

The Pocketbook Of Economic Indicators

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Table of Contents

Table of Contents	3
Introduction.....	4
The Pocketbook Of Economic Indicators	5
1. Beige Book.....	5
2. Chicago Purchasing Managers' Index (PMI).....	7
3. Consumer Confidence Index.....	8
4. Consumer Price Index (CPI)	9
5. Durable Goods Orders	11
6. Employment Cost Index (ECI).....	13
7. Employment Situation	14
8. Existing Home Sales	16
9. Gross Domestic Product (GDP)	17
10. Housing Starts and Building Permits.....	19
11. Industrial Production and Capacity Utilization	20
12. Initial Claims.....	22
13. ISM Manufacturing Index	23
14. ISM Services Index	25
15. New Home Sales	27
16. Personal Income and Consumption	28
17. Philadelphia Fed	30
18. Producer Price Index (PPI)	31
19. Retail Sales.....	33
20. International Trade	35
Appendix A.....	37
The Economic Calendar	37
Notes.....	38
About The Author	39

Introduction

If you have no idea what CPI, PMI, or ECI mean, then you are like most beginning investors. Let me explain these and a few others terms to enhance your knowledge of indicators that affect your investments.

Economic indicators are used by the Federal Reserve to monitor inflation. When they reflect inflationary pressure, the Fed will increase interest rates. Conversely, when they show signs of deflation, a decrease of interest rates becomes imminent.

Interest rates are important for the economy because they influence the willingness of individuals and businesses to borrow money and make investments. An increase of interest rates will cause a downturn in the economy, while a decrease will fuel an expansion.

The purpose of this guide is to explain in simple terms, the twenty economic indicators followed by most investors and analysts. The next time you hear these terms in the media and or financial press, you can use the information in this guide to evaluate their potential effect on the economy and ultimately your portfolio.

Invest Smart!

Manuel Jesus-Backus

The Portfolio Crafter

<http://www.portfoliocrafter.com>

The Pocketbook Of Economic Indicators

1. Beige Book

Definition: Each Federal Reserve Bank gathers anecdotal information on current economic conditions in its District through reports from Bank and Branch directors and interviews with key businessmen, economists, market experts, and other sources. The Beige Book summarizes this information by District and sector.

Importance: The Fed uses this report, along with other indicators, to determine interest rate policy at FOMC meetings. These meetings are held two weeks after the Beige Book's release.

If the Beige Book portrays inflationary pressure, the Fed may raise interest rates. Conversely, if the Beige Book portrays recessionary conditions, the Fed may lower interest rates.

Source: Federal Reserve Board.

Availability: It is released at 2:00pm ET on the Wednesday less than two weeks prior to an FOMC meeting.

Frequency: Eight times a year.

Revisions: The data are not revised.

In The News:

[BusinessWeek](#)

[CNNmoney](#)

[Fortune](#)

[Smart Money](#)

[Yahoo! News](#)

2. Chicago Purchasing Managers' Index (PMI)

Definition: It's based on surveys of more than 200 purchasing managers regarding the manufacturing industry in the Chicago area whose distribution of manufacturing firms mirrors the national distribution.

Importance: Along with the Philadelphia Fed Index, helps to forecast the results of the much more closely watched ISM index, which is released on the following business day. The ISM index is a leading indicator of overall economic activity.

Readings above 50 percent indicate an expanding factory sector, while values below 50 are indicative of contraction.

Source: Chicago Purchasing Managers Association.

Availability: Last business day of the month at 10:00am ET. Data for current month.

Frequency: Monthly.

Revisions: The data are revised once a year. The significance of this revision is low.

In The News:

[BusinessWeek](#)

[CNNmoney](#)

[Fortune](#)

[Smart Money](#)

[Yahoo! News](#)

3. Consumer Confidence Index

Definition: A survey of 5,000 consumers about their attitudes concerning the present situation and expectations regarding economic conditions conducted.

Importance: This report can occasionally be helpful in predicting sudden shifts in consumption patterns. And since consumer spending accounts for two-thirds of the economy, it gives us insights about the direction of the economy. However, only index changes of at least five points should be considered significant.

Source: The Conference Board.

Availability: Last Tuesday of the month at 10:00am ET. Data for month prior.

Frequency: Monthly.

Revisions: The data are revised monthly based on a more complete survey response. Seasonal factors are updated periodically. The significance of the revision is low.

Raw Data: <http://www.tcb-indicators.org/>

In The News:

[BusinessWeek](#)

[CNNmoney](#)

[Fortune](#)

[Smart Money](#)

[Yahoo! News](#)

4. Consumer Price Index (CPI)

Definition: An index that measures the change in price of a representative basket of goods and services such as food, energy, housing, clothing, transportation, medical care, entertainment and education. It's also known as the cost-of-living index.

Importance: It's important to monitor the CPI excluding food and energy prices for its monthly stability. This is referred to as the "core CPI" and gives a clearer picture of the underlying inflation trend.

The rate of change of the core CPI is one of the key measures of inflation for the US economy. Inflationary pressure is generated when the core CPI posts larger-than-expected gains.

Source: Bureau of Labor statistics, U.S. Department of Labor.

Availability: Around the 13th of the month at 8:30am ET. Data for month prior.

Frequency: Monthly.

Revisions: Seasonal factors are updated in February with the release of January data. This revision affects the last five years of data. Low significance.

Raw Data: <http://stats.bls.gov/news.release/cpi.toc.htm>

In The News:

[BusinessWeek](#)

[CNNmoney](#)

[Fortune](#)

[Smart Money](#)

[Yahoo! News](#)

5. Durable Goods Orders

Definition: Its official name is Advance Report on Durable Goods Manufacturers' Shipments and Orders. This is a government index that measures the dollar volume of orders, shipments, and unfilled orders of durable goods. Durable goods are new or used items generally with a normal life expectancy of three years or more. Analysts usually exclude defense and transportation orders because of their volatility.

Importance: This report gives us information on the strength of demand for US manufactured durable goods, from both domestic and foreign sources. When the index is increasing, it suggests demand is strengthening, which will probably result in rising production and employment. A falling index suggests the opposite.

This is also one of the earliest indicators of both consumer and business demand for equipment. Increased expenditures on investment goods reduces the prospect of inflation.

Source: The Census Bureau of the Department of Commerce.

Availability: Around the 26th of the month at 8:30am ET. Data for month prior.

Frequency: Monthly.

Revisions: The data are revised monthly for the prior two months to reflect more complete information. New seasonal adjustment factors are introduced every year. This revision affects at least three years worth of data. The significance of this revision can be substantial.

Raw Data: <http://www.census.gov/ftp/pub/indicator/www/m3/index.htm>

In The News:

[BusinessWeek](#)

[CNNmoney](#)

[Fortune](#)

[Smart Money](#)

[Yahoo! News](#)

6. Employment Cost Index (ECI)

Definition: The ECI is designed to measure the change in the cost of labor, including wages and salaries as well as benefits.

Importance: It's useful in evaluating wage trends and the risk of wage inflation. If wage inflation threatens, it's likely that interest rates will rise, then bond and stock prices will fall.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

Availability: Last business day of January, April, July and October at 8:30am ET. Data for quarter prior.

Frequency: Quarterly.

Revisions: New seasonal adjustment factors are introduced every year. This revision affects at least five years worth of data. The significance of this revision can be substantial.

Raw Data: <http://stats.bls.gov/news.release/eci.toc.htm>

In The News:

[BusinessWeek](#)

[CNNmoney](#)

[Fortune](#)

[Smart Money](#)

[Yahoo! News](#)

7. Employment Situation

Definition: This report lists the number of payroll jobs at all non-farm business establishments and government agencies. The unemployment rate, average hourly and weekly earnings, and the length of the average workweek are also listed in this report. This release is the single most closely watched economic statistic because of its timeliness, accuracy and its importance as an indicator of economic activity. Therefore, it plays a big role in influencing financial market psychology during the month.

Importance: Non-farm payroll is a coincident indicator of economic growth. The greater the increase in employment, the faster the total economic growth.

An increasing unemployment rate is associated with a contracting economy and declining interest rates. Conversely, a decreasing unemployment rate is associated with an expanding economy and potentially increasing interest rates. The fear is that wages will rise if the unemployment rate becomes too low and workers are hard to find. The economy is considered to be at full employment when unemployment is between 5.5% and 6.0%.

If the average earnings is rising sharply, it may be an indication of potential inflation.

When the average workweek is trending higher, it forecasts additional employment increases.

Source: Bureau of Labor Statistics, U.S. Department of Labor.

Availability: First Friday of the month at 8:30am ET. Data for month prior.

Frequency: Monthly.

Revisions: The data are revised monthly for the prior month. These revisions can occasionally be substantial. There is also an annual revision in June.

Raw Data: <http://stats.bls.gov/news.release/empsit.toc.htm>

In The News:

[BusinessWeek](#)

[CNNmoney](#)

[Fortune](#)

[Smart Money](#)

[Yahoo! News](#)

8. Existing Home Sales

Definition: This report measures the selling rate of pre-owned houses. It's considered a decent indicator of activity in the housing sector.

Importance: This provides a gauge of not only the demand for housing, but the economic momentum. People have to be financially confident in order to buy a house.

Source: The National Association of Realtors.

Availability: On the 25th of the month (or on the first business day thereafter) at 10:00am ET. Data for month prior.

Frequency: Monthly

Revisions: The data are revised monthly for the preceding month. These revisions can be subject to substantial shifts. There is also an annual revision for the preceding three years. A major benchmark is reported every 10 years.

Raw Data: <http://nar.realtor.com/news/releases.htm>

In The News:

[BusinessWeek](#)

[CNNmoney](#)

[Fortune](#)

[Smart Money](#)

[Yahoo! News](#)

9. Gross Domestic Product (GDP)

Definition: GDP measures the dollar value of all goods and services produced within the borders of the United States, regardless of who owns the assets or the nationality of the labor used in producing that output.

Data are available in nominal and real dollars. Investors always monitor the real growth rates because they are adjusted to inflation.

Importance: This is the most comprehensive measure of the performance of the US economy. Healthy GDP growth is between 2.0% and 2.5% (when the unemployment rate is between 5.5% and 6.0%). This translates into strong corporate earnings, which bodes well for the stock market.

A higher GDP growth leads to accelerating inflation, while lower growth indicates a weak economy.

Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Availability: Third or fourth week of the month at 8:30am ET for the prior quarter, with subsequent revisions released in the second and third months of the quarter.

Frequency: Quarterly.

Revisions: Revised estimates are released during the second and third months of the quarter based on more complete information. Benchmark data and new seasonal adjustment factors are introduced in July with the release of second quarter data. This revision affects at least three years worth of data. Its significance is moderate.

Raw Data: <http://www.bea.doc.gov/bea/dn1.htm>

In The News:

[BusinessWeek](#)

[CNNmoney](#)

[Fortune](#)

[Smart Money](#)

[Yahoo! News](#)

10. Housing Starts and Building Permits

Definition: A measure of the number of residential units on which construction is begun each month.

Importance: It's used to predict the changes of gross domestic product. While residential investment represents just four percent of the level of GDP, due to its volatility it frequently represents a much higher portion of changes in GDP over relatively short periods of time.

Source: The Census Bureau of the Department of Commerce.

Availability: Around the 16th of the month at 8:30am ET. Data for month prior.

Frequency: Monthly.

Revisions: The data are revised monthly for the prior two months to incorporate more complete information. New seasonal adjustment factors are introduced in February with the release of the January data. This revision affects at least three years of data, but its significance is generally small.

Raw Data: <http://www.census.gov/ftp/pub/indicator/www/housing.html>

In The News:

[BusinessWeek](#)

[CNNmoney](#)

[Fortune](#)

[Smart Money](#)

[Yahoo! News](#)

11. Industrial Production and Capacity Utilization

Definition: The Index of Industrial Production is a chain-weight measure of the physical output of the nation's factories, mines and utilities. The capacity utilization rate measures the proportion of plant and equipment capacity used in production by these industries.

Importance: While the industrial sector of the economy represents only about 25 percent of GDP, changes in GDP are heavily concentrated in the industrial sector. Therefore, changes in The Index of Industrial Production provide useful information on the current growth of GDP.

Investors use the capacity utilization rate as an inflation indicator. If it gets above 85%, inflationary pressures are generated.

Source: Board of Governors of the Federal Reserve System.

Availability: Around the 15th of the month at 9:15am ET. Data for month prior.

Frequency: Monthly.

Revisions: The data are revised monthly for the prior three months to reflect more complete information. New seasonal adjustment factors are introduced in December. This revision affects at least three years worth of data. Its significance is moderate.

Raw Data: <http://www.federalreserve.gov/releases/G17/Current/g17.txt>

In The News:

[BusinessWeek](#)

[CNNmoney](#)

[Fortune](#)

[Smart Money](#)

[Yahoo! News](#)

12. Initial Claims

Definition: A government index that tracks the number of people filing first-time claims for state unemployment insurance.

Importance: Investors use this indicator's four-week moving average to predict trends in the labor market. A move of 30,000 or more in claims shows a substantial change in job growth. Remember that the lower the number of claims, the stronger the job market, and vice versa.

Source: The Employment and Training Administration of the Department of Labor.

Availability: Thursday at 8:30am ET. Data for week ended prior Saturday.

Frequency: Weekly.

Revisions: Revised figures for the previous week are released each Thursday. The significance of these revisions is moderate.

Raw Data: <http://www.dol.gov/dol/opa/public/media/press/eta/main.htm>

In The News:

[BusinessWeek](#)

[CNNmoney](#)

[Fortune](#)

[Smart Money](#)

[Yahoo! News](#)

13. ISM Manufacturing Index

Definition: The ISM Manufacturing Index is based on surveys of 300 purchasing managers nationwide representing 20 industries regarding manufacturing activity. It covers indicators as new orders, production, employment, inventories, delivery times, prices, export orders, and import orders.

Importance: It's considered as the king of all manufacturing indices. Readings of 50% or above are typically associated with an expanding manufacturing sector and a healthy economy, while readings below 50 are associated with contraction.

Additionally, its various sub-components contain useful information about manufacturing activity. The production component is related to industrial production, new orders to durable goods orders, employment to factory payrolls, prices to producer prices, export orders to merchandise trade exports and import orders to merchandise imports.

The index is seasonally adjusted for the effects of variations within the year, differences due to holidays and institutional changes.

Source: Institute for Supply Management, formerly NAPM: National Association of Purchasing Managers.

Availability: On the first business day of the month at 10:00am ET. Data for month prior.

Frequency: Monthly.

Revisions: The data are not revised.

Raw Data: <http://www.ism.ws>

In The News:

[BusinessWeek](#)

[CNNmoney](#)

[Fortune](#)

[Smart Money](#)

[Yahoo! News](#)

14. ISM Services Index

Definition: Also known as the Non-Manufacturing ISM. This index is based on a survey of roughly 370 purchasing executives in industries including finance, insurance, real-estate, communications and utilities. It reports on business activity in the service sector.

Importance: Readings above 50% indicate expansion for the non-manufacturing components of the economy. While readings below 50% indicate contraction.

The index is seasonally adjusted for the effects of variations within the year, differences due to holidays and institutional changes.

This is a new index, created in 1997, so it's not followed as closely by investors as the ISM Manufacturing Index, which dates to the 1940's.

Source: Institute for Supply Management, formerly NAPM: National Association of Purchasing Managers.

Availability: On the third business day of the month at 10:00am ET. Data for month prior.

Frequency: Monthly.

Revisions: The data are not revised.

Raw Data: <http://www.ism.ws>

In The News:

[BusinessWeek](#)

[CNNmoney](#)

[Fortune](#)

[Smart Money](#)

[Yahoo! News](#)

15. New Home Sales

Definition: Also known as New Single-Family Houses Sold. This report is based on interviews of about 10,000 builders or owners of about 15,000 selected building projects. It measures the number of newly constructed homes with a committed sale during the month.

Importance: It's considered a good gauge of near-term spending for housing-related items and of consumer spending in general. However, investors prefers the existing home sales report, which accounts for around 84% of all houses sold and is released earlier in the month.

Source: The Census Bureau of the Department of Commerce.

Availability: Around the last business day of the month at 10:00am ET. Data for month prior.

Frequency: Monthly.

Revisions: The data are revised monthly for the previous month.

Raw Data: http://www.census.gov/const/c25_curr.txt

In The News:

[BusinessWeek](#)

[CNNmoney](#)

[Fortune](#)

[Smart Money](#)

[Yahoo! News](#)

16. Personal Income and Consumption

Definition: Also known as Personal Income and Outlays. Personal Income represents the income that households receive from all sources, including employment, self-employment, investments, and transfer payments.

Personal Outlays are consumer spending which is divided into durable goods, non-durable goods, and services.

Importance: Income is the major determinant of spending (US consumers spend approximately 95 cents of each new dollar) and consumer spending accounts for two-thirds of the economy. Greater spending spurs corporate profits and benefits the stock market.

Source: The Bureau of Economic Analysis of the Department of Commerce.

Availability: First business day of the month at 8:30am ET. Data for two months prior.

Frequency: Monthly.

Revisions: Data for the prior three months are revised monthly to incorporate more complete information. New seasonal adjustment factors are introduced in June. This revision affects at least five years worth of data. Its significance is moderate.

Raw Data: <http://www.bea.doc.gov/bea/rels.htm>

In The News:

[BusinessWeek](#)

[CNNmoney](#)

[Fortune](#)

[Smart Money](#)

[Yahoo! News](#)

17. Philadelphia Fed

Definition: Regional manufacturing index that covers Pennsylvania, New Jersey and Delaware. This region represents a reasonable cross section of national manufacturing activities.

Importance: Readings above 50 percent indicate an expanding factory sector, while values below 50 are indicative of contraction.

Along with the Chicago Purchasing Manager's Index, helps to forecast the results of the much more closely watched ISM index. The ISM index is a leading indicator of overall economic activity.

Source: The Philadelphia Federal Reserve Bank.

Availability: Third Thursday of the month at 10:00am ET. Data for the current month.

Frequency: Monthly.

Revisions: New seasonal adjustment factors are introduced near the beginning of each year. The significance of these revisions is moderate.

In The News:

[BusinessWeek](#)

[CNNmoney](#)

[Fortune](#)

[Smart Money](#)

[Yahoo! News](#)

18. Producer Price Index (PPI)

Definition: The Producer Price Index (PPI) measures the average price of a fixed basket of capital and consumer goods at the wholesale level. There are three primary publication structures for the PPI: industry; commodity; and stage-of-processing.

Importance: It's important to monitor the PPI excluding food and energy prices for its monthly stability. This is referred as the "core PPI" and gives a clearer picture of the underlying inflation trend.

Changes in the core PPI are considered a precursor of consumer price inflation. Inflationary pressure is generated when the core PPI posts larger-than-expected gains.

Source: Bureau of Labor statistics, U.S. Department of Labor.

Availability: Around the 11th of each month at 8:30am ET. Data for month prior.

Frequency: Monthly.

Revisions: Data for the prior three months are revised monthly to incorporate more complete information. New seasonal adjustment factors are introduced in February. This revision affects at least five years worth of data. Its significance is small.

Raw Data: <http://stats.bls.gov/news.release/ppi.toc.htm>

In The News:

[BusinessWeek](#)

[CNNmoney](#)

[Fortune](#)

[Smart Money](#)

[Yahoo! News](#)

19. Retail Sales

Definition: This index measures the total sales of goods by all retail establishments in the U.S. (sales of services are not included). These figures are in current dollars, that is, they are not adjusted for inflation. However, the data are adjusted for seasonal, holiday and trading-day differences between the months of the year.

Importance: This is considered the most timely indicator of broad consumer spending patterns. It gives you a sense of the trends among different types of retailers. These trends can help you spot specific investment opportunities.

It's important to monitor retail sales excluding autos and trucks to avoid the move extreme volatility.

Source: The Census Bureau of the Department of Commerce.

Availability: Around the 12th of the month at 8:30am ET. Data for month prior.

Frequency: Monthly.

Revisions: Data for the prior two months are revised monthly to incorporate more complete information. New seasonal adjustment factors are introduced in February. This revision affects at least three years worth of data. Its significance is moderate.

Raw Data: <http://www.census.gov/svsd/www/advtable.html>

In The News:

[BusinessWeek](#)

[CNNmoney](#)

[Fortune](#)

[Smart Money](#)

[Yahoo! News](#)

20. International Trade

Definition: This report measures the difference between exports and imports of U.S. goods and services.

Importance: Imports and exports are important components of aggregate economic activity, representing approximately 14 and 12 percent of GDP respectively. Typically, stronger exports are bullish for corporate earnings and the stock market.

Changes in trade balance with particular countries can have implications for foreign exchange and policy with that trading partner, so this report is also important for investors who are interested in diversifying globally.

Source: The Census Bureau and the Bureau of Economic Analysis of the Department of Commerce.

Availability: Around the 19th of the month at 8:30 am ET. Data for two months prior.

Frequency: Monthly.

Revisions: Data for the prior three months are revised monthly to incorporate more complete information. New seasonal adjustment factors are introduced in July. This revision affects at least three years worth of data. Its significance is small.

Raw Data: <http://www.census.gov/foreign-trade/www/press.html>

In The News:

[BusinessWeek](#)

[CNNmoney](#)

[Fortune](#)

[Smart Money](#)

[Yahoo! News](#)

Appendix A

The Economic Calendar

You can receive the weekly Economic Calendar every Monday morning for free by sending an email to: economiccalendar@portfoliocrafter.com.

Notes

About The Author

Manuel Jesus-Backus, also known as **The Portfolio Crafter**, is an accomplished and successful trader who, after years of research and testing, put together a system to get consistent high monthly returns out of the stock market.

With the help of a unique combination of nine different technical indicators, two of them being proprietary, he picks stocks with the greatest short-term potential. That means stocks that can make more than 10% gains in a couple of weeks.

His model portfolio has been recently made available to the public at www.portfoliocrafter.com.