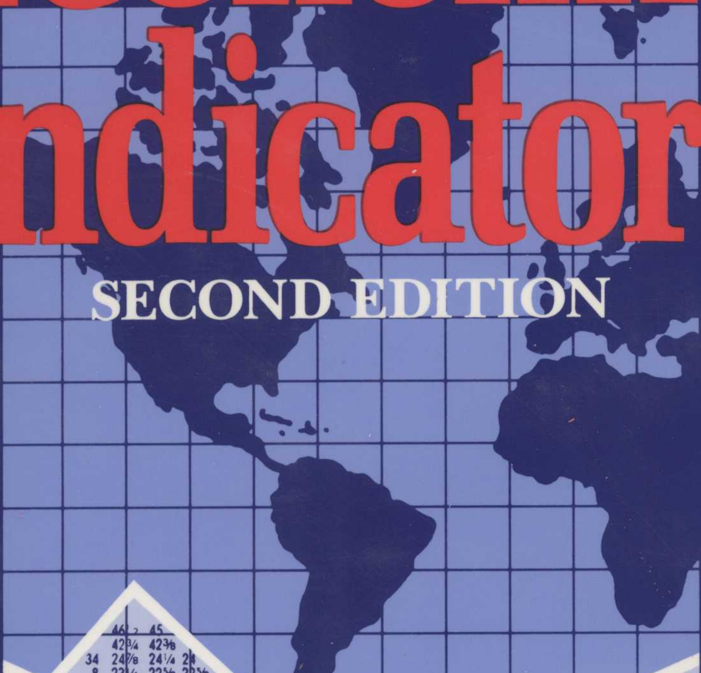
GUIDE TO

Economic Indicators

SECOND EDITION



NORMAN FRUMKIN

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PREFACE

Guide to Economic Indicators is a reference book that provides basic information on the nature of over sixty statistical measures of the performance of the American economy. It is meant for economists and for those with no special training in economics.

This second edition updates the explanations of the indicators and the data themselves to reflect their characteristics as of 1994. It also expands the coverage to include several new indicators and new introductory topics. The new indicators are:

- Retail sales
- Corporate profits
- Collective bargaining settlements
- Home sales
- Business firm formation and growth
- Growth cycles
- Experimental recession indexes
- Business optimism indexes
- Purchasing managers' index
- Federal funds interest rates
- Nasdaq and AMEX stock market price indexes

The new introductory topics are the calculation of growth rates, the use of graphics in presenting economic data, and distinctions between items defined as goods, services, and structures.

Richard Bartel, editor of *Challenge*, suggested a second edition to reflect the evolving nature of the indicators. I appreciate his continuing interest in my work.

Edward Steinberg reviewed all of the new material and several modifications to the existing text. His incisive comments raised the level of the discussion and clarified the exposition. David Hirschberg called my attention to the new data on business firm formation and growth and provided the initial writeup for that section. As a result of a discussion with Steven Rurka on the credibility of economic statistics produced by the federal government, I have included a section on the integrity of economic indicators below in this preface. Others whom I thank for reviewing particular sections are: Alvin Bauman, Robert Bretz, Glenn Crellin, Jerry Donahoe, Joseph Duncan, Sarah Frumkin, Joseph Gilvary, Gary Katz, Bradford Leigh, Jean Maltz, Ronald Piencykoski, Fritz Scheuren, James Spellman, James Stock, Theodore Torda, Jack Triplett, Mark Watson, Othmar Winkler, and Paul Zarrett. While their contribututions helped considerably, I am responsible for the book. The staff of M. E. Sharpe expertly converted the manuscript into the book: Christine Florie was the project editor; Bessie Blum was the copyeditor; Nancy Connick was the typesetter.

Maintaining the Integrity of Economic Indicators

Economic indicators are more than "statistics." They are the factual base for public policies and actions that affect the economic well-being of all Americans. It is essential for the vitality of a democracy that these data be impeccably objective, that they be prepared with the highest professional standards, and that they have no hint of political interference. Only with such integrity will the people have confidence in the data.

The indicators are produced mainly by agencies in the executive branch of the U.S. government, such as the Bureau of the

Census, Bureau of Labor Statistics, Bureau of Economic Analysis, National Agricultural Statistics Service, and the Internal Revenue Service. From the 1970s to the early 1990s, there have been occasional allegations that the indicators were politicized by "cooking" the preparation of the statistics to make the president who is in office at the time look better. On further examination, these allegations of tampering with the data were shown to be unfounded. Although this is comforting, it still leaves the possibility of future tainting, which must be guarded against. While some data may be more vulnerable to "cooking" than others—for example, the estimation of the gross domestic product is based on more statistical judgments that conceivably could be shaded than is the unemployment rate, which is based on household survey information—the possibility of tampering exists with all data.

One institutional device for insulating statistical agencies from political pressure is for the head of the agency to be appointed by the president and confirmed by the Senate, as is done for the director of the census, commissioner of labor statistics, and commissioner of internal revenue. This may give the agency heads the appearance, if not the reality, of heightened stature for resisting pressures from their political superiors, which in these cases are the secretary of commerce, secretary of labor, and secretary of the treasury. Senate confirmation probably has greater weight when it is specified for a period of time that does not coincide with the presidential term, as is the case of the four-year term for the commissioner of labor statistics. At the same time, a career civil service employee probably has more independence than a political official. Thus, to the extent that an agency head who is confirmed by the Senate in reality becomes a political official, the "independence effect" of the confirmation is diminished. There obviously are no tidy answers.

A second institutional device that may lessen political interference with the data is the Office of Management and Budget's directive, which requires statistical agencies of the federal government to limit access to their facilities where the data for major economic indicators are being prepared preceding the day when they are released to the public (referred to as a "lockup"). During the lockup, which may last several days, only certain employees of the statistical agency have access to the data. The lockup was originally instituted to prevent leaks of unpublished data that give recipients of leaks an unfair advantage in financial markets, but it could have a secondary benefit of fending off attempts to interfere with the data preparation. On the other hand, the argument can be made that if many people know a number ahead of time, a political appointee could not have that number changed without causing a scandal; if, however, only a few people know the number, the political appointee could conceivably use some leverage (for example, the threat of funding cuts) to get them to change the number. Again, there are no tidy answers.

On balance, I believe the above mechanisms of Senate confirmation of statistical agency heads and of limiting access to the data preparation through the lockup procedure lessen the chances that economic indicators can be compromised. But no system is foolproof when there is a determination to violate it. Thus, these and future measures to protect the integrity of data will reduce, but not eliminate, attempts to contaminate the data for political gain. Therefore, it is essential that the press and analysts be vigilant in safeguarding the integrity of the numbers and sound the alarm when they believe the data may be suspect. This is added insurance for maintaining accurate information, which is a bulwark of a free society.

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1
INTRODUCTION

This book provides concise descriptions of over sixty economic indicators developed primarily by U.S. government agencies but also by private organizations. The indicators reflect the overall dimensions of the domestic and international aspects of the American economy as well as particular segments of it.

This introduction briefly describes how the indicators are used to track the economy and provides background material on using economic indicators, including how to interpret changes in them and how to evaluate their accuracy and presentation. The introduction concludes by explaining how the information in this book is arranged.

Interpreting Business Cycles with Economic Indicators

The economy continually operates in recurring phases of rising and falling activity, which are referred to as business cycles. Economic indicators are used to measure overall economic activity for classifying it as rising (expansion) or falling (recession), as well as to determine the cyclical turning points of these expansions and recessions. The actual and technical determination of expansions and recessions is made by a committee of economists under the auspices of the National Bureau of Economic Research