UNDERSTANDING KEY ECONOMIC INDICATORS: GLOSSARY

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Indices	Description	Publisher	Commentary
NATIONAL ECONOMIC INDICES			
1. Gross Domestic Product	The gross domestic product (GDP) of an economy provides the overall values of the goods and services the economy produces and indicates whether an economy is growing or slowing on a quarterly basis. GDP breaks down economic activity in terms of changes in consumer spending, business investment, government spending, and the net impact of foreign trade.	U.S. Department of Commerce, Bureau of Economic Analysis	LAGGING INDICATOR GDP is typically considered by economists to be the most important measure of the economy's current health. When GDP increases, it's a sign the economy is strong. In fact, businesses will adjust their expenditures on inventory, payroll, and other investments based on GDP output. However, GDP is not a flawless indicator and can be misleading because of programs such as quantitative easing and excessive government spending.
2. Inflation	Inflation is the general price level rise of goods and services in the U.S. economy. Depending on the select set of goods and services used, multiple types of inflation values are calculated and tracked as inflation indices (e.g., the consumer price index, the wholesale price index and the producer price index).	U.S. Department of Labor, Bureau of Labor Statistics	LAGGING INDICATOR Inflation demonstrates that demand has increased due to economic growth, and prices are rising to reflect growing demand. Too much inflation can mean the U.S. economy is overheating, while low inflation can be a harbinger of economic recession.
3. Employment and Unemployment Rates	The national employment rate is a monthly update on (a) the number of jobs created in the previous month by the private sector, the government and some specific industries, and (b) the national unemployment rate. The unemployment rate is very important and measures the number of people looking for work as a percentage of the total labor force. In a healthy economy, the unemployment rate will be anywhere from 3% to 5%.	U.S. Department of Labor, Bureau of Labor Statistics	LAGGING INDICATOR Low unemployment can point to a strong economy, but it may also predict rising inflation. When unemployment rates are high, however, consumers have less money to spend, which negatively affects retail stores, GDP, housing markets, and stocks, to name a few.
4. Yield Curve	The yield curve tracks maturities ranging from three-month Treasury bills to 30-year Treasury bonds. The yield curve is a graphical illustration of the relationship between interest rates and bond yields of various maturities, with interest rates depicted on the y-axis and increasing time durations depicted on the x-axis. When interest rates change, the yield curve will shift (e.g., either a flattening or steeping of the yield curve).	Federal Reserve Banks of the Federal Reserve System	LEADING INDICATOR Investors pay close attention to the yield curve, which provides an indication of where short-term interest rates and economic growth are headed in the future.
5. Stock Market	National stock markets are the most well-known and widely followed leading indicator, but a stock market index is not necessarily the most important indicator. To be sure, the stock market is a good predictor for investors and analysts because a company's stock price is a good indicator of that company's expected future earnings. The stock market can indicate the economy's direction if earnings estimates are accurate.	Dow Jones Industrial Average, NYSE Composite, NASDAQ Composite, S&P 500, and Russell 2000	LEADING INDICATOR A strong stock market may suggest that earnings estimates are up and therefore that the overall economy is preparing to thrive. Conversely, a down market may indicate that company earnings are expected to decrease and that the economy is headed toward a recession.
GOVERNMENT-RELATED INDICES			
6. Fiscal Expenditure	Fiscal expenditure refers to the sum of government expenses, including spending on goods and services, investment and transfer payments like social security, unemployment benefits, stimulus spending, food stamps, and assistance programs. Fiscal expenditures are part of the government's budget balance calculation.	U.S. Department of Commerce, Bureau of Economic Analysis	LEADING INDICATOR Government spending and tax policies may be used as levers by the executive and legislative branches of government to influence macroeconomic conditions, such as aggregate demand for goods and services, employment, inflation, and economic growth.
7. Government Debt-to-GDP	The government debt-to-GDP ratio compares what a country owes with what it produces. It is a reliable, leading indicator of a country's ability to pay off its debts but is a lagging indicator of economic activity. The debt-to-GDP ratio is often interpreted as the number of years needed to pay back debt if GDP is dedicated entirely to debt repayment.	U.S. Office of Management and Budget; and the Federal Reserve Banks of the Federal Reserve System	LAGGING INDICATOR COVID-19 left a legacy of record-high debt. In the third quarter of 2021, the cumulative U.S. total public debt was $28.43 trillion. U.S. government spending during this time kept economies and businesses afloat, supported household incomes and stabilized financial markets, but triggered a massive increase in debt. The U.S. Debt-to-GDP ratio at the start of the Great Recession (Q1 2008) was 64% and had risen to 122% in 2021 (Q3 2021).
BUSINESS-RELATED INDICES			
8. Wage Growth	Incomes are broken down by different demographics, such as gender, age, ethnicity, and level of education, and these demographics give insight into how wages change for various groups. A trend affecting a specific demographic group may suggest an income problem for the entire country over time, rather than just the groups it affects.	U.S. Department of Labor, Bureau of Labor Statistics	LAGGING INDICATOR If the economy is operating efficiently, household income should increase regularly to keep up with the average cost of living. When incomes decline, however, it is a sign that employers are either cutting pay rates, laying workers off, or reducing their hours. Declining incomes can also reflect an environment where investments are not performing as well.
9. Producer Price Index (PPI)	The PPI tracks changes in the cost of production (i.e., price movements from the producer's standpoint). The producer price index uses data from three areas of classification (i.e., specific indexes measuring changes in cost of products in the areas of (a) industry, (b) commodities, and (c) commodity-based final and intermediate demand (FD-ID)). The PPI tracks approximately 10,000 individual products and product groups from all industries, including construction, agriculture, manufacturing, and mining.	U.S. Department of Labor, Bureau of Labor Statistics	LEADING INDICATOR Because the PPI measures inflation based on input costs to producers, it is often used to suggest the future direction of inflation (or deflation) in the overall economy. As an objective measure, the PPI is used to automatically adjust prices in many long-term supply/purchasing agreements.
10. Wholesale Price Index (WPI)	The WPI measures changes in average price of wholesale goods (i.e., goods in the stages before the retail level). The WPI refers to goods that are sold in bulk and traded between entities or businesses instead of between businesses and consumers.	The World Bank	LEADING INDICATOR The WPI is often seen as an indicator of the future direction of inflation in the overall economy.
11. Home Sales	Based on contracts to buy new or existing homes, the monthly home sales report provides input on sales of single-family homes nationally. The report includes regional breakdowns and data on median and average sales prices. Private realty trade association National Association of Realtors also publishes a monthly report on sales of existing homes based on closed sales (as opposed to contracts to buy homes).	U.S. Department of Commerce; and National Association of Realtors	LAGGING INDICATOR New home sales are viewed as a lagging indicator of demand but are nonetheless closely watched by investors for clues about broader movements in the national economy. This is because home sales are driven by household income, unemployment and interest rates, among other factors. Because a home sale represents a major purchase for most people, the home sales report also reflects consumer sentiment.
12. Home Building	The monthly homebuilding release provides input nationally as well as a regional breakdown on new residential home construction. It tracks the number of houses that builders begin working on and the number of permits builders obtained to commence the construction process.	U.S. Departments of Housing and Urban Development/Commerce, Census Bureau	LEADING INDICATOR Home building reflects real estate developers' confidence in the national economy. A rise in building typically means builders are optimistic about the near-term demand for newly constructed homes. When building starts to fall, builders fear home sales will slow down.
13. Construction Spending	The construction spending report measures monthly spending on various construction-related expenses, including labor, materials, and engineering work on new or existing hospitals, roads, shopping centers, corporate buildings, single-family homes, multi-family developments, and mobile home structures and parks. The report is provided at a national level but also includes breakdowns for public and private construction spending and residential and non-residential construction spending.	U.S. Department of Commerce, Census Bureau	LEADING/LAGGING INDICATOR Construction spending can be a leading or lagging indicator of the health of a particular market or economy.
14. Manufacturing Demand/Orders	Manufacturing demand reports on manufacturers' shipments, inventories, and orders. As such, it provides an indication of demand for manufactured items. The report breaks manufactured goods down by various types and industries (e.g., electronic instruments, machine tools, and non-durable consumer goods).	U.S. Department of Commerce, Census Bureau	LEADING INDICATOR Manufacturing orders reflect confidence in the economy and predict new phases in the business cycle. When orders begin to rise, it means there is demand in the near future for industrial and manufactured goods. When orders fall, it means demand has diminished.
15. Interest Rates	Interest rates represent the cost of borrowing money and are based on the federal funds rate, which represents the rate at which money is lent from one bank to another. When the federal funds rate increases, lenders must pay higher interest rates to obtain money. In turn, the banks lend money to borrowers at higher rates to compensate, which thereby makes borrowers more reluctant to take out loans. This discourages businesses from expanding and consumers from taking on debt. As a result, GDP growth becomes stagnant.	Federal Open Market Committee of the Federal Reserve System	LAGGING INDICATOR Interest rates are a lagging economic indicator insofar as they are indicative of the economy's current condition. However, interest rates may be a leading indicator of inflation. For example, interest rates that are too low can lead to an increased demand for money and raise the likelihood of inflation.
16. Balance of Trade	The balance of trade is the net difference between the value of exports and imports and shows whether there is a trade surplus (more money coming into the country than going out) or a trade deficit (more money going out of the country than coming in).	U.S. Department of Commerce, Census Bureau and Bureau of Economic Analysis	LAGGING INDICATOR Trade surpluses are generally desirable, but if the trade surplus is too high, a country may not be taking full advantage of the opportunity to purchase other countries' products, which may have a lower price or higher quality. Trade deficits, on the other hand, can lead to significant domestic debt. Over the long term, a trade deficit can result in a devaluation of the local currency as foreign debt increases.
17. Business Confidence	The business confidence indicator tracks expectations regarding future business performance. It is based upon opinion surveys on developments in production, orders and stocks of finished goods in the industry sector. It is used to monitor output growth and anticipate turning points in economic activity.	Organization for Economic Cooperation and Development	LEADING INDICATOR The business confidence index can be used to anticipate growth in economic activity. Numbers above 100 suggest an increased confidence in near future business performance, and numbers below 100 indicate pessimism towards future performance.
18. Auto Production Index (AMI)	The AMI monitors automobile manufacturing facilities for observable, physical activity that can signal changes in production. Auto manufacturers often store finished cars in lots adjacent to factories where they were produced. Tracking the number of cars in these lots can indicate the production level for a factory and provide insight into economic growth.	U.S. Department of Commerce, Bureau of Economic Analysis; and URSA Space	LEADING INDICATOR The automobile industry makes up a substantial portion of U.S. gross domestic product each quarter. As such it captures a great deal of attention from investors, politicians, and economists for its driving forces across the economy. The correlation between the AMI and the PMI (see #19 below) is 0.73.
19. Purchasing Managers Index (PMI)	The PMI measures the performance of the manufacturing sector and is derived from a survey of 600 industrial companies. The PMI is based on five individual indexes with the following weights: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%), and Stock of Items Purchased (10%), with the Suppliers' Delivery Times index inverted so that it moves in a comparable direction. If the PMI is above 50, it represents economic expansion. 50 represents no change, and below 50 represents contraction.	Institute for Supply Management (ISM)	LEADING INDICATOR PMI is one the most closely watched indicators of business activity because it provides input on the prevailing direction of economic trends in the manufacturing and service sectors and predicts the overall health of the country. It consists of a diffusion index that summarizes whether market conditions, as viewed by purchasing managers, are expanding, staying the same or contracting.
20. Industrial Production (INDPRO)	INDPRO is an economic indicator that measures real output for all manufacturing, mining and metals production, durable goods, and electric and gas utilities facilities located in the United States. Industrial production significantly influences GDP.	The Board of Governors of the Federal Reserve System	LEADING INDICATOR An increase in industrial production suggests more demand for consumer goods and, in turn, a healthy economy. Since workers are required to manufacture new goods, increases in industrial production also boost employment and possibly wages. However, industrial goods do not always make it to the end consumer; they may sit in wholesale or retailer inventory for a while. Therefore, when looking at industrial production and manufacturing data, one must also look at retail sales data (see #23 below). If both are on the rise, it indicates a heightened demand for consumer goods.
CONSUMPTION-RELATED INDICES			
21. Consumer Spending	Consumer spending is a monthly release on personal income and outlays that provides input on consumer buying behavior. In a typical year, consumer spending accounts for two-thirds of U.S. gross domestic product and is a good gauge for consumer health.	U.S. Department of Commerce	LEADING INDICATOR Growth in real wages drives consumer spending, which accounts for more than 67% of the U.S. economy and is a meaningful leading indicator.
22. Consumer Price Index (CPI)	The CPI measures changes in costs from the consumer's standpoint and, thus, provides input on inflation. The basket of consumer goods and services tracked by the CPI include vehicles, food, energy, health care, shelter, professional services, clothing, transportation, and electronics.	U.S. Department of Labor, Bureau of Labor Statistic	LAGGING INDICATOR The CPI (and its various breakdown reports on particular categories of goods and services) reports on data and events that have already been reflected in the economy.
23. Retail Sales	Retail sales is a monthly release on retail and food services sales, broken down by retail sales in various sectors, such as sales in department stores, furniture and home finishing stores.	U.S. Department of Commerce, Census Bureau	LEADING INDICATOR Retail sales is a leading indicator of consumer economic health. Retail sales are strongly correlated with inventory levels and manufacturing activity (see #20 above). Strong retail sales directly increase GDP. When sales improve, companies can hire more employees to sell and produce more goods, which also puts more money in consumer's hands.
24. Consumer Confidence	The consumer confidence index provides an indication of future developments of household consumption and savings, based upon survey answers regarding consumers' expected financial situation and their sentiment about the general economy, unemployment and ability to save.	Organization for Economic Cooperation and Development; and The Conference Board	LEADING/LAGGING INDICATOR When the index exceeds 100, it signals higher consumer confidence in the economy in the next 12 months when consumers are less prone to save and more inclined to spend money on major purchases. Values below 100 indicate a pessimistic attitude towards the future economy when consumers tend to save more and consume less.

DEFINITIONS: Lagging indicators confirm business, economic or financial trends (and changes in trends), whereas leading indicators predict them.

Leading Indicators: Leading indicators differ from lagging indicators because they look forward. They are used to forecast and make predictions and can provide insights on what actions are necessary to achieve economic goals. Attention to leading indicators are an advantage since they are predictive in nature and allow an organization to make adjustments based on results. However, leading indicators are dynamic and difficult to measure.

Lagging Indicators: Lagging indicators measure current production and, thus, tell us what has already happened. This is in contrast to leading indicators, which are used to forecast and make predictions. Nonetheless, lagging indicators are good for gauging the trend of the general economy, as tools in business operations and strategy, or as signals to buy or sell assets in financial markets. They are easy to measure but hard to improve or influence.