

By [Ryan Barnes](#)

<http://www.investopedia.com/university/releases/default.asp>

Thanks very much for downloading the printable version of this tutorial.

As always, we welcome any feedback or suggestions.

<http://www.investopedia.com/contact.aspx>

## Table of Contents

- 1) Economic Indicators: Overview
- 2) Economic Indicators: Beige Books
- 3) Economic Indicators: Business Outlook Survey
- 4) Economic Indicators: Consumer Confidence Index (CCI)
- 5) Economic Indicators: Consumer Credit Report
- 6) Economic Indicators: Consumer Price Index (CPI)
- 7) Economic Indicators: Durable Goods Report
- 8) Economic Indicators: Employee Cost Index
- 9) Economic Indicators: Employee Situation Report
- 10) Economic Indicators: Existing Home Sales
- 11) Economic Indicators: Factory Orders Report
- 12) Economic Indicators: Gross Domestic Product (GDP)
- 13) Economic Indicators: Housing Starts
- 14) Economic Indicators: Industrial Production
- 15) Economic Indicators: Jobless Claims Report
- 16) Economic Indicators: Money Supply
- 17) Economic Indicators: Mutual Fund Flows
- 18) Economic Indicators: Non-Manufacturing Report
- 19) Economic Indicators: Personal Income and Outlays
- 20) Economic Indicators: Producer Price Index (PPI)
- 21) Economic Indicators: Productivity Report
- 22) Economic Indicators: Purchasing Managers Index (PMI)
- 23) Economic Indicators: Retail Sales Report
- 24) Economic Indicators: Trade Balance Report
- 25) Economic Indicators: Wholesale Trade Report

## Overview

Every week there are dozens of economic surveys and indicators released. In the past, experienced professionals and economists have had an advantage in receiving this data in a timely fashion. Fortunately, the emergence of the internet has changed this situation by giving everyone access.

Economic indicators can have a huge impact on the market; therefore, knowing how to interpret and analyze them is important for all investors. In this tutorial, we'll cover some of the most important economic indicators. You'll learn where to find them, how to read them and what they can tell you about the health of the economy - and your investments.

## Beige Book

<b>Release Date:</b>	Two Wednesdays before every <a href="#">Federal Open Market Committee</a> (FOMC) meeting, 8 times per year
<b>Release Time:</b>	2:15pm Eastern Standard Time
<b>Coverage:</b>	Anecdotal and discussion-based summaries of regional economic activity
<b>Released By:</b>	<a href="#">Federal Reserve Board</a> ; National summary authored by rotating Fed district
<b>Latest Release:</b>	<a href="http://www.federalreserve.gov/FOMC/BeigeBook/2007/">http://www.federalreserve.gov/FOMC/BeigeBook/2007/</a>

## Background

Made public in 1983, the *Summary of Commentary on Current Economic Conditions by Federal Reserve District*, or [Beige Book](#), as it is known, has a different style and tone than many other indicators. Rather than being filled with raw data, the *Beige Book* takes a more conversational approach. The book has 13 sections in total; 12 regional reports from each of the member Fed district banks, preceded by one national summary drawn from the individual reports that follow it. This is the first chance investors have to see how the Fed draws logical and intuitive conclusions from the raw data presented in other indicator releases.

The *Beige Book* is published eight times per year, just before each of the [Federal Open Market Committee](#) (FOMC) meetings. While it is used by committee members during the meeting itself, it does not carry more clout than other data values and indicators. There is a lot of real-time data that the Fed has at its disposal and, unfortunately, notes from the FOMC meetings themselves are currently not public information.

The *Beige Book* aims to give to give a broad overview of the economy, bringing many variables and indicators into the mix. Discussion will be about things such as labor markets, wage and price pressures, retail and [ecommerce](#) activity and manufacturing output. Investors can see comments that are forward-looking; the *Beige Book* will contain comments that look to predict trends and anticipate changes over the next few months or quarters.

### **What it Means for Investors**

The *Beige Book* by itself is not likely to have a big effect on the markets in the short term, mainly because no new data series is presented here.

Investors and Fed watchers look to the *Beige Book* to gain insight into the next FOMC meeting. Is there language that shows fear about [inflation](#)? Do the reports suggest that the economy needs a financial boost to continue growing? This is the critical information that will be analyzed in the *Beige Book*.

To read the *Beige Book* effectively, one must become accustomed to "Fed speak", a special verbiage of measured remarks intentionally designed to say a little without ever saying a lot. The last thing the Fed wants to do with its words is corner itself into a pre-supposed policy decision prior to the next FOMC meeting. Investors won't ever see a definitive statement about the Fed going one way or the other with [monetary policy](#), but there may be valuable clues in the *Beige Book* - at least for the trained eye.

The Fed directors and their staffs will use their very long proverbial arms to obtain an economic pulse that can't be found in any other indicator's report. They will interview business leaders, bank presidents, members of other Fed boards and hundreds of other informal networks before writing the reports that will be compiled in the *Beige Book*.

Investors who hold investments that conduct business in specific regions of the country may find valuable information about how those areas are performing as a whole. For instance, a stockholder in a regional bank operating in the Southeastern U.S. would want to know what the Atlanta Fed Bank says about the health of that region.

Occasionally, the *Beige Book* will give evidence that may contradict what a previous indicator has presented; the *Employment Report* may suggest that there is slack in the labor market, while *Beige Book* reports may give anecdotal evidence that wage pressures are forming, or that certain specific labor markets are tight.

On rare occasions, the *Beige Book* will be released at a time when information is badly needed in the markets; shock events like the September 11, 2001, terrorist attacks or a stock market crash can effectively wipe the data slate clean, and

investors will count on the Fed to help describe the relative state of affairs during these tumultuous times.

### **Strengths:**

- Contains forward-looking comments - the Fed districts aim to draw relative conclusions in the *Beige Book*, not just regurgitate facts already presented
- Gives investors a "man on the street" perspective of economic health by taking first-hand accounts from business owners, economist, and the like
- Aims to put pieces from different reports together into an explanatory whole, giving qualitative measurements instead of quantitative figures
- It's the only indicator that gives reports by geographic region, rather than just by industry group or sector.
- Most regions will report on the state of the service industries, an area not well covered in other indicator reports, although it is a large component of [real gross domestic product](#).

### **Weaknesses:**

- Rarely is any new statistical data presented, only anecdotal reports
- Filled with measured "Fed-speak"
- Specific industry conclusions are hard to draw from the report.
- Each Fed district can use its discretion on what to include in its report; one region may discuss manufacturing activity while others don't report on the topic.
- Private forecasts compiled by economists and analysts tend to closely match what is reported in the *Beige Book*, so estimates rarely change following the release.

### **The Closing Line**

The Beige Book is not likely to send shock waves through the market on its release, but it provides an original point of view about economic activity and is a marked departure from the dry raw data releases of the other indicators. It also gives investors insight into how the Fed approaches its monetary policy decisions and responsibilities.

## **Business Outlook Survey**

---

This tutorial can be found at: <http://www.investopedia.com/university/releases/default.asp>

(Page 4 of 54)

Copyright © 2007, Investopedia ULC- All rights reserved.

<b>Release Date:</b>	Third Thursday of the month
<b>Release Time:</b>	12pm Eastern Standard Time
<b>Coverage:</b>	Current month's data
<b>Released By:</b>	<a href="#">Federal Reserve Bank of Philadelphia</a>
<b>Latest Release:</b>	<a href="http://www.phil.frb.org/econ/bos/bosschedule.html">http://www.phil.frb.org/econ/bos/bosschedule.html</a>

### **Background**

The Philadelphia Federal Reserve's [Business Outlook Survey](#) (also known as the *Philadelphia Fed Report*) is a monthly survey of manufacturing purchasing managers conducting business around the tri-state area of Pennsylvania, New Jersey and Delaware. The survey is conducted in the vein of the [Purchasing Managers Index](#) (PMI) report; it questions voluntary participants about their outlook on things such as employment, new orders, shipments, inventories and prices paid. Answers are given in the form of "better", "worse" or "same" as the previous month, and, as with the PMI, results are diffused into an index, only this index uses a median value for expansion of 0, rather than 50. The *Philly Fed Report* signals expansion when it is above zero and contraction when below. As a result, values can be negative month to month.

The survey has been conducted each month since May 1968, and is considered one of the most valuable regional purchasing manager indexes (There are currently almost 15 such regional reports, covering much of the U.S., albeit in piecemeal fashion).

### **What it Means for Investors**

As far as regional manufacturing reports go, the *Philly Fed Report* is one of the most watched, both for its early delivery to investors (released before the month is even over), and its blend of manufacturing sectors and businesses. The *Philly Fed Report*, along with the Chicago NAPM Index, have shown high correlations to the upcoming and hugely followed PMI report.

This index isn't typically a big market mover (due to its small sample size and limited geographic range), but if a big surprise in terms of percentage change appears in the report, quick-thinking investors may anticipate similar changes to the PMI and make market moves accordingly.

The report is presented with solid commentary from the Reserve Bank itself, and

often includes special survey questions that may be extremely timely if the economy is unsure of future growth possibilities.

**Strengths:**

- Survey is very timely, coming out before the end of the month. It is the first regional report to be published.
- There are often special questions in the survey (like at year end) regarding things like prospects for company sales, or commodity and energy prices.
- The three states covered have a diverse mix of manufacturing sectors, from old line steel and coal to modern chemicals and semiconductors.
- The report is concise and readable.

**Weaknesses:**

- Only manufacturing sector is represented here
- Only covers three states
- Survey is very subjective and may be based on perceptions.
- Data can be very volatile month to month due to sample size. Changes of more than 50% in a month are not uncommon.

**The Closing Line**

The *Philly Fed Report* may be the most respected of all the regional purchasing manager reports. It should not be acted on in isolation, but it does represent a diverse area of the country, and has shown more than a 75% correlation to the upcoming PMI in studies. Therefore, it contains clues about the general market.

**Consumer Confidence Index**

<b>Release Date:</b>	Last Tuesday of the month
<b>Release Time:</b>	10am Eastern Standard Time
<b>Coverage:</b>	Previous Month's Data
<b>Released By:</b>	<a href="#">The Conference Board</a>
<b>Latest Release:</b>	<a href="http://www.conference-board.org/economics/consumerConfidence.cfm">http://www.conference-board.org/economics/consumerConfidence.cfm</a>

## Background

The [Consumer Confidence Index](#) (CCI) is a monthly release from the [Conference Board](#), a non-profit business group that is highly regarded by investors and the Federal Reserve. CCI is a unique indicator, formed from survey results of more than 5,000 households and designed to gauge the relative financial health, spending power and confidence of the average consumer.

There are three separate headline figures: one for how people feel currently (Index of Consumer Sentiment), one for how they feel the general economy is going (Current Economic Conditions), and the third for how they see things in six months' time ([Index of Consumer Expectations](#)).

The Consumer Sentiment Index is a component of the Conference Board's template of economic indicators. Historically, changes in this index (of the three released) has tracked the leading edge of the business cycle well.

There are other sentiment indicators that can sometimes be confused with the Consumer Sentiment report or used in conjunction with it, such as the [University of Michigan Sentiment Report](#), and some investors will try to average the two reports to get their own sense of consumer sentiment.

## What it Means for Investors

A strong consumer confidence report, especially at a time when the economy is lagging behind estimates, can move the market by making investors more willing to purchase equities. The idea behind consumer confidence is that a happy consumer - one who *feels* that his or her standard of living is increasing - is more likely to spend more and make bigger purchases, like a new car or home.

It is a highly subjective survey, and the results should be interpreted as such. People can grab onto a small situation that garners a lot of mainstream press, such as gas prices, and use that as their basis for overall economic conditions, fair or not. There are no real data sets here, and people are not economists, so they cannot be counted on to realize that, for example, because gas prices may only represent 5% of their expenses, they should not sour their entire economic outlook.

Because of its subjective nature and relatively small sample size, most economists will look at [moving averages](#) of between three and six months for consumer confidence figures before predicting a major shift in sentiment; some also feel that index level changes of at least five points are necessary before calling for the reversal of an existing trend. In general, however, rising consumer confidence will trend in line with rising retail sales and, personal consumption and expenditures, consumer-driven indicators that relate to spending patterns.

Regional breakdowns of the data are valuable for seeing the breadth of

sentiment across the country, which can be a useful factor in the real estate market, along with indicators such as [housing starts](#) and [existing home sales](#).

### Strengths

- One of few indicators that reaches out to average households
- Has historically been a good predictor of consumer spending and, therefore, the [gross domestic product](#) (consumer spending makes up more than two-thirds of real GDP)

### Weaknesses:

- A subjective survey with no physical data sets
- Small sample size (only 5,000 households)
- Survey results may contradict other indicators, such as GDP and the *Labor Report*

### The Closing Line

Sentiment indicators can carry a lot of weight - there are so few that are standardized like Consumer Confidence and, in the final analysis, the happiness and spending ability of Joe Consumer is the most important determinant of an expanding economy.

## Consumer Credit Report

<b>Release Date:</b>	About five weeks after month's end
<b>Release Time:</b>	3pm Eastern Standard Time
<b>Coverage:</b>	Monthly
<b>Released By:</b>	<a href="#">Federal Reserve Board</a>
<b>Latest Release:</b>	<a href="http://www.federalreserve.gov/releases/g19/">http://www.federalreserve.gov/releases/g19/</a>

### Background

The *Consumer Credit Report* is a monthly release from the Federal Reserve Board that estimates changes in the dollar amounts of outstanding [loans](#) to individuals, funds which are mainly used to purchase consumer goods. Loans backed by real estate, such as [home equity lines of credit](#) (HELOCs), are not included in the survey. The two classes of credit covered are [revolving](#) and non-

revolving credit; revolving credit can be increased by the consumer up to a limit without contacting the creditor (as in credit cards), while non-revolving terms are fixed at the time the loan (as with an auto loan).

Both classes are segmented into the categories below. The *Consumer Credit Report* shows the outstanding balances for each:

- Commercial banks
- Finance companies
- Credit unions
- Federal government & Sallie Mae
- Savings institutions
- Non-financial businesses
- Securitized asset pools

Average interest rates are shown for many types of consumer debt, such as auto loans, credit cards and bank loans, collectively showing investors the overall "credit quality" of consumers and where the highest rates of growth are occurring.

Data is collected through surveys of banks, finance companies, retail sales outfits and credit unions, among others. Each release will show the three previous months' results, including any revisions to recent periods, if they have occurred.

### **What it Means for Investors**

Consumer credit is considered a good indicator of the potential future spending levels seen in the *Personal Consumption* and *Retail Sales* reports, and shows the extent to which benchmark interest rates such as the [fed funds rate](#) and [prime rate](#) have manifested themselves at the consumer level (it can take six months to a year for macro interest rates to work their way down to consumers).

The headline stats of this release will be total [consumer debt](#) (expressed in trillions and seasonally adjusted), the current annual [run rate](#) of growth or decline, and the total percentage of credit card delinquencies. The delinquencies are studied because sudden spikes may lead to fears that consumers are overextended in their debt levels. Some economists will try to compare the default percentages seen in the most recent recession as a breakpoint - if current [default](#) levels approach it, they will look for a recessionary trend to show itself in other economic indicators.

These factors are important when investors consider that consumers make up more than two-thirds of total GDP consumption. If consumers stop spending or face a credit crunch, GDP will not be able to grow much. Investors in consumer

cyclical stocks should be keenly interested in consumers' ability to spend more in the future.

Consumer credit figures have a lot of seasonal and inherent volatility, so investors should always review the current report for adjustments to prior periods, paying particular attention to revisions to year-over-year growth. Long-term trends are the most studied portion of the report, both in the total outstanding balances as well as the change in overall interest rates being charged.

The [Conference Board](#) has tapped consumer credit as a [lagging indicator](#), and uses a ratio of consumer credit to personal income as a component of its [Index of Lagging Indicators](#). The Fed operates on the theory that consumers will not significantly increase their borrowing levels until their personal incomes increases enough to justify the higher debt load. As such, borrowing may show the largest increases when the economy is already coming out of a recession, rather than during the worst of it.

#### **Strengths:**

- Contains detailed breakdown of auto loan figures, such as average maturity and prevailing interest rates
- Data is provided with and without seasonal adjustments.
- Release shows comparisons against previous month, previous year, and also against results from the last five years

#### **Weaknesses:**

- Only total growth in outstanding loans is shown; there is no way of knowing if consumer payments have fallen off or if new loan growth has slowed based on a falling consumer credit number (and vice versa).
- Absence of home-equity debt provides for an incomplete picture.
- Because it comes out after the consumer confidence report and retail sales reports for the month, some analysts will not look as intently at the consumer credit figures month to month, instead reviewing multi-period trends once or twice a year

#### **The Closing Line**

The *Consumer Credit Report* will not be a big catalyst in the markets because of earlier-released indicators, but it remains a good lagging indicator, especially when examined in conjunction with personal wage growth and interest rates. If prevailing rates are moderate and incomes are rising, consumer credit can grow in step without causing elevated fears in the market.

## Consumer Price Index (CPI)

<b>Release Date:</b>	Monthly, approximately mid-month
<b>Release Time:</b>	8:30am Eastern Standard Time
<b>Coverage:</b>	Previous Month
<b>Released By:</b>	<a href="#">Bureau of Labor Statistics</a> (BLS)
<b>Latest Release:</b>	<a href="http://www.bls.gov/news.release/cpi.toc.htm">http://www.bls.gov/news.release/cpi.toc.htm</a>

### Background

The [Consumer Price Index](#) (CPI) is the benchmark [inflation](#) guide for the U.S. economy. It uses a "basket of goods" approach that aims to compare a consistent base of products from year to year, focusing on products that are bought and used by consumers on a daily basis. The price of your milk, eggs, toothpaste and hair cut are all captured in the CPI.

There are two presented CPI figures, the CPI for Urban Wage Earners and Clerical Workers (CPI-W), and the CPI for all Urban Consumers (CPI-U). The most watched metric, Core CPI (with food and energy prices removed) is the CPI-U, which will usually be presented with a seasonal adjustment, as consumer patterns vary widely depending on the time of year. The current base year for the CPI is 1982, so changes will typically be provided on a percentage basis to reflect only changes to prior index levels. Numbers will also be shown as an annual [run rate](#) of growth, to give investors a sense of the near-term inflationary outlook.

The Chain-Weighted CPI is also released along with the Core CPI, and is gaining momentum as a metric worth following, as Chain-Weighted CPI captures the effects of consumer choice. Chain-weighted CPI numbers are considered by many to be more reflective of actual consumer patterns than fixed CPI figures, as the chain-weighted index accounts for the substitution and new product bias that exists in the fixed CPI. If a consumer buys one product over another because of a price hike in the first product, chain-weighted figures will capture this buying shift, while Core CPI will not. Core CPI will continue measuring the price of the good as it rises, regardless of whether fewer people are purchasing the product.

The CPI is an extremely detailed release, with breakouts for most major consumer groups (such as food and beverage, apparel, recreation, etc.) and geographical regions, which are supplied by the "CPI U.S. City Averages".

### What it Means for Investors

The CPI is probably the single most important economic indicator available, if for no other reason than because it's very final. Many other indicators derive most of their value from the predictive ability of the CPI, so when this release arrives, many questions will be answered in the markets. This report will often move both equity and fixed-income markets, both the day of the release and on an ongoing basis. It may even set a new course in the markets for upcoming months. Analysts will be more sure of their convictions about what the Fed will do at the next [Federal Open Market Committee](#) meeting after digesting the Consumer Price Index.

The CPI is used to make adjustments to many [cash flow](#) mechanisms (pensions, Medicare, [cost of living](#) adjustments to insurance policies, etc.). As a result, most investors will find that the CPI affects them personally in some way. Fixed-income investors should always be aware of the rate of inflation against which they judge their investments; it is imperative to keep current yields ahead of inflation, or real wealth will fall.

### Strengths:

- Gives most insight into future Fed rate moves
- Highly watched and analyzed in the media
- Good regional and industry breakdowns for investor research

### Weaknesses:

- Volatile month to month
- Fixed CPI has certain biases (new product, substitution), which can distort results
- Exclusion of food and energy is only good for so long - these costs should be considered when assessing inflation

### The Closing Line

The CPI is one of the most important indicators in terms of moving the markets and setting monetary policy for the Fed. Consider looking at both the fixed and chain-weighted CPI.

### Durable Goods Report

<b>Release Date:</b>	On or around the 20th of the month (advance release; revised release about six weeks after period end with <i>Factory Orders</i> )
----------------------	--

<b>Release Time:</b>	8:30am Eastern Standard Time
<b>Coverage:</b>	Previous month
<b>Released By:</b>	<a href="#">U.S. Census Bureau</a>
<b>Latest Release:</b>	<a href="http://www.census.gov/indicator/www/m3/adv/">http://www.census.gov/indicator/www/m3/adv/</a>

## Background

The *Advance Report on Durable Goods Manufacturer's Shipments, Inventories and Orders*, or the [Durable Goods Report](#), provides data on new orders received from more than 4,000 manufacturers of durable goods, which are generally defined as higher-priced capital goods orders with a [useful life](#) of three years or more, such as cars, semiconductor equipment and turbines. More than 85 industries are represented in the sample, which covers the entire United States.

Figures are provided in current dollars along with percentage change from prior month and prior year for new orders, total shipments, total unfilled orders (orders that have been booked but not filled as of month-end) and inventories. Revisions are also included for the prior three months if they materially affect prior-released results.

The data compiled for consumer durable goods is one of the 10 components of the Conference Board's [U.S. Leading Index](#), as growth at this level has typically occurred in advance of general economic expansion.

## What it Means for Investors:

The headline figure will often leave out transportation and defense orders, as they can show higher volatility than the rest of the areas. In these industries, the ticket prices are sufficiently high that the [sample error](#) alone could swing the presented figure significantly.

It is useful for investors not only in the nominal terms of order levels, but as a sign of business demand as a whole. Capital goods represent the higher-cost capital upgrades a company can make, and signals confidence in business conditions, which could lead to increased sales further up the supply chain and gains in hours worked and [non-farm payrolls](#).

Investors can play with the numbers here and look at things such as the rates of growth of inventories versus shipments; changes in the inventory/shipments ratio over time can point to either demand (falling ratio) or supply (rising ratio) imbalances in the economy.

Because [capital goods](#) take longer on average to manufacture than cyclical goods, new orders are often used by investors to gauge the likelihood of sales and earnings increases by the companies who make them. For instance, a company like Boeing could make revenue adjustments on the upside based on strong new order growth, signs of which could be gleaned from the *Durable Goods Report*. In addition, when production and capacity at U.S. manufacturers is rising, it helps to combat inflationary pressure, as more goods will be produced for consumer purchase.

Investors should be cautious to see through the high levels of volatility found in areas of the *Durable Goods Report*. Month-to-month changes should be compared with year-over-year figures and year-to-date estimates, looking for the overall trends that tend to define the business cycle.

**Strengths:**

- Good industry breakdowns
- Data provided raw and with seasonal adjustments
- Provides forward-looking data such as inventory levels and new business, which count toward future earnings.

**Weaknesses:**

- The survey sample does not carry a statistical standard [deviation](#) to measure error.
- Highly volatile; moving averages should be used to identify long-term trends

**The Closing Line**

The *Durable Goods Report* gives more insight into the supply chain than most indicators, and can be especially useful in helping investors get a feel for earnings potential in the most represented industries: machinery, technology manufacturing and transportation.

**Employee Cost Index (ECI)**

<b>Release Date:</b>	The last Thursday of April, July, November and January
<b>Release</b>	8:30am Eastern Standard Time

<b>Time:</b>	
<b>Coverage:</b>	Previous Quarter
<b>Released By:</b>	<a href="#">Bureau of Labor and Statistics</a> (BLS)
<b>Latest Release:</b>	<a href="http://stats.bls.gov/news.release/eci.nr0.htm">http://stats.bls.gov/news.release/eci.nr0.htm</a>

## Background

The [Employment Cost Index](#) (ECI) is a quarterly report of compensation costs that is released in the final month of the quarter, with a cutoff date of payroll periods ending the twelfth of the month of the release. The ECI is an index-based indicator that presents the changes in wages, bonuses and benefits from the previous quarter, displayed on a per-hour basis. All [non-farm](#) industries are covered, with the exception of federal government employees (which only make up 2-3% of the work force).

The data is provided by the Bureau of Labor Statistics (BLS) and is broken down by industry group, occupation and union vs. non-union workers. The data is compiled through separate surveys of non-farm businesses (about 4,500 sampled) and state and local governments (about 1,000 sampled). The index has a base weighting of 100. The current base period is December 2005.

## What it Means for Investors

The ECI is watched primarily for its inflationary insights. Compensation costs represent the lion's share of the total cost for a company to produce a product or deliver a service in the marketplace (and can be computed per company by dividing [cost of goods sold](#) (COGS) by [selling, general & administrative expense](#) (SG&A) on the company's income statement). The relative percentages of COGS will vary by industry, making the data release valuable on an inter-industry level.

The ECI is used by the Federal Reserve to set monetary policy; as the Fed has publicly stated, it prefers the value of this release to the *Employment Situation Report's* hourly cost figures, which just include wages. Another benefit of the methodology used in the ECI is that wage changes that occur as a result of a shift in the occupational mix of workers can be captured here using a "basket of occupations" approach similar to that of the CPI. Results of the ECI are less likely to be affected by people shifting to lower or higher-paying jobs.

The ECI is a [lagging indicator](#); rising costs at this level speak to economic overheating that has already been visible at earlier points in the economic food chain (commodity costs, retail sales, gross domestic product), and suggest that some rise in inflation is inevitable.

This indicator can move the markets if it shows marked differences from street estimates. Economists and Fed watchers are always on the lookout for surprise signs of inflation, and anything that changes the common perceptions on Wall Street as to the level of inflation will move the bond markets immediately, and stocks will react according to its recent performance relative to economic growth prospects. The deeper into the [business cycle](#) the economy is, the more likely it will be for stocks to sell off on fears of Fed rate cuts, and possibly the end of the growth phase within the current cycle.

Rising compensation costs are usually passed on to consumers because they are such a large corporate expense.

The ECI is used as part of the formula that calculates [productivity](#). If productivity gains are less than proportional ECI gains, there won't be the necessary balance to keeping end prices to consumers down. Investors should always compare the ECI to total productivity figures, paying particular attention to relative rates within industries in which they have a stake.

#### **Strengths:**

- The ECI calculates the total set of employee costs to businesses, not just wages. Health insurance, pensions and death-benefit plans, and bonuses are all calculated here and broken out separately from wages and salaries.
- Data is provided with and without a seasonal adjustment.
- Well respected by both the Fed and business leaders; company managers use the ECI to compare their own compensation costs relative to their industries
- Rates of change are showed from the previous quarter and on a year-over-year basis.

#### **Weaknesses:**

- The data is only released quarterly, and with a slight overlap, covering a mid-month period.
- Hourly earnings shown in the monthly *Employment Situation Report* provide some headway into this release, taking some of the surprise value out of wages.
- Can be volatile when periodic bonuses, commission payments and the like are taken into account (especially at year-end); economist interpretation is often needed to fully digest the report.

## Employee Situation Report

### Background

The *Employment Situation Report*, also known as the *Labor Report*, is an extremely broad-based indicator released by the [Bureau of Labor Statistics](#) (BLS). It is made up two separate and equally important surveys. The first, the "establishment survey", is a sampling of more than 400,000 businesses across the country. It is the most comprehensive labor report available, covering about one-third of all non-farm workers nationwide, and presents final statistics including [non-farm payrolls](#), hours worked and hourly earnings. The data sample is both large and deep, with breakouts covering more than 500 industries and hundreds of metropolitan areas.

The second survey, referred to as the "household survey", measures results from more than 60,000 households and produces a figure representing the total number of individuals out of work, and from that the national [unemployment rate](#). The data is compiled by the [U.S. Census Bureau](#) with assistance from the Bureau of Labor Statistics. This carries a census-like component, bringing demographic shifts into the mix, which gives the results a different perspective.

Both sets of survey results will show the change from the previous month, and also year-over-year, as trendlines are very important with this often volatile statistic.

### What it Means for Investors

The *Employment Situation Report* is a multi-layered release, with many links from the main page and following the headline discussion items. Because there is so much information provided, it's important to identify the numbers that will be most watched.

The non-farm payrolls figure is very important on Wall Street; it's the [benchmark](#) labor statistic out there used to determine the health of the job market because of its large sample size and historical significance in relation to accurately predicting business cycles. Economists have settled on the number of 150,000 jobs as the level that defines economic growth. Gains of roughly 150,000 jobs or more indicate expansion of the labor force, while anything below indicates a weak job market.

The payroll figures from the establishment report are considered a [coincident indicator](#).

Each survey comes up with its own figures for total employed persons using very different tacks. The establishment report is larger, and theoretically more accurate, but excludes private households, the self-employed and the agricultural

sector. The household report runs on a smaller sample and may be more subjective, but the inclusion of self-employed workers, for example, can make this figure more valuable in a time when many people are starting their own business (as often happens in the beginning of a new business cycle).

Average weekly hours for the manufacturing sector, as presented in the establishment report, is a [leading indicator](#), and is represented in The Conference Board's [U.S. Leading Index](#).

The unemployment figures from the household report (which is probably the most watched metric of the release after non-farm payrolls) are considered a [lagging indicator](#), as people tend to be out of work when problems in the economy have already manifested themselves in falling economic output (less workers, less GDP).

Investors study the labor report to look for trends in disposable income, wage inflation and employment statistics, many studying industries of personal interest to them. Analysts will usually conclude that if payrolls are increasing and wages are rising, that personal consumption stats like retail sales will advance as well, as more money will be in the pockets of consumers.

The Fed watches this report intensely. [Alan Greenspan](#) used up good a deal of his allotted minutes during all those years of Senate briefings talking about the labor markets, specifically information contained in the benchmark *Labor Report*. The [unemployment rate](#) alone makes up more than 47% of the lagging index created by the Conference Board and used by the Federal Reserve Board.

In relation to the hourly employment costs, investors can be best served by using the figures here in conjunction with the *Employment Cost Index*, which comes out about a week after the *Labor Report* in the four months the ECI is released (ECI is a quarterly report). A key to look for is whether wages are keeping pace with inflation; if not, the real [purchasing power](#) of consumers will drop.

The household survey takes into account demographic changes to some degree, whereas the establishment survey only counts the total number of payrolls. In effect, the household survey acts as a mini-census, which is why the same employment report may show an increase in payrolls, while the unemployment rate simultaneously rises, a seeming contradiction in terms.

The number of hours worked data can shed light on where the economy is in the [business cycle](#); companies will often stretch the hours of their current workforce before they decide to hire new workers. This conservative behavior likens to "testing the waters" of the economy before committing to hiring for future growth.

Investors can pore over the industry-specific numbers to get a good feel for labor

trends within the industries investors have holdings in - there may be pockets of strength in an overall weak labor report.

Labor statistics can tell us a lot, but they do not necessarily define the economy. Many industries can be well positioned to remain profitable even during tough labor markets - financial services, for instance, can easily lay off workers and keep labor tight until conditions improve, while more capital-intensive industries such as manufacturing (with its higher fixed cost structure) may suffer bigger hits in profitability.

### **Strengths:**

- As one of the most widely watched reports, the *Employment Situation Report* gets a lot of press and can move the markets.
- Summary analysis provided by the BLS (top link on the site) on the top-level release of an already detail-rich report
- Relates to investors on a personal level; everyone understands having a job or looking for work.
- Services industries are covered here - it is hard to find good indicator coverage of service-based businesses.

### **Weaknesses**

- Summer and other seasonal employment tends to skew the results.
- Only measures whether people are working; it does not take into account whether these are jobs the people wish to have, or whether they are well-suited to workers' skills.
- Volatile; revisions can be quite large, and updates should always be viewed in the most recent report.
- Unemployment and payroll figures can seem to be out of alignment, as they are derived from two different surveys.
- Compensation costs portion is considered inferior to the [Employment Cost Index](#).

### **The Closing Line**

The *Employment Situation Report* is a very powerful indicator that is able to move the markets dramatically if the results surprise Wall Street. Heavily analyzed, the report is the single best way to understand the state of the labor force at any point in time.

## **Existing Home Sales**

<b>Release Date:</b>	Fourth week of the month
<b>Release Time:</b>	8:30am Eastern Standard Time
<b>Coverage:</b>	Previous month's closings
<b>Released By:</b>	<a href="#">National Association of Realtors</a>
<b>Latest Release:</b>	<a href="http://www.realtor.org/research.nsf/pages/EHSdata">http://www.realtor.org/research.nsf/pages/EHSdata</a>

### **Background**

The [Existing Home Sales Report](#) is a monthly release covering the number of existing homes that were closed during the survey month along with average sales prices by geographic region. The "closed" distinction is important because most closing periods are anywhere from six to eight weeks, so values listed are likely to relate to sales made about two months prior. The data is collected and released by the National Association of Realtors.

There are three important metrics in this report; in addition to the aggregate number of existing homes sold and median selling prices, inventory levels are provided through the "months supply" figure, a number that represents the length of time in months required to burn through all of the existing inventory measured during the period.

Data is provided raw and with seasonal adjustments. This is because weather is a big factor in determining month-to-month demand. As with the [Housing Starts Report](#), the data is also broken down by geographic region (Northeast, Midwest, South and West). Price data will show percentage changes from the year-over-year period and the prior month.

### **What it Means for Investors**

Whereas the *Housing Starts* release deals with construction levels and is therefore a supply-oriented housing indicator, existing sales are much more about aggregate demand among consumers. While not included in the Conference Board's [U.S. Leading Index](#), existing home sales are considered a [leading indicator](#) as well because higher levels are typically reached when the economy is coming out of a recession. The inventory metric also points to how much slack exists in the housing market, as a high reading in the month supply figure means that prices could fall as inventory is worked down to more normalized levels.

Besides [business cycle](#) considerations, prevailing [mortgage rates](#) are the biggest

factors to consider when evaluating the sales levels. All else being equal, as rates rise, sales will fall as consumers wait for a more opportune time to purchase a home. If home sales are strong, other consumer industries may see an uptick in sales, such as home improvement retailers and retail mortgage lenders.

Because of the lag between when a sale is made and when closing occurs, the report is not as timely as the *Housing Starts Report*, but the sample size is larger and less likely to have large revisions. Also, [condominium](#) sales are included in this report, but not in the starts report.

**Strengths:**

- Large sample size
- Together with housing starts provides a clear picture of the strength of the housing market.
- A key leading indicator and predictor of future consumer purchases such as home furnishings and insurance services.
- Shows the level of demand within housing market.
- Released before the *New Home Sales Report* in the given month
- Includes condo sales, which are not included in the *Housing Starts Report*

**Weaknesses:**

- No detailed information on types of homes, just median sales prices.
- Subject to large bouts of seasonality

**The Closing Line**

The *Existing Home Sales Report* can be a good leading indicator during times of concern over the housing market in general, and is best used in conjunction with the *Housing Starts* report

**Factory Orders Report**

<b>Release Date:</b>	First week of the month
<b>Release Time:</b>	8:30am Eastern Standard Time
<b>Coverage:</b>	Two months prior
<b>Released By:</b>	<a href="#">U.S. Census Bureau</a>

<b>Latest Release:</b>	<a href="http://www.census.gov/indicator/www/m3/index.htm">http://www.census.gov/indicator/www/m3/index.htm</a>
------------------------	---

## Background

The *Manufacturers' Shipments, Inventories and Orders Report*, often referred to as the *Factory Orders Report*, contains partly new and partly old information, although the old information is broken down more thoroughly in this release. The report contains the *Durable Goods Report* information, which is released about one week prior (but with revisions), and introduces non-[durable](#) items into the mix, representing industries such as apparel and food products. The *Factory Orders Report* is meant to capture the overall health of the entire manufacturing sector, measuring new orders, [inventories](#), total shipments and unfilled orders for the month surveyed.

Statistics are displayed in current dollars and as percent changes from prior month and prior year. As with the *Durable Goods Report*, the indicator derives most of its value as a supply/demand indicator; inventory levels can be compared to shipments, new orders and other indicators of consumer demand such as retail sales and [gross domestic product](#) (GDP).

## What it Means for Investors

The *Factory Orders Report* is more useful than the *Durable Goods Report* for examining trends within industries. While only "computer equipment" may be counted in the *Durable Goods Report*, the *Factory Orders Report* will show separate figures for computer hardware, semiconductors, monitors, etc. This is mainly due to the speed at which the (advance) *Durable Goods Report* is released, which makes it more timely but also more vague.

The report is not likely to move the broad markets, as about half of the data is already known - the ratio of durable to non-durable manufacturing (in dollars) is about 55/45. *Factory Orders Report* levels are, however, valuable for estimating future economic output levels, as estimates from the *Factory Orders Report* are used to calculate GDP itself. Non-durables manufacturing industries may move as a group upon the release, as investors in those stocks pour through the data looking for clues on upcoming earnings levels.

Because current dollars are used to calculate values, neither [inflation](#) nor price - changes that may affect how inventories are valued - is accounted for. For example, if the price of petroleum drops mid-month, a company holding the same inventory levels based on *volume* will show a drop in the value of its inventory in the *Factory Orders Report*.

### Strengths:

- Good industry breakdowns within manufacturing
- Data provided raw and with seasonal adjustments
- Provides forward-looking data such as inventory levels and new business, which may count toward future earnings periods

### Weaknesses:

- Rehashes some information on durables manufacturing
- Difficult to make comparisons with indicators that report on volume rather than price
- Not very timely, reporting on two months prior

### The Closing Line

The *Factor Orders Report* arrives early enough to be useful for evaluating possible GDP, but too late to move the markets or carry much of a surprise factor. Holders of manufacturing firms should find this report valuable in preparing upcoming earnings statements.

## Gross Domestic Product (GDP)

<b>Release Date:</b>	Advance release: four weeks after quarter ends; Final release: three months after quarter ends
<b>Release Time:</b>	8:30am Eastern Standard Time
<b>Coverage:</b>	Previous quarter
<b>Released By:</b>	<a href="http://www.bea.doc.gov/bea/dn1.htm">Bureau of Economic Analysis</a> (BEA)
<b>Latest Release:</b>	<a href="http://www.bea.doc.gov/bea/dn1.htm">http://www.bea.doc.gov/bea/dn1.htm</a>

### Background

The [gross domestic product](#) (GDP) is the godfather of the indicator world. As an aggregate measure of total economic production for a country, GDP represents the market value of all goods and services produced by the economy during the

period measured, including personal consumption, government purchases, private inventories, paid-in construction costs and the foreign trade balance ([exports](#) are added, [imports](#) are subtracted).

Presented only quarterly, GDP is most often presented on an [annualized](#) percent basis. Most of the individual data sets will also be given in real terms, meaning that the data is adjusted for price changes, and is therefore net of [inflation](#).

The GDP is an extremely comprehensive and detailed report. In fact, reading the GDP report brings us back to many of the indicators covered in earlier tutorial topics, as GDP incorporates many of them: retail sales, personal consumption and wholesale inventories are all used to help calculate the gross domestic product. Various chain-weighted indexes discussed in earlier topics are used to create Real GDP Quantity Indexes with a current base year of 2000.

### **What it Means for Investors**

Real GDP is the one indicator that says the most about the health of the economy and the advance release will almost always move markets. It is by far the most followed, discussed and digested indicator out there - useful for economists, analysts, investors and policy makers. The general consensus is that 2.5-3.5% per year growth in [real GDP](#) is the range of best overall benefit; enough to provide for corporate profit and jobs growth yet moderate enough to not incite undue inflationary concerns. If the economy is just coming out of [recession](#), it is OK for the GDP figure to jump into the 6-8% range briefly, but investors will look for the long-term rate to stay near the 3% level. The general definition of an economic recession is two consecutive quarters of negative GDP growth, which last occurred in the United States in 2001.

While the value of both exports and imports are included in the GDP report, imports are subtracted from total GDP, meaning that all consumer purchases of imported items are not counted as contributions toward GDP. Because the U.S. runs a [current account deficit](#), importing far more than is exported, reported GDP figures have a slight drag on them. A related measure provided in the report, [gross national product](#) (GNP), goes one step further by only counting the value of goods and services produced by labor and property within the United States. The "corporate profits" and "inventory" data in the GDP report are a great resource for equity investors, as both categories show total growth during the period; corporate profits data also displays pre-tax profits, [operating cash flows](#) and breakdowns for all major sectors of the economy.

The biggest downside of this data is its lack of timeliness; investors only get one update per quarter and revisions can be large enough to significantly change the percentage change in GDP.

The Bureau of Economic Analysis (BEA) even supplies its own analysis of the

quarterly data, presenting several useful documents that condense the massive release down to a manageable and readable size. They also provide an annual analysis of data that segments results down to the industry level - a very useful tool for both equity and fixed-income investors who are interested in particular industries related to their holdings.

**Strengths:**

- GDP is considered the broadest indicator of economic output and growth.
- Real GDP takes inflation into account, allowing for comparisons against other historical time periods.
- The Bureau of Economic Analysis issues its own analysis document with each GDP release, which is a great investor tool for analyzing figures and trends, and reading highlights of the very lengthy full release

**Weaknesses:**

- Data is not very timely - it is only released quarterly.
- Revisions can change historical figures measurably (the difference between 3% and 3.5% GDP growth is a big one in terms of [monetary policy](#))

**The Closing Line**

While quarter-to-quarter figures can show some volatility, long-term trends in GDP growth remain the single most conclusive piece of information on the economy as a whole. This indicator is a must-know for investors in all asset classes.

**Housing Starts**

<b>Release Date:</b>	On or around the 17th of the month
<b>Release Time:</b>	8:30am Eastern Standard Time
<b>Coverage:</b>	Previous month's data
<b>Released</b>	<a href="#">U.S. Census Bureau</a>

<b>By:</b>	
<b>Latest Release:</b>	<a href="http://www.census.gov/const/www/newresconstindex.html">http://www.census.gov/const/www/newresconstindex.html</a>

## Background

The *New Residential Construction Report*, known as "[housing starts](#)" on Wall Street, is a monthly report issued by the U.S. Census Bureau jointly with the U.S. Department of Housing and Urban Development (HUD). The data is derived from surveys of homebuilders nationwide, and three metrics are provided: housing starts, building permits and housing completions. A housing start is defined as beginning the foundation of the home itself. Building permits are counted as of when they are granted.

Both building permits and housing starts will be shown as a percentage change from the prior month and year-over-year period. In addition, both data sets are divided geographically into four regions: Northeast, Midwest, South and West. This helps to reflect the vast differences in real estate markets in different areas of the country. On the national aggregates, the data will be segmented between single-family and multiple-unit housing, and all information is presented with and without seasonal adjustment.

Housing starts and building permits are both considered [leading indicators](#), and building permit figures are used to compute the Conference Board's [U.S. Leading Index](#). Construction growth usually picks up at the beginning of the [business cycle](#) (the Leading Indicator Index is used to identify business cycle patterns in the economy, and is used by the [Federal Open Market Committee](#) (FOMC) during policy meetings).

## What it Means for Investors

This is not typically a report that shocks the markets, but some analysts will use the housing starts report to help create estimates for other consumer-based indicators; people buying new homes tend to spend money on other consumer goods such as furniture, lawn and garden supplies, and home appliances.

The housing market may show the first signs of stalling after a recent rate hike by the [Federal Reserve](#). This is because rising mortgage rates may be enough to convince homebuilders to slow down on new home starts. For investors looking to evaluate the real estate market, housing starts should be looked at in conjunction with [existing home sales](#), the rental component of the [Consumer Price Index](#) and the Housing Price Index (also available from the Census Bureau).

According to the Census Bureau, "it may take four months to establish an

underlying trend for building permit authorizations, five months for total starts and six months for total completions", so investors should look more closely at the forming patterns to see through often-volatile month to month results.

### Strengths

- Very forward-looking, especially building permits; a good gauge for future real estate supply levels
- Can be used to identify business cycle [pivot points](#)
- Sample size covers approximately 95% of all residential construction in the U.S.

### Weaknesses

- No differentiation between size and quality of homes being initiated, only the nominal amount
- Only focuses on one area of the economy

### The Closing Line

Housing starts is best used as a business cycle indicator and a tool for investors researching the real estate markets.

## Industrial Production

<b>Release Date:</b>	On or around the 16th of the month
<b>Release Time:</b>	9:15 Eastern Standard Time
<b>Coverage:</b>	Monthly, on prior month's data
<b>Released</b>	Board of Governors, Federal Reserve Board

<b>By:</b>	
<b>Latest Release:</b>	<a href="http://www.federalreserve.gov/releases/g17/current/default.htm">http://www.federalreserve.gov/releases/g17/current/default.htm</a>

## Background

There is a simultaneous release of the [Industrial Production](#) and [Capacity Utilization](#) reports.

Industrial production figures are based on the monthly raw volume of goods produced by industrial firms such as factories, mines and electric utilities in the United States. Also included in the industrial production figures are the businesses of newspaper, periodical and book publishing, traditionally labeled as manufacturing.

The industrial production data is used in conjunction with various industry capacity estimates to calculate capacity utilization ratios for each line of business, with a base year used as a benchmark level of 100% (currently 2002). Aggregate utilization ratios are also provided for areas such as total manufacturing and total high-tech production

The industrial production and related capacity utilization figures are considered [coincident indicators](#), meaning that changes in the levels of these indicators usually reflect similar changes in overall economic activity, and therefore [gross domestic product](#) (GDP). The release will show percentage changes on month-to-month and year-over-year levels, shedding light on short-term [rates of change](#) and business cycle growth, respectively.

The Federal Reserve watches this figure closely because it understands that inflation shows itself first at the industrial level, when supplies of basic materials get tight - either for their manufacturers or for the corporate clients who buy them. Rises in the cost of commodities and materials will begin to get passed on down the line, ending up with individual consumers of higher-cost finished products.

Also, the industrial sector exhibits the most volatility in terms of nominal output during a business cycle peak to trough. As a result, big changes here have been a historical forecaster of business cycle inflection points.

## What it Means for Investors:

Capacity utilization levels, although technically upper bound by 100%, don't approach this value. Utilization levels above 82-85% are seen as "tight" and forecast price increases or supply shortages in the near future. Levels below 80% mean there is some slack in the economy, which could lead to recession worries and employment losses.

As with many indicators, Wall Street will have a perceived "consensus number" before the release - if the difference is larger than expected, stock and bond markets will react in the short term. A higher-than-expected number during a time of economic expansion will cause inflationary fears. If the economy is lagging, an upside surprise in the release could trigger the purchase of equities on the hope of a turnaround. The reverse is also true; lower-than-expected numbers during a time when fears of [economic overheating](#) already exist could provide a short-term lift to stock and bond prices.

This report can be used to see what specific areas of industrial production are doing better than others. This can lead investors to an analysis of [supply chains](#) and which sectors could be benefiting - or suffering - based on the trends in industrial production.

### **Strengths:**

- Sector breakdown allows for inspection of the relative performance of many lines of business, such as electronics, chemicals and basic metals.
- Press releases will include valuable analysis, which removes overly volatile components to provide a more relevant trendline and puts current numbers into perspective.
- A timely indicator that is released only weeks after data is measured

### **Weaknesses:**

- It only deals with physical goods-producing industries, which make up less than half of economic output. Services, as well as construction production, are not included.
- The capacity numbers are drawn from many different sources, and sometimes pure estimates are used when no information is available
- Historical comparisons are made difficult by heavy transition of component industries, as well as the changing demographics of U.S. output as a whole (manufacturing output is in a constant decline as a % of GNP).

### **The Closing Line**

This report is declining in its level of importance as the years pass; the United States is simply not the huge industrial power it once was. The position of manufacturing in the economic food chain is the highlight of the report, and inflection points in the economy are often confirmed with big changes in this report.

## **Jobless Claims Report**

<b>Release Date:</b>	Weekly; Thursdays, prior to market open
<b>Release Time:</b>	8:30am Eastern Standard Time
<b>Coverage</b>	Previous week (cutoff date is previous Saturday)
<b>Released By:</b>	<a href="#">U.S. Department of Labor</a>
<b>Latest Release:</b>	<a href="http://www.dol.gov/opa/media/press/eta/main.htm">http://www.dol.gov/opa/media/press/eta/main.htm</a>

### **Background**

The [Jobless Claims Report](#) is a weekly release that shows the number of first-time (initial) filings for state jobless claims nationwide. The data is seasonally adjusted, as certain times of the year are known for above-average hiring for temporary work (harvesting, holidays).

Due to the short sample period, week-to-week results can be volatile, so reported results are most often headlined as a four-week [moving average](#), so that each week's release is the average of the four prior jobless claims reports. The release will show which states have had the biggest changes in claims from the previous week; the revised edition shows up about a week later, at which time a full breakdown by state and U.S. territory is available.

Also released with this report are the relatively minor data points of the insured unemployment rate and the total unemployed persons. These are not seen as valuable indicators because the total unemployed figure tends to stay relatively constant week to week.

### **What it Means for Investors**

New jobless claims for the week reflect an up-to-the-minute account of who is leaving work unexpectedly, reflecting the "[run rate](#)" of the economy's health with little lag time. The *Jobless Claims Report* gets a lot of press due to its simplicity and the theory that the healthier the job market, the healthier the economy: more people working means more [disposable income](#), which leads to higher personal consumption and [gross domestic product](#) (GDP).

The fact that jobless claims are released weekly is both a blessing and a curse for investors; sometimes the markets will take a mid-month jobless claims report and react strongly to it, particularly if it shows a difference from the cumulative evidence of other recent indicators. For instance, if other indicators are showing a weakening economy, a surprise drop in jobless claims could slow down equity sellers and could actually lift stocks, even if only because there isn't any other

more recent data to chew on.

A favorable *Jobless Claims Report* can also get lost in the shuffle of a busy news day, and hardly be noticed by Wall Street at all. The biggest factor week to week is how unsure investors are about the future direction of the economy.

Most economists agree that a sustained *change* (as shown in the moving averages) of 30,000 claims or more is the benchmark for real job growth or job loss in the economy. Anything less is deemed [statistically insignificant](#) by most market analysts.

### Strengths:

- Weekly reporting provides for timely, almost real-time snapshots.
- As a tightly-presented release, investors can easily pick up the raw release and quickly apply the information to market decisions.
- Initial claims are provided gross and net of seasonal adjustments, and give a breakdown for every state's individual results.
- Some states' figures are shown along with a comment from that state's reporting agency regarding specific industries in which noteworthy activity is happening, such as "fewer layoffs in the industrial machinery industry".

### Weaknesses:

- Summer and other seasonal employment tends to skew the results.
- Highly volatile - revisions to advance report can be very big on a percentage basis
- Jobless claims in isolation tell little about the overall state of the economy.
- No industry breakdowns are provided, just the national figure.

## Money Supply

<b>Release Date:</b>	Weekly, every Thursday
<b>Release Time:</b>	4:30pm Eastern Standard Time
<b>Coverage:</b>	M1 and M2 (M3 coverage discontinued as of March 2006)
<b>Released</b>	<a href="#">Federal Reserve Board</a>

<b>By:</b>	
<b>Latest Release:</b>	<a href="http://www.federalreserve.gov/releases/h6/">http://www.federalreserve.gov/releases/h6/</a>

## Background

The [money supply](#) is just that: the amount of money floating around the economy and available for spending. Different numerical aggregates show different subsets of money based on their liquidity, starting with [M0](#) (the most liquid), which is just the dollar value of physical cash and coin, and [M1](#), which includes all of M0 as well as checking accounts, traveler's checks and demand deposits. The [M2](#) aggregate includes the dollar value of all of M1 in addition to savings accounts, time deposits of less than \$100,000 (such as certificates of deposit), and money market funds held by investors.

The Federal Reserve publishes data on the levels of M1 and M2 weekly, and has been collecting data on the money supply since the 1950s. In the less financially complicated world that existed then, the supply of money showed a very strong correlation to how much money was spent, and it was therefore studied fervently by economists for clues to economic growth.

Legislation passed in 1978 mandated the Federal Reserve to set annual targets for money supply growth. At the time, there was still a high correlation between money supply growth and overall economic growth, as measured by [gross domestic product](#) (GDP). Over time, that close relationship started to break down due to changes in banking accounts, the proliferation of financing companies, and more widespread investment among consumers (stock and bond investments are not captured in M1 and M2 aggregates). When the legislation expired in 2000, the Fed announced that it would no longer set targets for growth of the money supply as a matter of policy, although it remains an important indicator for predicting inflation and spending patterns among consumers. In the words of the Fed, "...the FOMC [Federal Open Market Committee] believes that the behavior of money and credit will continue to have value for gauging economic and financial conditions."

The M2 aggregate is a large component of the Conference Board's [U.S. Leading Index](#) (which contains 10 indicators), making up more than 30% of the index.

## What it Means for Investors

The Federal Reserve has a measure of control over the money supply aggregates, which differentiates this indicator from most others. Through [open market operations](#) such as buying and selling Treasuries and setting the reserve requirements, the Fed does things to alter the money supply through its daily course of business. Setting short-term interest rates to guide the economy

remains the core policy directive of the FOMC, but changes to rates such as the [fed funds rate](#) do eventually manifest themselves in the money supply, albeit with a time lag.

No single release from the Fed regarding the money supply is going to shock the market; the weekly release schedule alone takes a lot of the surprise factor out of the mix, so this report will rarely move the markets in the short term. History has shown that the money supply tends to rise faster (accelerate faster) during periods of economic expansion than during [contraction](#) periods.

If there is one measure that is looked at more than the rest, it's the M2 figure - cash equivalents in this designation are deemed to be collectively liquid enough to be spent without any real delays or penalty costs. While growth in the money supply does not directly indicate future spending growth as it once did, it does indicate that inflation could be around the corner. This is where knowing both money supply growth and GDP growth becomes very handy - if money supply growth is rapidly outpacing economic growth, there will soon be more money chasing after the same amount of goods. This echoes the dryly famous quote: "Inflation is always and everywhere a monetary phenomenon."

Changes in the money supply are usually quoted in the media on an annualized percentage basis, which helps to smooth out short-term statistical "blips" that can occur week to week.

### **Strengths:**

- A timely and consistent indicator, released weekly and with a long operating history
- It is often misunderstood by investors, creating opportunities for those who know how to use it.
- There is a lot of existing research on the relationship between money supply and GDP growth as well as inflation.

### **Weaknesses:**

- Rarely a mover of the markets in the short term
- Limited breakdowns available in the weekly release; the quarterly *Flow of Funds* report provides a broader view
- Lack of economic consensus on how to best compare money supply levels to inflationary outlook and future spending patterns

### **The Closing Line**

The evaluation of money supply figures has become a progressive story, one

that savvy investors will take into consideration when contemplating future levels of economic growth as well as inflation.

## Mutual Fund Flows

<b>Release Date:</b>	Monthly, about four weeks after month's end
<b>Release Time:</b>	During market hours
<b>Coverage:</b>	Stock, bond and money market funds
<b>Released By:</b>	<a href="http://www.ici.org">Investment Company Institute</a> (ICI)
<b>Latest Release:</b>	<a href="http://www.ici.org/stats/index.html">http://www.ici.org/stats/index.html</a>

### Background

Dollar flows into and out of [mutual funds](#) is a modern-day indicator, one based on sentiment but still useful to the wise investor. The Investment Company Institute (ICI) is the most reliable source of mutual fund trends, publishing a monthly report covering domestic and international stock funds, [bond funds](#) and even money markets. The ICI is a non-profit organization whose members are the majority of investment companies registered with the Securities and Exchange Commission (SEC). The organization has reported before Congress and presents free information for investors and economists by sampling more than 8,000 mutual funds, [closed-end funds](#), [exchange-traded funds](#) (ETFs) and [unit investment trusts](#) (UITs).

The [Federal Reserve](#) also issues money market figures in its *Money Supply Report*, and [TrimTabs](#) offers daily and weekly data to investors through its website.

Most often, mutual fund flows are presented as the net of all inflows and outflows measured over the period; if total dollars going in is the same as dollars being sold out, total flows over the period will be \$0. In the monthly ICI report, new sales, redemptions and exchanges are netted out to show a "net new cash flow" figure, which can be positive or negative for a given period. Average cash levels at stock funds are also shown in the report

### What it Means for Investors

Stocks and bonds respond to changes in demand like any other investment, and

knowing what the prevailing investing trends are can help investors to decide whether the present time is a good one to invest in one asset class or another. While mutual fund flows alone do not determine investor sentiment (institutional money and individual shareholders are excluded in the ICI report), they do represent the way most investors participate in the markets - mutual fund assets in the United States alone stood at more than \$10 trillion at the end of 2006.

That said, strong flows into stock mutual funds does not guarantee good times ahead for equity investors. Some economists even see fund flows as a "false positive", or [contrarian](#) indicator, with the logic being that most people commit more money to the stock market when it has already run up, and has received a lot of positive press and mainstream coverage. A recent and powerful example can be seen in the last few months of the stock market peak back in early 2000. Stock market flows were at record levels those first few months; soon after, the stock market began a steady march downward, with major indexes dropping more than 50% in the next year.

If the market is coming out of a [recession](#) or other weak period, seeing fund flows grow in stock funds can be a positive indicator, suggesting that investors are increasing their allocations for stocks. When mutual fund managers have more cash coming in, they have to go out and purchase stocks on the open market to keep their portfolio percentages in the right proportions.

[Money market fund](#) flows can be read in a similar way, with increasing flows being seen as a sign that stocks may be undervalued, and vice versa.

### **Strengths:**

- Valuable source of investor sentiment
- Information available for other countries; ICI even provides a "worldwide" figure
- Valuable for seeing fund manager sentiment through average cash levels (considered a [defensive](#) asset class)

### **Weaknesses:**

- Can be interpreted in different ways (such as a contrarian indicator)
- Does not show total market ownership - only mutual funds
- Difficult to separate [secular](#) trends in fund ownership from market [timing](#) situations month to month

### **The Closing Line**

Fund flows may be seen as esoteric, but smart investors should consider adding this to their arsenal of indicators to know and study, understanding that stock and

bond markets have supply and demand patterns that may be distinct from economic activity.

## Non-Manufacturing Report

<b>Release Date:</b>	The third business day of the month
<b>Release Time:</b>	10am Eastern Standard Time
<b>Coverage:</b>	Previous month's data
<b>Released By:</b>	<a href="http://www.ism.ws">Institute for Supply Management</a> (ISM)
<b>Latest Release:</b>	<a href="http://www.ism.ws/ISMReport/?navItemNumber=4892">http://www.ism.ws/ISMReport/?navItemNumber=4892</a>

### Background

The Institute for Supply Management (ISM) releases the *ISM Non-Manufacturing Report on Business*, also known as the *Service Report*, each month. The ISM, a non-profit group with more than 40,000 members engaged in the [supply management](#) and purchasing professions, saw the need to represent more than just the manufacturing industry, and especially to give attention to the notoriously absent service sector, which reflects the majority of [real gross domestic product](#) (GDP).

While the previously-released *ISM Manufacturing ROB* and its well-known [Purchasing Managers Index](#) (PMI) receives the most Wall Street attention, the *Non-Manufacturing Report* is quickly becoming a well-read and analyzed indicator since it was first released in 1998.

Currently, the report does not have a composite index - the Business Activity Index is the most summary-oriented piece of the report, as it measures respondents' views on the overall level of business activity; the Business Activity Index will usually be the headline figure presented in publications and the media.

The entire report relates to investors because it represents a much larger share of the economy and, most importantly, it covers the hard-to-measure services industries, the fastest-growing part of the U.S. economy. The survey covers many of the same categories that are found in the PMI, including employment, supplier deliveries, inventory levels, production levels and prices.

### What it Means for Investors

Because it is a relatively new indicator, the *Service Report* has yet to gain the

same attention of the PMI, but it is quickly appearing on many top analysts' radars because of its breadth of coverage and original survey format. The *Service Report* is also a timely indicator, coming out just days after the survey month.

For investors, the *Service Report* may be more useful than the PMI for examining the status of the [industries](#) in which they hold investments, and examining the trends taking place in that corner of the market. Each index (there are 10 in total) can be looked at individually, but the Business Activity Index is the most comprehensive; it asks whether the overall business conditions will be better, the same, or worse in the upcoming month.

The magic number for expansion within the Business Activity Index is 50; levels above 50 indicate that the service-related areas of the economy are generally expanding. Rates of change are important as well as where the economy sits within the current [business cycle](#).

### **Strengths:**

- Consistent and timely; comes out on the third business day of every month, right after the PMI report
- Shows results for the majority of the total economy, most notably the services industries
- When used with the *ISM Manufacturing Report*, the two reports will capture industries making up nearly 90% of total GDP
- Anecdotal remarks within the release can provide a better perspective from actual professionals.
- Release shows percentage changes from the previous two months separately, as well as the length of any trend along with its relative velocity.

### **Weaknesses:**

- Does not present a [diffusion-weighted](#) summary index figure (like the PMI)
- Survey is very subjective in its data retrieval compared to other indicators, using measures such as "higher", "lower" and "the same"
- As a relatively new data series, the *Service Report* fails to provide long-term historical data and correlations to prior business cycles can't be analyzed.

### **The Closing Line**

The *ISM Non-Manufacturing Report on Business* is a new but telling indicator that is gaining more Wall Street attention with every release, providing insight into business areas not well covered in other indicators.

## Personal Income and Outlays

<b>Release Date:</b>	4-5 weeks after month's end
<b>Release Time:</b>	8:30am Eastern Standard Time
<b>Coverage:</b>	Previous month
<b>Released By:</b>	<a href="#">Bureau of Economic Analysis</a> (BEA)
<b>Latest Release:</b>	<a href="http://bea.gov/bea/newsrel/pinewsrelease.htm">http://bea.gov/bea/newsrel/pinewsrelease.htm</a>

### Background

The *Personal Income and Outlays Report* (sometimes called the *Personal Consumption Report*) is issued by the Bureau of Economic Analysis (BEA) monthly. The report contains two sections, which together provide insight into consumer behavior and total economic consumption. The first section deals with personal income, while the other deals with personal outlays.

Personal income is a measure of income received from wages and salaries, dividends and interest, rental income, and the like. All are measured in actual dollars and usually expressed in percentage terms. Wages and salaries are the dominant contributor to the aggregate total.

Personal outlays is made up of mostly personal consumption on goods and services, but also includes interest payments made on non-mortgage debt and transfer payments to government or social services.

From these two basic variables a bit of math is done to derive:

- Real Personal Income: Personal income per capita (using population figures), and adjusted for [inflation](#)
- [Disposable Personal Income](#) (DPI): Personal income minus tax payments
- Personal Savings Rate: DPI minus personal outlays (and expressed as a percentage of DPI)

[Personal consumption expenditures](#) (PCE) deal with the other side of the consumer equation, mainly how much people are spending. PCE counts consumer spending for things such as retail items, but also how much people are

spending on credit card interest payments. PCE measures also deduct the dollars spent by consumers on things like social security withholding and pension payments made by the self-employed.

PCE data is also expressed as a chain-weighted index. This means that results from each period are linked to others to produce an index level that takes into account such behavior as substitution of goods when prices rise. The PCE Index is a large component of the Conference Board's [Index of Coincident Indicators](#), and is also used to calculate [real gross domestic product](#) (GDP).

Each release will show results for each month in the year-to-date, as well as annually for the previous three years. Personal income is broken down by general [sector](#) (manufacturing, services, government, etc), while personal consumption is divided among [durables](#), non-durables and services.

### **What it Means for Investors**

Personal income figures have shown to be the biggest determinant of future consumer demand. If people have more disposable income, they will generally spend more money. If this is not the case, an increase in the savings rate will occur. The U.S. has shown very low savings rates for many years now, even showing a slightly negative rate in recent years.

The Fed has also anointed the core PCE Index (with food and energy removed) as one of its favorite inflation indicators, some preferring it to even the [Consumer Price Index](#) (CPI). However, because the CPI will be released prior to this report, there is rarely much overall surprise and, therefore, little market reaction to the PCE index.

One important thing that is excluded from the personal income figures are [capital gains](#), as from the sale of appreciated stock. In the past decade, there has been a lot of wealth created in the stock market for many investors. While there are no official measurements of it, capital gains represent a source of disposable income for many and, as such, the personal income figures are known to be incomplete.

### **Strengths**

- The chain-weighted PCE Index is considered a valuable longer term price indicator.
- PCE represents the largest portion of GDP.
- Savings rates highlight the potential future spending power of consumers.

### **Weaknesses:**

- Released after many other indicators in the month, reducing its timeliness

- Not all sources of consumer income are included
- No extensive industry or demographic breakdowns

### The Closing Line

The *Personal Consumption Report* is most useful as a predictor of overall consumer demand and the ability for people to spend more in the future through higher levels of disposable income. PCE represents the largest component of real gross domestic product.

## Producer Price Index

<b>Release Date:</b>	Second or third week of the month
<b>Release Time:</b>	8:30am Eastern Standard Time
<b>Coverage:</b>	Previous month
<b>Released By:</b>	<a href="#">Bureau of Labor Statistics</a> (BLS)
<b>Latest Release:</b>	<a href="http://www.bls.gov/news.release/ppi.toc.htm">http://www.bls.gov/news.release/ppi.toc.htm</a>

### Background

The [Producer Price Index](#) (PPI) is a weighted index of prices measured at the wholesale, or producer level. A monthly release from the [Bureau of Labor Statistics](#) (BLS), the PPI shows trends within the wholesale markets (the PPI was once called the Wholesale Price Index), manufacturing industries and commodities markets. All of the physical goods-producing industries that make up the U.S. economy are included, but imports are not.

The PPI release has three headline index figures, one each for crude, intermediate and finished goods on the national level:

1. PPI Commodity Index (crude): This shows the average price change from the previous month for commodities such as energy, coal, crude oil and the steel scrap.
2. PPI Stage of Processing (SOP) Index (intermediate): Goods here have been manufactured at some level but will be sold to further manufacturers to create the finished good. Some examples of SOP products are lumber, steel, cotton and diesel fuel.

3. PPI Industry Index (finished): Final stage manufacturing, and the source of the core PPI.

The core PPI figure is the main attraction, which is the finished goods index minus the food and energy components, which are removed because of their volatility. The PPI percentage change from the prior period and annual projected rate will be the most printed figure of the release.

The PPI looks to capture only the prices that are being paid during the survey month itself. Many companies that do regular business with large customers have long-term contract rates, which may be known now but not paid until a future date. The PPI excludes future values or contract rates.

The PPI does not represent prices at the consumer level - this is left to the [Consumer Price Index](#) (CPI), which is released a few trading days after the PPI. Like the CPI, the PPI uses a benchmark year in which a basket of goods was measured, and every year after is compared to the base year, which has a value of 100. For the PPI, that year is 1982.

Changes in the PPI should always be presented on a percentage basis, because the nominal changes can be misleading as the base number is no longer an even 100.

### **What it Means for Investors**

The biggest attribute of the PPI in the eyes of investors is its ability to predict the CPI. The theory is that most cost increases that are experienced by retailers will be passed on to customers, which the CPI could later validate. Because the CPI is *the inflation* indicator out there, investors will look to get a sneak preview by looking at the PPI figures. The Fed also knows this, so it studies the report intently to get clarity on future policy moves that might have to be made to fight inflation.

Two downsides of the "basket of goods" approach are worth mentioning here. First, the PPI uses relative weightings for different industries that may not accurately represent their proportion to [real gross domestic product](#) (GDP); the weightings are adjusted every few years but small differences will still occur. Secondly, PPI calculations involve an explicit "quality adjustment method" - sometimes called [hedonic](#) adjustments - to account for changes that occur in the quality and usefulness of products over time. These adjustments may not effectively separate out quality adjustments from price level changes as intended.

PPI index data for capital equipment is used by the Department of Commerce to calculate the [GDP deflator](#).

The removal of food and energy prices is almost implicit in most media releases today, but investors should determine on their own what the long-term rates of growth are for these two important items. We all have to purchase food and energy, so if these costs grow faster than the core PPI (or CPI) over time, consumers, and eventually GDP, are going to both feel the pinch. For investors who have holdings in these industries, there will be interest in seeing higher price levels, which should eventually lead to higher company revenues.

While the PPI used to cover just the "physical goods" industries such as mining, manufacturing, and the like, many services-based industries have been brought into the index over time. Investors can now find PPI information on air and freight travel, couriers, insurers, healthcare providers, petroleum distribution and many more in the detailed release.

### Strengths:

- Most accurate indicator of future CPI
- Long "operating history" of data series
- Good breakdowns for investors in the companies surveyed (mining, commodity info, some services sectors)
- Can move the markets positively
- Data is presented with and without seasonal adjustment

### Weaknesses:

- Volatile elements, such as energy and food, can skew the data.
- Not all industries in the economy are covered.

### The Closing Line

The PPI gets a lot of exposure for its inflationary foresight and, as such, can be a big market mover. As a result, the PPI is very useful for investors in the industries covered in terms of analyzing potential sales and earnings trends.

## Productivity Report

<b>Release Date:</b>	Approximately five weeks after previous quarter's end
<b>Release Time:</b>	8:30am Eastern Standard Time
<b>Coverage:</b>	Quarterly; revisions about eight weeks after quarter's end
<b>Released</b>	<a href="#">Bureau of Labor Statistics</a> (BLS)

<b>By:</b>	
<b>Latest Release:</b>	<a href="http://www.bls.gov/news.release/prod2.toc.htm">http://www.bls.gov/news.release/prod2.toc.htm</a>

## Background

The *Productivity and Costs Report* is a quarterly release from the Bureau of Labor Statistics (BLS) that measures the level of output that is achieved by businesses per unit of labor. In this context, output is measured by using previously-released [gross domestic product](#) (GDP) figures; input is measured in hours worked and the associated costs of that labor. The unit labor costs that are provided take into account more detail than is provided in the earlier labor reports, including the effects of employee benefit plans, [stock options](#) expensing and taxes.

Percentage changes, presented in annualized rates, are the key figures released with this report. Separate productivity rates are released for the business sector, non-farm business sector and manufacturing. Manufacturing is kept separate because unlike the rest of the data, total volume output is used instead of GDP figures, and it also shows the highest volatility of any of the industry groups.

[Productivity](#) figures are provided across the economy as a whole, as well as for major industry groups and sub-sectors - it is a very thorough and detailed release, which is the main reason for the long time lag between period end and data release. The BLS will begin with total GDP figures, then remove government production and non-profit contributions to arrive at a GDP component that represents just "corporate America".

## What It Means to Investors

Increased productivity is the ability of a company to achieve more output with the same workforce level. Strong productivity gains have been one of the most important reasons that the U.S. economy has expanded for the past 25 years. Productivity gains have historically led to gains in real income, lower inflation and increased corporate profitability. A company that is increasing output with the same number of hours worked will likely be more profitable, which means that it can raise wages without passing that cost on to customers, which keeps inflation pressures down, while adding to GDP growth.

The productivity report does not give investors any new data sets; its value is in the calculations and derivations the BLS computes on previously-released data.

Productivity is not labeled as a [leading](#), [lagging](#), or [coincident indicator](#), as the figures are derived from the components of previous indicators, including GDP,

the [Consumer Price Index](#) (CPI) and the employment cost reports.

The release will rarely be a big mover of the markets; GDP and labor reports will have already been released, and gains in GDP tend to be a fairly accurate indicator of productivity gains. The revised *Productivity & Cost Report* (released about one month after the initial release) will often show a marked change from the initial release, as any revisions to the GDP or labor reports will change the function used to calculate productivity.

Productivity rates are volatile, not only quarter to quarter, but also within the various stages of the business cycle. A big challenge for economists and investors is separating out short-term changes in productivity due to cyclical factors from the independent long-term rate of productivity.

### **Strengths:**

- Presents the results of many complex calculations that are difficult for investors to compute on their own
- Productivity gives good insight into inflationary pressures, and how much GDP can grow without causing concurrent gains in inflation.
- Jumps in productivity tend to make their way to corporate bottom lines quickly via margin expansion.
- Release shows results with and without the effects of inflation
- Detailed productivity measures at the industry and sector level allow investors to analyze the relative productivity performance of many of their holdings.
- One of very few indicators that shows results compared to other advanced economies; shows how the U.S. stacks up against the world in terms of productivity gains.
- Productivity results represent the lion's share of total GDP (about 75%); only government results and [nonprofit groups](#) are removed from calculations.

### **Weaknesses:**

- Not a timely indicator; first report comes five weeks after the quarter, and the revised report nearly two months
- No new series of data is released, only derivations of previous data sets
- Can be very volatile quarter to quarter; long-term measurements are the most effective use of this indicator when analyzing sustainable, long-term rates of productivity growth

## Purchasing Managers Index

<b>Release Date:</b>	The first business day of the month
<b>Release Time:</b>	10am Eastern Standard Time
<b>Coverage:</b>	Previous month's data
<b>Released By:</b>	<a href="#">Institute for Supply Management</a> (ISM)
<b>Latest Release:</b>	<a href="http://www.ism.ws/ISMReport/">http://www.ism.ws/ISMReport/</a>

### Background

The Institute for Supply Management (ISM) has is responsible for maintaining the [Purchasing Managers Index](#) (PMI), which is the headline indicator in the monthly *ISM Report on Business*. The ISM is a non-profit group boasting more than 40,000 members engaged in the supply management and purchasing professions.

The PMI is a composite index of five "sub-indicators", which are extracted through surveys to more than 400 purchasing managers from around the country, chosen for their geographic and industry diversification benefits. The five sub-indexes are given a weighting, as follows:

- Production level (.25)
- New orders (from customers) (.30)
- Supplier deliveries - (are they coming faster or slower?) (.15)
- Inventories (.10)
- Employment level (.20)

A diffusion process is done to the survey answers, which come in only three options; managers can either respond with "better", "same", or "worse" to the questions about the industry as they see it. The resulting PMI figure (which can be from 0 to 100) is calculated by taking the percentage of respondents that reported better conditions than the previous month and adding to that total half of the percentage of respondents that reported no change in conditions. For example, a PMI reading of 50 would indicate an equal number of respondents reporting "better conditions" and "worse conditions".

### What it Means for Investors

PMI is a very important sentiment reading, not only for manufacturing, but also the economy as a whole. Although U.S. manufacturing is not the huge component of total [gross domestic product](#) (GDP) that it once was, this industry is still where [recessions](#) tend to begin and end. For this reason, the PMI is very closely watched, setting the tone for the upcoming month and other indicator

releases.

The magic number for the PMI is 50. A reading of 50 or higher generally indicates that the industry is expanding. If manufacturing is expanding, the general economy should be doing likewise. As such, it is considered a good indicator of future GDP levels. Many economists will adjust their GDP estimates after reading the PMI report. Another useful figure to remember is 42. An index level higher than 42%, *over time*, is considered the benchmark for economic (GDP) expansion. The different levels between 42 and 50 speak to the strength of that expansion. If the number falls below 42%, recession could be just around the corner.

As with many other indicators, the [rate of change](#) from month to month is vital. A reading of 51 (expanding manufacturing industry) coming after a month with a reading of 56 would not be seen favorably by the markets, especially if the economy had been showing solid growth previously.

The PMI can be considered a hybrid indicator in that it has actual data elements but also a confidence element, like the [Consumer Confidence Index](#). Answers are subjective, and may not always relate to events as much as perceptions. Both can have value to investors looking to get a sense of actual experiences as well as see the PMI index level itself.

Bond markets may look more intently at the growth in supplier deliveries and prices paid areas of the report, as these have been historical [pivot points](#) for inflationary concerns. Bond markets will usually move in advance of an anticipated interest rate move, sending [yields](#) lower if rate cuts are expected and vice versa.

PMI is considered a leading indicator in the eyes of the Fed, as evidenced by its mention in the FOMC minutes that are publicly released after its closed-door meetings. The supplier deliveries component itself is an official variable in calculating the Conference Board's [U.S. Leading Index](#).

There are regional purchasing manager reports, some of which come out earlier than the PMI for a given month, but the PMI is the only national indicator.

### **Strengths:**

- Very timely, coming out on the first day of the month following the survey month
- A good predictor of future releases, such as GDP and the Bureau of Labor Statistics (BLS) manufacturing reports
- Anecdotal remarks within the release can provide a more complete perspective from actual professionals (like in the [Beige Book](#)).

- Report displays point changes from the previous report, along with the length in months of any long-term trends shown for the "sub-indicators", such as inventories or prices.
- Commodities, such as silver, steel and copper are reported individually regarding the supply tightness and price levels noted in the previous month.

### Weaknesses:

- Only covers manufacturing sector - the *PMI Non-Manufacturing Business Report* covers many other industries in the same manner
- Survey is very subjective in its data retrieval compared to other indicators.
- Regional reports released earlier (Philly Fed, Chicago NAPM) may have high correlations and can take some of the steam out of this release.

### The Closing Line

The PMI is a uniquely constructed, timely indicator with a lot of value on Wall Street.

It is most useful when taken in context with more data-driven indicators, such as the Producer Price Index and GDP, or in conjunction with the *ISM Report Non-Manufacturing Report on Business*.

## Retail Sales Report

<b>Release Date:</b>	On or around the 13th of the month
<b>Release Time:</b>	8:30am Eastern Standard Time
<b>Coverage:</b>	Previous month's data
<b>Released By:</b>	<a href="#">Census Bureau</a> and the <a href="#">U.S. Department of Commerce</a>
<b>Latest Release:</b>	<a href="http://www.census.gov/svsd/www/advtable.html">http://www.census.gov/svsd/www/advtable.html</a>

### Background

*Retail Sales* is very closely watched by both economists and investors. This indicator tracks the dollar value of merchandise sold within the retail trade by taking a sampling of companies engaged in the business of selling end products to consumers. Both fixed [point-of-sale](#) businesses and non-store retailers (such

as mail catalogs and vending machines) are used in the data sample. Companies of all sizes are used in the survey, from Wal-Mart to independent, small-town businesses.

The data released will cover the prior month's sales, making it a timely indicator of not only the performance of this important industry (consumer expenditures generally make up about two-thirds of total gross domestic product), but of price level activity as a whole. *Retail Sales* is considered a [coincident indicator](#), in that activity reflects the current state of the economy. It is also considered a vital pre-inflationary indicator, which creates the biggest interest from Wall Street watchers and the [Conference Review Board](#), which tracks data for the Federal Reserve Board's directors.

The release will contain two components: a total sales figure (and related % change from the previous month), and one "ex-autos", as the large ticket price and historical seasonality of auto sales can throw off the total figure disproportionately.

### **What it Means for Investors**

The release of the *Retail Sales Report* can cause above-average [volatility](#) in the stock market. Its clarity as a predictor of inflationary pressure can cause investors to rethink the likelihood of Fed rate cuts or hikes, depending on the direction of the underlying trend. For example, a sharp rise in retail sales in the middle of the [business cycle](#) may be followed by a short-term hike in interest rates by the Fed in the hope of curbing possible inflation. This would cause investors to sell bonds (causing yields to rise), and could pose problems for stocks as well, as inflation causes decreased future [cash flows](#) for companies.

If retail sales growth is stalled or slowing, this means consumers are not spending at previous levels, and could signal a recession due to the significant role personal consumption plays in the health of the economy.

One of the most important factors investors should note when viewing the indicator is how far off the reported figure is from the so-called [consensus number](#), or "street number". In general, the stock market does not like surprises, so a figure that is higher than expected, even when the economy is humming along well, could trigger selling of stocks and bonds, as inflationary fears would be deemed higher than expected.

Retail companies themselves can be especially volatile with the release of this widely read industry report. The release data will show the sales performance of all the component sectors within retail (such as electronics retailers and restaurants), allowing investors to peek in on relative "pockets of strength" within the overall figures. An investor holding stocks in retail can see how his or her holdings are performing relative to the sector as a whole - a valuable analysis

regardless of overall market conditions.

**Strengths:**

- The retail sales data is extremely timely, and is released only two weeks after the month it covers.
- The data release is robust; investors can download a full breakout of component sectors, as well as spreadsheet historical data to examine trends.
- Retail sales reports get a lot of press. It's an indicator that is easy to understand and relates closely to the average consumer.
- A revised report comes out later (two to three months on average), amending any errors.
- Analysts and economists will take out volatile components to show the more underlying demand patterns. The most volatile components are autos, gas prices and food prices.
- Data is adjusted seasonally, monthly and for holiday differences month to month.

**Weaknesses:**

- Revisions to the report (released about two months after the advance report) can be quite large, and the sample size is relatively small compared to the number of retailers opening their doors to consumers.
- Retail sales data is often volatile from month to month, which makes trend-spotting difficult.
- The indicator is based on dollars spent and does not account for inflation. This makes it difficult for individual investors to make decisions based on the raw data.
- Does not account for retail services, only physical merchandise. The U.S. is an increasingly service-based economy, so not all retail "activity" is captured.

**The Closing Line**

*Retail Sales* is one of the big ones - a report that can shed a lot of light on the economy. It provides detailed industry information and can really move the market. Investors will best be served by waiting for the analysts to sort through the report, removing any overly volatile components, and drawing conclusions from there. For owners of individual retail stocks, look at the sector growth rates to determine the relative performance of individual stocks held in a particular sector.

**Trade Balance Report**

<b>Release Date:</b>	International Trade - around the 19th of the month
<b>Release Time:</b>	International Trade - 8:30am Eastern Standard Time
<b>Coverage:</b>	International Trade - two months prior
<b>Released By:</b>	<a href="#">Bureau of Economic Analysis</a> (BEA)
<b>Latest Release:</b>	<a href="http://www.bea.gov/international/index.htm">http://www.bea.gov/international/index.htm</a>

## Background

Investors and policymakers are increasingly using trade balances and information as a way to determine the health of the U.S. economy and its relationship with the rest of the world. The indicator within the *Trade Balance Report* that is most well known is the nominal [trade deficit](#), which represents the current dollar value of U.S. exports minus the current dollar value of U.S. imports. The report also covers trade balances for services, such as financial and informational management, of which the U.S. is currently a large exporter, creating a surplus in this category. In the physical goods category, the largest components of the monthly nominal value are for consumer goods and energy (petroleum).

There are several different aggregate measures of trade balance that are recorded and presented in the media, but the one that is most cited will be the [current account](#), a measure of the net of physical goods trade, services trade, investment income and unilateral transfers. A more detailed breakdown of the financial receipts between the U.S. and abroad is available quarterly, summarizing the monthly data and reporting adjustments as needed; it is also released by the Bureau of Economic Analysis (BEA).

## What it Means for Investors

The U.S. has been running a trade deficit for more than 20 years (and a current account deficit for some time as well), set against the backdrop of a long-term U.S. economic expansion. As a nation, the U.S. imports more than it exports, which, in itself, is not a bad thing. Because the U.S. economy has been expanding for so long, most other nations have not been able to keep up, meaning that U.S. demand for things as a nation is higher than other nations' demand for U.S. goods. What causes worry among some is the long-term trend of more money flowing out than coming back in.

The consensus is that the trade deficit must be balanced out by an equal dollar

amount of foreign investment in U.S. assets. For example, if the U.S. spends \$1 billion dollars to purchase computers from Japan, by definition, Japan is holding \$1 billion U.S. dollars or other dollar-denominated assets. In practice, most of the balance in trade is made up by foreign countries holding U.S. Treasury securities. But when interest rates are low, our debt is not as attractive on a risk-adjusted basis, creating concern that our investments will no longer attract foreign ownership, causing the value of the dollar to drop and leading to decreased world purchasing power.

The current account as a percentage of total gross domestic product (GDP) is an important metric because it shows how large the current account number is in relation to overall output in the economy.

The *Trade Balances Report* can move the markets upon release if the data shows a marked change from the prior period. Compared to other indicators, this report is relatively hard to estimate outside of petroleum, so some surprise factors can occur from time to time. Most investors want to see the trade balance maintain current levels or fall, as it is a sign that exports are rising, and the companies who export are increasing sales in those areas of the world.

### **Strengths:**

- Monthly releases are concise and give results in nominal (dollar) terms.
- Highlights which countries make up the largest percentages of the balance, as well as rates of change
- Results shown against the backdrop of the past six months
- Trade represents approximately 25% of total economic activity and is a large component of GDP.

### **Weaknesses:**

- Monthly report doesn't show a complete transaction reconciliation (quarterly release does).
- Inconclusive as to the long-term effects of the stock market and economy of a trade deficit or surplus.
- Volatile due to oil prices and seasonality

### **The Closing Line**

The *Trade Balance Report* can give valuable clues to future swings in GDP not explained by internal consumption and production, so the report helps to "close the loop" on GDP estimation variables. The more investors know about trade balances and how policy makers interpret the data, the more helpful it becomes in making investment choices.

## Wholesale Trade Report

<b>Release Date:</b>	On or around the 9th of the month
<b>Release Time:</b>	10am Eastern Standard Time
<b>Coverage:</b>	Two months prior (report released six weeks after period end)
<b>Released By:</b>	<a href="#">U.S. Census Bureau</a>
<b>Latest Release:</b>	<a href="http://www.census.gov/mwts/www/currentwhl.html">http://www.census.gov/mwts/www/currentwhl.html</a>

### Background

The *Monthly Wholesale Trade Report* is based on a monthly survey of about 4,500 wholesale merchants operating in the United States. The sample group is updated quarterly to reflect new businesses in the marketplace, and includes importers and exporters. While some wholesale companies do sell directly to end consumers (such as Costco), most companies surveyed here sell to retail businesses as their primary source of revenue.

The report presents three statistics to investors; monthly sales, monthly [inventories](#) and the inventory to sales ratio. The data is broken down into [durables](#) and non-durables, and from there about 8-10 industries within both. Coverage is nationwide

Data is released about six weeks after the end of the month and the report will show any revisions for the previous two reports as well. Percentage changes are shown from the prior month and year-over-year to smooth out volatility. Figures are based on current dollar values for products when estimating sales and inventory levels, which is a change from other indicators that may value product based on volume.

### What It Means for Investors

The inventories-to-sales (I/S) ratio is probably the most-watched variable after the *Durable Goods Report* has come out for the month to shed some light on the durable sales figures. Investors in non-durable industries like beverages and apparel will be happy to see some good representation in the *Monthly Wholesale Trade Report*.

The I/S ratio does a good job of indicating any supply/demand imbalances that

exist in the economy. For example, if retail demand is higher than current production levels support, the I/S ratio will show this by falling (in this scenario, an I/S ratio of 1 means that current inventory levels can meet one month of current demand). A rising I/S ratio should be met with higher retail demand or corporate profits could be contracting, as extra costs to maintain inventory or slow production add up. Because of this, the I/S ratio is labeled as a [lagging indicator](#) by the [Conference Board](#) and most economists. According to the Conference Board, "because inventories tend to increase when the economy slows and sales fail to meet projections, the ratio typically reaches its cyclical peak in the middle of a recession."

It all depends on where the economy, or even a particular industry, stands in relation to earnings expectations and potential. As long as the I/S ratio does not change dramatically from month to month, the report will not elicit a strong response in the stock and bond markets; its biggest benefit is the ability to predict future GDP levels or its utility in researching specific industry trends.

Because inventory values are measured in current dollars, price changes month to month will change inventory values even if the amount of supply stays constant. This is especially important to note for industries such as chemicals and petroleum when viewing this report.

### **Strengths:**

- There is an *Annual Benchmark Report for Wholesale Trade* released every spring that includes more detailed information such as annual sales estimates and gross margins for the industries that are sampled in the monthly report
- Provides a good snapshot of the "middle" of the supply chain for many industries - up the channel from manufacturing, but not yet retail.
- A good indicator of supply/demand imbalances
- Long time series (since 1946) available
- Data provided "raw" and with seasonal adjustment

### **Weaknesses:**

- Longer time lag than most
- Industry breakdowns not too specific
- The previously-released *Durable Goods* report will have already shed some light on wholesale results

### **The Closing Line**

*Monthly Wholesale Trade Report* is not potent enough to move the markets, but it is very useful when taken in context with other industry-specific indicators to

gauge sales and demand; it is also helpful in predicting quarterly [gross domestic product](#) (GDP) figures.