

VIII. Economic Indicators

1. APICS SURVEY

Definition

A composite diffusion index of national manufacturing conditions. This survey is less well known than the ISM, but can also indicate trends in production. An index level of 50 means no growth, but every 10 points signals gains of 4% in manufacturing.

Why do Investors Care?

Investors need to monitor the economy closely because it usually dictates how various types of investments will perform. The stock market likes to see healthy economic growth because that translates to higher corporate profits. The bond market prefers less robust growth and is extremely sensitive to whether the economy is growing too quickly, which could set the stage for inflation.

The APICS survey gives a detailed look at the manufacturing sector. The diffusion index does not move in tandem with the ISM index every month, but sometimes the two do move in the same direction. Since manufacturing is a major sector of the economy, investors can get a feel for the general economic backdrop for various investments.

2. BANK RESERVE SETTLEMENT

Definition

A two-week period that ends every other Wednesday during which commercial banks must meet reserve requirements stipulated by the Federal Reserve.

Why do Investors Care?

This is primarily of interest to institutional investors and securities brokers who deal with extremely short-term financing (borrowing or lending) to meet cash management needs. For example, short term rates such as the overnight lending rate might be pressured upward by heavy demand for funds in the final few days of the Bank Reserve Settlement period.

3. BUSINESS INVENTORIES

Definition

The dollar amount of inventories held by manufacturers, wholesalers, and retailers. The level of inventories in relation to sales is an important indicator of the near-term direction of production activity.

Why do Investors Care?

Investors need to monitor the economy closely because it usually dictates how various types of investments will perform. The stock market likes to see healthy economic growth because that translates to higher corporate profits. The bond market prefers more moderate growth that won't generate inflationary pressures.

Rising inventories can be an indication of business optimism that sales will be growing in the coming months. By looking at the ratio of inventories to sales, investors can see whether production demands will expand or contract in the near future. For example, if inventory growth lags sales growth, then manufacturers will have to boost production lest commodity shortages occur. On the other hand, if unintended inventory accumulation occurs (that is, sales do not meet expectations), then production will probably have to slow while those inventories are worked down. In this manner, the business inventory data provide a valuable forward-looking tool for tracking the economy.

4.CHAIN STORES SALES

Definition

Monthly sales volumes from department, chain, discount, and apparel stores. Sales are reported by the individual retailers. Chain store sales are an indicator of retail sales and consumer spending trends.

Why do Investors Care?

The pattern of consumption spending is one of the foremost influences on stock and bond markets. Strong economic growth translates into healthy corporate profits and higher stock prices. The focus in the bond market is whether economic growth goes overboard and leads to inflation. Ideally, the economy walks that fine line between strong growth and excessive (inflationary) growth which is what happened through much of the nineties. As a result, investors in the stock and bond markets have enjoyed huge gains. If and when the party comes to an end, more than likely a change in the economic trend will tip us off.

Consumer spending accounts for two-thirds of the economy, so if you know what consumers are up to, you'll have a pretty good handle on where the economy is headed. Needless to say, that's a big advantage for investors.

Chain store sales not only give you a sense of the big picture, but also the trends among individual retailers and different store categories. Perhaps the discount chains such as Target and K-mart are doing well, but the high-end department stores are lagging. Maybe apparel specialty retailers are showing exceptional growth. These trends from the monthly chain store data can help you spot specific investment opportunities, without having to wait for the quarterly or annual reports.

Just a few words of caution. Sales are reported as a change from the same month, a year ago. It is important to know how strong sales actually were a year ago to make sense of this year's sales. In addition, sales are usually reported for "comparable stores" in case of company mergers.

5. CONSTRUCTION SPENDING

Definition

The dollar value of new construction activity on residential, non-residential, and public projects. Data are available in nominal and real (inflation-adjusted) dollars.

Why do Investors Care?

Since the economic backdrop is the most pervasive influence on financial markets, construction spending has a direct bearing on stocks, bonds and commodities. In a more specific sense, trends in the construction data carry valuable clues for the stocks of home builders and large-scale construction contractors. Commodity prices such as lumber are also very sensitive to housing industry trends.

Businesses only put money into the construction of new factories or offices when they are confident that demand is strong enough to justify the expansion. The same goes for individuals making the investment in a home. That's why construction spending is a good indicator of the economy's momentum.

6. CONSUMER CONFIDENCE

Definition

A survey of consumer attitudes concerning both the present situation as well as expectations regarding economic conditions conducted by The Conference Board. Five thousand consumers across the country are surveyed each month. The level of consumer confidence is directly related to the strength of consumer spending.

Why do Investors Care?

Strong economic growth translates into healthy corporate profits and higher stock prices. The bond market focus is whether economic growth goes overboard and leads to inflation. Ideally, the economy walks that fine line between strong growth and excessive (inflationary) growth, which is what happened through much of the nineties. As a result, investors in the stock and bond markets have enjoyed huge gains. If and when the party comes to an end, more than likely a change in the economic trend will be the culprit, and that change might be tipped off by a change in consumer sentiment.

Consumer spending accounts for two-thirds of the economy, so the markets are always dying to know what consumers are up to and how they might behave in the near future. The more confident consumers are about the economy and their own personal finances,

the more likely they are to spend. With this in mind, it's easy to see how this index of consumer attitudes gives insight to the direction of the economy. Just note that changes in consumer confidence and retail sales don't move in tandem month by month.

7. CONSUMER CREDIT

Definition

The dollar value of consumer installment credit outstanding. Changes in consumer credit indicate the state of consumer finances and portends future spending patterns.

Why do Investors Care?

Growth in consumer credit can hold positive or negative implications for the economy and markets. Economic activity is stimulated when consumers borrow within their means to buy cars and other major purchases. On the other hand, if consumers pile up too much debt relative to their income levels, they may have to stop spending on new goods and services just to pay off old debts. That could put a big dent in economic growth.

The demand for credit also has a direct bearing on interest rates. If the demand to borrow money exceeds the supply of willing lenders, interest rates rise. If credit demand falls and many willing lenders are fighting for customers, they may offer lower interest rates to attract business.

Financial market players focus less attention on this indicator because it is reported with a long lag relative to other consumer information. Long term investors who do pay attention to this report will have a greater understanding of consumer spending ability. This will give them a lead on investment alternatives.

8. CONSUMER SENTIMENT

Definition

A survey of consumer attitudes concerning both the present situation as well as expectations regarding economic conditions conducted by the University of Michigan. Five hundred consumers are surveyed each month. The level of consumer sentiment is directly related to the strength of consumer spending.

Why do Investors Care?

Strong economic growth translates into healthy corporate profits and higher stock prices. The bond market focus is whether economic growth goes overboard and leads to inflation. Ideally, the economy walks that fine line between strong growth and excessive (inflationary) growth, which is what happened through much of the nineties. As a result, investors in the stock and bond markets have enjoyed huge gains. If and when the party comes to an end, more than likely a change in the economic trend will be the culprit, and that change might be tipped off by a change in consumer sentiment.

Consumer spending accounts for two-thirds of the economy, so the markets are always dying to know what consumers are up to and how they might behave in the near future. The more confident consumers are about the economy and their own personal finances, the more likely they are to spend. With this in mind, it's easy to see how this index of consumer attitudes gives insight to the direction of the economy. Just note that changes in consumer sentiment and retail sales don't move in tandem month by month.

9. CPI (Consumer Price Index)

Definition

The Consumer Price Index is a measure of the average price level of a fixed basket of goods and services purchased by consumers. Monthly changes in the CPI represent the rate of inflation.

Why do Investors Care?

The consumer price index is the most widely followed indicator of inflation in the United States. Just knowing what inflation is and how it influences the markets can put an individual investor head and shoulders above the crowd.

Inflation is a general increase in the price of goods and services. The relationship between INFLATION and INTEREST RATES is the key to understanding how data like the CPI influence the markets (and your investments.)

If someone borrows \$100 dollars from you today and promises to repay it in one year with interest, how much interest should you charge? The answer depends largely on inflation, because you know that the \$100 won't be able to buy the same amount of goods and services a year from now, as it does today. If you were in Brazil where prices can double every couple of months, you might want to charge 400% interest for a total payoff of \$500 at the end of the year. In the United States, the CPI tells us that prices are rising about 2% a year, so you only have to charge 2% interest to recoup your purchasing power at the end of the year. You might want to add in a few more percentage points for default risk and the opportunity cost, but the key variable in what interest rate you charge is the rate of inflation.

That basically explains how interest rates are set on everything from your mortgage and auto loans to Treasury bonds and T-bills. As the rate of inflation changes and as expectations on inflation change, the markets adjust interest rates accordingly. The effect ripples across stocks, bonds, commodities, and your portfolio, often in a dramatic fashion.

By tracking the trends in inflation, whether high or low, rising or falling, investors can anticipate how different types of investments will perform

10. CURRENT ACCOUNT

Definition

A measure of the country's international trade balance in goods, services, and unilateral transfers. The level of the current account, as well as trends in exports and imports, are followed as indicators of trends in foreign trade.

Why do Investors Care?

U.S. trade with foreign countries hold important clues to economic trends here and abroad. The data can directly impact all the financial markets, but especially the foreign exchange value of the dollar.

The dollar can be particularly sensitive to changes in the chronic trade deficit run by the United States since this trade imbalance creates greater demand for foreign currencies. The bond market is sensitive to the risk of importing inflation or deflation. Ever since Asian economies collapsed at the end of 1997, financial market participants have feared that deflation in these economies would be transported to the United States. The linkage is not so direct, and deflationary pressures are not so likely at this time.

11. DURABLE GOODS ORDERS

Definition

Durable goods orders reflect the new orders placed with domestic manufacturers for immediate and future delivery of factory hardgoods.

Why do Investors Care?

Investors want to keep their finger on the pulse of the economy because it usually dictates how various types of investments will perform. The stock market likes to see healthy economic growth because that translates to higher corporate profits. The bond market doesn't mind growth but is extremely sensitive to whether the economy is growing too quickly and paving the road for inflation. By tracking economic data like durable goods orders, investors will know what the economic backdrop is for these markets and their portfolios.

Orders for durable goods show how busy factories will be in the months to come, as manufacturers work to fill those orders. The data not only provides insight to demand for things like refrigerators and cars, but also business investment going forward. If companies commit to spending more on equipment and other capital, they are obviously experiencing sustainable growth in their business. Increased expenditures on investment goods sets the stage for greater productive capacity in the country and reduces the prospects for inflation. That tells investors what to expect from the manufacturing sector, a major component of the economy and therefore a major influence on their investments.

12. EXISTING HOME SALES

Definition

The number of previously constructed homes with a closed sale during the month. Existing homes (also known as home resales) are a larger share of the market than new homes and indicate housing market trends.

Why do Investors Care?

This provides a gauge of not only the demand for housing, but the economic momentum. People have to be feeling pretty comfortable and confident in their own financial position to buy a house. Furthermore, this narrow piece of data has a powerful multiplier effect through the economy, and therefore across the markets and your investments. By tracking economic data such as home resales, investors can gain specific investment ideas as well as broad guidance for managing a portfolio.

Even though home resales don't always create new output, once the home is sold, it generates revenues for the realtor. It brings a myriad of consumption opportunities for the buyer. Refrigerators, washers, dryers and furniture are just a few items home buyers might purchase. The economic "ripple effect" can be substantial especially when you think a hundred thousand new households around the country are doing this every month. Since the economic backdrop is the most pervasive influence on financial markets, home resales have a direct bearing on stocks, bonds and commodities. In a more specific sense, trends in the existing home sales data carry valuable clues for the stocks of home builders, mortgage lenders and home furnishings companies.

13. FACTORY ORDERS

Definition

The dollar level of new orders for manufacturing durable and nondurable goods. It gives more complete information than durable goods orders which is reported one or two weeks earlier in the month.

Why do Investors Care?

Investors want to keep their finger on the pulse of the economy because it usually dictates how various types of investments will perform. The stock market likes to see healthy economic growth because that translates to higher corporate profits. The bond market prefers more moderate growth which is less likely to cause inflationary pressures. By tracking economic data like factory orders, investors will know what the economic backdrop is for these markets and their portfolios.

The orders data show how busy factories will be in coming months as manufacturers work to fill those orders. This report provides insight to the demand for not only hard

goods such as refrigerators and cars, but nondurables such as cigarettes and apparel. In addition to new orders, analysts monitor unfilled orders, an indicator of the backlog in production. Shipments reveal current sales. Inventories give a handle on the strength of current and future production. All in all, this report tells investors what to expect from the manufacturing sector, a major component of the economy and therefore a major influence on their investments.

14. GDP (GROSS DOMESTIC PRODUCT)

Definition

Gross Domestic Product (GDP) is the broadest measure of aggregate economic activity and encompasses every sector of the economy.

Why do Investors Care?

GDP is the consummate measure of economic activity. Investors need to closely track the economy because it usually dictates how investments will perform. The stock market likes to see healthy economic growth because that translates to higher corporate profits. The bond market doesn't mind growth but is extremely sensitive to whether the economy is growing too quickly and paving the road to inflation. By tracking economic data like GDP, investors will know what the economic backdrop is for these markets and their portfolios.

The GDP report contains a treasure-trove of information which not only paints an image of the overall economy, but tells investors about important trends within the big picture. GDP components like consumer spending, business and residential investment, and price (inflation) indexes illuminate the economy's undercurrents, which can translate to investment opportunities and guidance in managing a portfolio.

15. HICP (Harmonised Index of Consumer Prices)

What is the harmonised index of consumer prices?

The harmonised index of consumer prices (HICP) is an internationally comparable measure of inflation calculated by each Member State of the European Union. HICPs are used to compare inflation rates across the European Union. Since January 1999, they have been used by the European Central Bank as the target measure of inflation for the Member States of the Eurozone. Increasingly, HICPs are being used for indexing contracts which cover more than one EU Member State.

Why were they developed?

National consumer price indices within Europe, such as the RPI, vary considerably in terms of their coverage of goods and services and in the rules underlying their construction. This can impact on the measured rates of inflation. In response to this, and as a requirement of the Maastricht Treaty, Eurostat - the statistical office of the European Union - in conjunction with the National Statistical Offices of EU Member States,

developed the HICP as a comparable measure of inflation. HICP inflation rates for all Member States are available from January 1997.

How is the HICP different from the RPI?

Although, the same price data are used for both HICP and RPI and the methodologies used are similar, the rules underlying the construction of the HICP are specified in a series of European Regulations and it differs from the RPI in the following ways:

- In the HICP, the geometric mean is used to aggregate the prices at the most basic level whereas the RPI uses arithmetic means.
- A number of RPI series are excluded from the HICP, most particularly, those mainly relating to owner occupiers' housing costs (eg mortgage interest payments, house depreciation, council tax and buildings insurance).
- The coverage of the HICP indices is based on the international classification system, COICOP which differs from the RPI groupings.
- The HICP includes series for air fares, university accommodation fees, foreign students' university tuition fees, unit trust and stockbrokers charges, none of which are included in the RPI.
- The index for new cars in the RPI is imputed from movements in second hand car prices, whereas the HICP uses a quality adjusted index based on published prices of new cars.
- The HICP weights are based on expenditure by all private households, foreign visitors to the UK and residents of institutional households. In the RPI, weights are based on expenditure by private households only, excluding the highest income households, institutional households and pensioner households mainly dependent on state benefits.
- In the construction of the RPI weights, expenditure on insurance is assigned to the relevant insurance heading. For the HICP weights, the amount paid out in insurance claims is distributed amongst the COICOP headings according to the nature of the claims expenditure with the residual (ie the service charge) being allocated to the relevant insurance heading.

16. HOUSING STARTS

Definition

Housing starts measure the number of residential units on which construction is begun each month.

Why do Investors Care?

Two words...Ripple Effect. This narrow piece of data has a powerful multiplier effect through the economy, and therefore across the markets and your investments. By tracking economic data such as housing starts, investors can gain specific investment ideas as well as broad guidance for managing a portfolio.

Home builders don't start a house unless they are fairly confident it will sell upon or before its completion. Changes in the rate of housing starts tell us a lot about demand for homes and the outlook for the construction industry. Furthermore, each time a new home is started, construction employment rises, and income will be pumped back into the economy. Once the home is sold, it generates revenues for the home builder and a myriad of consumption opportunities for the buyer. Refrigerators, washers and dryers, furniture, and landscaping are just a few things new home buyers might spend money on, so the economic "ripple effect" can be substantial especially when you think of it in terms of a hundred thousand new households around the country doing this every month.

Since the economic backdrop is the most pervasive influence on financial markets, housing starts have a direct bearing on stocks, bonds and commodities. In a more specific sense, trends in the housing starts data carry valuable clues for the stocks of home builders, mortgage lenders, and home furnishings companies. Commodity prices such as lumber are also very sensitive to housing industry trends.

17. IFO Business Climate in industry and trade

The Ifo Business Climate Index is a widely observed early indicator for economic development in Germany. Every month the Ifo Institute surveys more than 7,000 enterprises in west and east Germany on their appraisals of the business situation ('good' / 'satisfactory' / 'poor') and their expectations for the next six months ('better' / 'same' / 'worse'). The replies are weighted according to the importance of the industry and aggregated. The percentage shares of the positive and negative responses to both questions are balanced, and a geometric mean is formed from the balances, divided according to east and west Germany. The series of balances thus derived are linked to a base year (currently 1991) and seasonally adjusted.

In addition to the index values, the Ifo Institute also published the original balances of the Ifo Business Climate.

The Ifo Business Climate balances can fluctuate between extreme values of -100 (i.e., all responding firms appraise their situation as poor or expect business to become worse) and +100 (i.e., all responding firms assessed their situation as good or expect an improvement in their business). In actual fact, the balances fluctuate around the zero value, the fluctuations being considerably smaller (even the negative ones) than the index values, which start from a base of 100.

An example to illustrate how the balance values are calculated:

Of 100 responding firms, 40% appraise their business situation as satisfactory, 35% as good and 25% as poor. The firms that assessed their situation as satisfactory are considered to be "neutral" and do not affect the results of the business-situation appraisal. The two remaining percentage values (35 - 25) are now balanced. The resulting value of 10 is the business-situation appraisal, i.e. the first component of the business climate in the form of a balance. The six-month expectations are calculated the same way. When this value has been determined, the geometric mean is formed from the situation and expectations appraisal. This geometric mean is the Ifo Business Climate balance for the individual month.

18. IMPORT AND EXPORT PRICES

Definition

The prices of goods that are bought in the United States but produced abroad and the prices of goods sold abroad but produced domestically. These prices indicate inflationary trends in internationally traded products.

Why do Investors Care?

Changes in import and export prices are a valuable gauge of inflation here and abroad. Furthermore, the data can directly impact the financial markets such as bonds and the dollar. The bond market is especially sensitive to the risk of importing inflation because it erodes the value of the principal (the original investment) which is paid back when the bond matures. It also decreases the value of the steady stream of interest rate payments on this type of security.

Inflation leads to higher interest rates and that's bad news for stocks, as well. By monitoring inflation gauges such as import prices, investors can keep an eye on this menace to their portfolio.

19. 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 reflects the usage of available resources.

Why do Investors Care?

Investors want to keep their finger on the pulse of the economy because it usually dictates how various types of investments will perform. The stock market likes to see healthy economic growth because that translates to higher corporate profits. The bond market prefers more subdued growth that won't lead to inflationary pressures. By tracking

economic data like industrial production, investors will know what the economic backdrop is for these markets and their portfolios.

Industrial production shows how much factories, mines and utilities are producing. Since the manufacturing sector accounts for one-quarter of the economy, this report has a big influence on market behavior. The capacity utilization rate provides an estimate of how much factory capacity is in use. If the utilization rate gets too high (above 85%) it can lead to inflationary bottlenecks in production. The Federal Reserve watches this report closely and sets interest rate policy on the basis of whether production constraints are threatening to cause inflationary pressures. As such, the bond market can be highly sensitive to this report.

20. INTERNATIONAL TRADE

Definition

International Trade measures the difference between imports and exports of both tangible goods and services. The level of the international trade balance, as well as changes in exports and imports, indicate trends in foreign trade.

Why do Investors Care?

Changes in the level of imports and exports, along with the difference between the two (the trade balance) are a valuable gauge of economic trends here and abroad. Furthermore, the data can directly impact all the financial markets, but especially the foreign exchange value of the dollar.

Imports indicate demand for foreign goods and services here in the U.S. Exports show the demand for U.S. goods in overseas countries. The dollar can be particularly sensitive to changes in the chronic trade deficit run by the United States, since this trade imbalance creates greater demand for foreign currencies. The bond market is also sensitive to the risk of importing inflation. This report gives a breakdown of U.S. trade with major countries as well, so it can be instructive for investors who are interested in diversifying globally. For example, a trend of accelerating exports to a particular country might signal economic strength and investment opportunities in that country.

21. ISM (Institute for Supply Management)

Definition

Formerly known as the NAPM. Change was effective in January 2002. ISM is a composite diffusion index of national manufacturing conditions. Readings above 50% indicate an expanding factory sector.

Why do Investors Care?

Investors need to keep their fingers on the pulse of the economy because it dictates how

various types of investments will perform. By tracking economic data like the ISM, investors will know what the economic backdrop is for the various markets. The stock market likes to see healthy economic growth because that translates to higher corporate profits. The bond market prefers less rapid growth and is extremely sensitive to whether the economy is growing too quickly and causing potential inflationary pressures.

The ISM gives a detailed look at the manufacturing sector, how busy it is and where things are headed. Since the manufacturing sector is a major source of cyclical variability in the economy, this report has a big influence on the markets. More than one of the ISM sub-indexes provide insight on commodity prices and clues regarding the potential for developing inflation. The Federal Reserve keeps a close watch on this report which helps it to determine the direction of interest rates when inflation signals are flashing in these data. As a result, the bond market is highly sensitive to this report.

22. JOBLESS CLAIMS

Definition

A weekly compilation of the number of individuals who filed for unemployment insurance for the first time. This indicator, and more importantly, its four-week moving average, portends trends in the labor market.

Why do Investors Care?

Jobless claims are an easy way to gauge the strength of the job market. The fewer people filing for unemployment benefits, the more have jobs, and that tells investors a great deal about the economy. Nearly every job comes with an income which gives a household spending power. Spending greases the wheels of the economy and keeps it growing, so the stronger the job market, the healthier the economy.

There's a downside to it, though, which is relevant these days. Unemployment claims, and therefore the number of job seekers, can fall to such a low level that businesses have a tough time finding new workers. They might have to pay overtime to current staff, use higher wages to lure people from other jobs, and in general spend more on labor costs because of a shortage of workers. This leads to wage inflation which is bad news for the stock and bond markets. Federal Reserve chairman Alan Greenspan talks about it all the time and watches for it constantly.

By tracking the number of jobless claims, investors can gain a sense of how tight the job market is. If wage inflation threatens, it's a good bet that interest rates will rise, bond and stock prices will fall, and the only investors in a good mood will be the ones who tracked jobless claims and adjusted their portfolios to anticipate these events.

Just remember, the lower the number of unemployment claims, the stronger the job market, and vice versa.

23. LEADING INDICATORS

Definition

A composite index of ten economic indicators that typically lead overall economic activity.

Why do Investors Care?

Investors need to keep their fingers on the pulse of the economy because it dictates how various types of investments will perform. By tracking economic data like the index of leading indicators, investors will know what the economic backdrop is for the various markets. The stock market likes to see healthy economic growth because that translates to higher corporate profits. The bond market prefers less rapid growth and is extremely sensitive to whether the economy is growing too quickly-and causing potential inflationary pressures.

The index of Leading Indicators is designed to predict turning points in the economy such as recessions and recoveries. Incidentally, stock prices are one of the leading indicators in this index.

24. MONEY SUPPLY

Definition

The monetary aggregates are alternative measures of the money supply by degree of liquidity. Changes in the monetary aggregates indicate the thrust of monetary policy as well as the outlook for economic activity and inflationary pressures.

Why do Investors Care?

To be honest, the various money supply measures don't matter to most investors these days. The monetary aggregates (known individually as M1, M2, and M3) used to be all the rage a few years back because the data revealed the Fed's (tight or loose) hold on credit conditions in the economy. The Fed issues target ranges for money supply growth. In the past, if actual growth moved outside those ranges it often was a prelude to an interest rate move from the Fed. Today, monetary policy is understood more clearly by the level of the federal funds rate.

Money supply fell out of vogue in the nineties, due to a variety of changes in the financial system and the way the Federal Reserve conducts monetary policy. The Fed is working on some new measures of money supply, and given the way economic indicators ebb and flow in popularity, don't be surprised if the monetary aggregates make a comeback in the future.

25. NEW HOME SALES

Definition

The number of newly constructed homes with a committed sale during the month. The level of new home sales indicates housing market trends.

Why do Investors Care?

This provides a gauge of not only the demand for housing, but the economic momentum. People have to be feeling pretty comfortable and confident in their own financial position to buy a house. Furthermore, this narrow piece of data has a powerful multiplier effect through the economy, and therefore across the markets and your investments. By tracking economic data such as new home sales, investors can gain specific investment ideas as well as broad guidance for managing a portfolio.

Each time the construction of a new home begins, it translates to more construction jobs, and income which will be pumped back into the economy. Once the home is sold, it generates revenues for the home builder and the realtor. It brings a myriad of consumption opportunities for the buyer. Refrigerators, washers, dryers and furniture are just a few items new home buyers might purchase. The economic "ripple effect" can be substantial especially when you think a hundred thousand new households around the country are doing this every month.

Since the economic backdrop is the most pervasive influence on financial markets, new home sales have a direct bearing on stocks, bonds and commodities. In a more specific sense, trends in the new home sales data carry valuable clues for the stocks of home builders, mortgage lenders and home furnishings companies.

26. NONFARM PAYROLL

Definition

The employment situation is a set of labor market indicators. The unemployment rate measures the number of unemployed as a percentage of the labor force. Nonfarm payroll employment counts the number of paid employees working part-time or full-time in the nation's business and government establishments. The average workweek reflects the number of hours worked in the nonfarm sector. Average hourly earnings reveal the basic hourly rate for major industries as indicated in nonfarm payrolls.

Why do Investors Care?

If ever there was an economic report that can move the markets, this is it! The anticipation on Wall Street each month is palpable, the reactions are dramatic, and the information for investors is invaluable. By digging just a little deeper than the headline unemployment rate, investors can take more strategic control of their portfolio and even

take advantage of unique investment opportunities that often arise in the days surrounding this report.

The employment data give the most comprehensive report on how many people are looking for jobs, how many have them, what they're getting paid and how many hours they are working. These numbers are the best way to gauge the current state and future direction of the economy. They also provide insight on wage trends, and wage inflation is high on the list of enemies for the Federal Reserve. Fed chairman Alan Greenspan talks about this data frequently and watches for inflation constantly.

By tracking the jobs data, investors can sense the degree of tightness in the job market. If wage inflation threatens, it's a good bet that interest rates will rise, bond and stock prices will fall. No doubt that the only investors in a good mood will be the ones who watched the employment report and adjusted their portfolios to anticipate these events.

27. PERSONAL INCOME

Definition

Personal income is the dollar value of income received from all sources by individuals. Personal outlays include consumer purchases of durable and nondurable goods, and services.

Why do Investors Care?

The income and outlays data are another handy way to gauge the strength of the economy and where it is headed. Income gives households the power to spend and/or save. Spending greases the wheels of the economy and keeps it growing. Savings are often invested in the financial markets and can drive up the prices of stocks and bonds. Even if savings simply go into a bank account, part of those funds are typically used by the bank for lending and therefore contribute to economic activity. The only way savings fail to contribute is if they are deposited in the First National Bank of Serta (under the mattress), and not too many people do that anymore.

The consumption (outlays) part of this report is even more directly tied to the economy, which we know usually dictates how the markets perform. Consumer spending accounts for two-thirds of the economy, so if you know what consumers are up to, you'll have a pretty good handle on where the economy is headed. Needless to say, that's a big advantage for investors.

28. PHILADELPHIA FED SURVEY

Definition

A composite diffusion index of manufacturing conditions within the Philadelphia Federal Reserve district. This survey is widely followed as an indicator of manufacturing sector trends since it is correlated with the NAPM survey and the index of industrial production.

Why do Investors Care?

Investors need to monitor the economy closely because it usually dictates how various types of investments will perform. By tracking economic data such as the Philly Fed survey, investors will know what the economic backdrop is for the various markets. The stock market likes to see healthy economic growth because that translates to higher corporate profits. The bond market prefers more moderate growth which won't lead to inflation.

The Philly Fed survey gives a detailed look at the manufacturing sector, how busy it is and where things are headed. Since manufacturing is a major sector of the economy, this report has a big influence on market behavior. Some of the Philly Fed sub-indexes also provide insight on commodity prices and other clues on inflation. The bond market is highly sensitive to this report because it is released early in the month and is available before other important indicators.

29. PPI (Producer Price Index)

Definition

The Producer Price Index (PPI) is a measure of the average price level for a fixed basket of capital and consumer goods paid by producers.

Why do Investors Care?

The PPI measures price changes in the manufacturing sector. Inflation at this producer level often gets passed through to the consumer price index (CPI). By tracking price pressures in the pipeline, investors can anticipate inflationary consequences in coming months. Investors need to monitor inflation closely. Just knowing what inflation is and how it influences the markets can put an individual investor head and shoulders above the crowd.

Inflation is a general increase in the prices of goods and services. The relationship between INFLATION and INTEREST RATES is the key to understanding how data like the PPI influence the markets (and your investments.)

If someone borrows \$100 dollars from you today and promises to repay it in one year with interest, how much interest should you charge? The answer depends largely on inflation, because you know that the \$100 won't be able to buy the same amount of goods and services a year from now, as it does today. If you were in Brazil where prices can double every couple of months, you might want to charge 400% interest for a total payoff of \$500 at the end of the year. In the United States, the CPI tells us that prices are rising about 2% a year, so you only have to charge 2% interest to recoup your purchasing power at the end of the year. You might want to add in a few more percentage points for default

risk and the opportunity cost, but the key variable in what interest rate you charge is the rate of inflation.

That basically explains how interest rates are set on everything from your mortgage and auto loans to Treasury bonds and T-bills. As the rate of inflation changes and as expectations on inflation change, the markets adjust interest rates accordingly. The effect ripples across stocks, bonds, commodities, and your portfolio, often in a dramatic fashion.

By tracking the trends in inflation, whether high or low, rising or falling, investors can anticipate how different types of investments will perform.

30. RETAIL SALES

Definition

Retail sales measure the total receipts at stores that sell durable and nondurable goods

Why do Investors Care?

Consumer spending accounts for two-thirds of the economy, so if you know what consumers are up to, you'll have a pretty good handle on where the economy is headed. Needless to say, that's a big advantage for investors.

The pattern in consumer spending is often the foremost influence on stock and bond markets. For stocks, strong economic growth translates to healthy corporate profits and higher stock prices. For bonds, the focus is whether economic growth goes overboard and leads to inflation. Ideally, the economy walks that fine line between strong growth and excessive (inflationary) growth, and that's just what has happened through much of the nineties. For this reason alone, investors in the stock and bond markets have enjoyed huge gains this decade. If and when the party comes to an end, more than likely a change in the economic trend will tip us off.

Retail sales not only give you a sense of the big picture, but also the trends among different types of retailers. Perhaps auto sales are especially strong or apparel sales are showing exceptional weakness. These trends from the retail sales data can help you spot specific investment opportunities, without having to wait for a company's quarterly or annual report.

31. RPI (Retail Prices Index)

What is the Retail Prices Index?

The Retail Prices Index is the UK's principal measure of consumer price inflation. It is defined as an average measure of change in the prices of goods and services bought for the purpose of consumption by the vast majority of households in the UK. It is compiled and published monthly. Once published, it is never revised.

What is it used for?

Measures of inflation are vital tools for economists, business and government. The Bank of England's Monetary Policy Committee sets UK interest rates on the basis of a target figure for inflation set by the Chancellor of the Exchequer. Wage agreements, pensions and changes in benefit levels are often linked directly to the RPI. Utility regulators impose restrictions on price movements based on the RPI. RPIX (all items RPI excluding mortgage interest payments) is the main economic measure used by HM Treasury and the Bank of England.

Which items are included in the Retail Prices Index?

The RPI includes data on food and drink, tobacco, housing, household goods and services, personal goods and services, transport fares, motoring costs, clothing and leisure goods and services. A list of price indicators used in the construction of each year's RPI is available from the website.

Who gathers the prices?

Prices are collected in two ways. The local price collection is carried out by a market research firm who collect over 130,000 prices per month. ONS has procedures in place to quality assure the local price collection carried out by the contractors.

ONS staff collect a further 10,000 prices centrally each month for a number of reasons including efficiency (e.g. prices in catalogues, national newspaper prices, utility prices), availability (e.g. prices that may not be available in retail areas such as sea fares, road tolls, internet prices), prices that are methodologically difficult to measure (e.g. mortgage interest payments) and items where quality adjustments may be important (e.g. personal computers).

32. UNEMPLOYMENT RATE*Definition*

The employment situation is a set of labor market indicators. The unemployment rate measures the number of unemployed as a percentage of the labor force. Nonfarm payroll employment counts the number of paid employees working part-time or full-time in the nation's business and government establishments. The average workweek reflects the number of hours worked in the nonfarm sector. Average hourly earnings reveal the basic hourly rate for major industries as indicated in nonfarm payrolls.

Why do Investors Care?

If ever there was an economic report that can move the markets, this is it! The anticipation on Wall Street each month is palpable, the reactions are dramatic, and the information for investors is invaluable. By digging just a little deeper than the headline unemployment rate, investors can take more strategic control of their portfolio and even

take advantage of unique investment opportunities that often arise in the days surrounding this report.

The employment data give the most comprehensive report on how many people are looking for jobs, how many have them, what they're getting paid and how many hours they are working. These numbers are the best way to gauge the current state and future direction of the economy. They also provide insight on wage trends, and wage inflation is high on the list of enemies for the Federal Reserve. Fed chairman Alan Greenspan talks about this data frequently and watches for inflation constantly.

By tracking the jobs data, investors can sense the degree of tightness in the job market. If wage inflation threatens, it's a good bet that interest rates will rise, bond and stock prices will fall. No doubt that the only investors in a good mood will be the ones who watched the employment report and adjusted their portfolios to anticipate these events.

33. ZEW

The ZEW works in the field of user-related empirical economic research. In this context it particularly distinguished itself nationally and internationally by analysing internationally comparative issues in the European context and by compiling scientifically important data bases.

The ZEW is a non-profit economic research institute with the legal form of a limited liability company (GmbH). It was founded in 1990 on the initiative of the government of the federal state Baden-Württemberg, trade and industry, and the Mannheim University. In April 1991 the institute took up work and has expanded rapidly since then. At present, 115 employees work at the ZEW, 78 of which are scientifically active. Professor Dr. Wolfgang Franz (President/Scientific Management) and Ernst-O. Schulze (Director/Commercial Management) are heading the institute. The high quality of the research work conducted at the institute was confirmed by the Wissenschaftsrat (the advisory body to the Federal Government) on the occasion of the evaluation of the ZEW in 1998, and documented externally by the recommendation to grant the ZEW Federal Government and Länder Funding (Blue List).

Duties and Goals

The ZEW's duty is to carry out economic research, economic counselling and knowledge transfer. The institute focuses on decision-makers in politics, economics, and administration, scientists in the national and international arena as well as the interested public. Regular interviews on the situation on the financial markets and business-related service providers as well as large-scale annual studies on technological competitiveness of and innovation activities in the economy are representative of the different types of topical information provided by the ZEW.

Approach and Fields of Research

The ZEW takes a predominantly microeconomic and microeconomic research approach to its research work and co-operates closely with other scientific disciplines, whenever the respective issue requires such. In this context, the research institute distinguished itself, inter alia, in the analysis of internationally comparative questions in the European context and in the creation of data bases which are eminently important as a basis for scientific research. In addition, the ZEW provides outside persons and bodies with excerpts of selected data stocks for the purpose of scientific research. The ZEW is subdivided into the following five research fields:

International Finance and Financial Management;
Labour Economics, Human Resources, and Social Policy;
Industrial Economics and International Management;
Corporate Taxation and Public Business Finance;
Environmental and Resource Economics, Eco-management.

Evaluations in regular intervals ensure the quality of the work performed in the research fields and its orientation towards the institute's research programme. The evaluations are carried out by the Scientific Advisory Council of the ZEW, which is composed of renowned German and foreign scientists as well as of executives from the economy and public administration.