Economic Indicators

Generally released on a scheduled monthly and quarterly basis, economic indicators can have as much an affect on the Forex market as a political or major news event. Traders routinely adjust their trading activity to coincide with the release of economic data. Why? An economic indicator can cause volatility in the market. Volatility, short-term market movement either up or down, is what many traders thrive upon. And, most traders would agree that to make money in the market, the market has to move.

An important feature for most of these economic indicators is the release of two numbers: the expected and the actual. The expected number is usually a compilation of facts and figures by market analysts before the announcement of the actual number. Most economic indicators are calculated and reported by governmental agencies, who in turn report the actual number. If the actual number is better or worse than the expected number, the market generally moves accordingly depending upon the discrepancy between the expected and actual number.

Each country generally releases its economic indicators at the same time every month. Yet, these times are different from country to country. In the U.S., most economic data is generally released at 8:30 AM and 10:00 AM Eastern Time.

Below is a comprehensive list of economic indicators. Some of these indicators affect several currency pairs, such as the U.S. Employment Report. While others have an affect on the country of relevance.

AUTO SALES – The number of cars sold during a particular ten-day period. The timeliness of this indicator (released three days after the 10-day period) makes this the most current piece of US economic data. The size of the item in question and the timeliness of the release allow auto sales to be a useful leading indicator of retail sales and personal consumption expenditures data.

BALANCE OF PAYMENTS – Complete summary of a nation’s economic transactions and the rest of the world including merchandise, services, financial assets and tourism. The balance of payments is separated into two main accounts: the current account and the capital account.

BALANCE OF TRADE – The difference between a nation’s exports and imports of merchandise. A positive balance of trade, or a surplus, occurs when a county’s exports exceed its imports. A negative balance of trade, or a deficit, occurs when imports surpass exports. Rising exports add to GDP while falling imports are subtracted from it. The US merchandise trade balance has been in a deficit since the mid-1970s. Rising deficits can be reflective of increased consumption, which can be a sign of a strengthening economy.

BEIGE BOOK FED SURVEY – Officially known as the Survey on Current Economic Conditions, the Beige Book, is published eight times per year by a Federal Reserve Bank, containing anecdotal information on current economic and business conditions in its District through reports from Bank and Branch directors, and interviews with key business contacts, economists, market experts, and other sources. The Beige Book highlights the activity information by District and sector. The survey normally covers a period of about 4- weeks in duration, and is released two weeks prior to each FOMC meeting, which is also held eight times per year. While being deemed by some as a lagging report, the Beige Book has usually served as a helpful indicator to FOMC policy decisions on monetary policy.

CONSTRUCTION SPENDING – A measure of the value of construction during the course of a particular month.

CONSUMER CREDIT – A measure of the monthly growth in outstanding consumer installment credit which can act as a leading indicator for consumer spending.

CONSUMER PRICE INDEX (CPI) – A measure of the average price level paid by consumers for a fixed based of goods and services. It reports price changes in over 200 categories. The CPI also includes various user fees and taxes directly associated with the prices of specific goods and services.

CORPORATE GOODS PRICE INDEX (CGPI) -A measure of the rate of inflation experienced by Japanese corporations based on the change for a fixed purchase base of goods and services.

CURRENT ACCOUNT – The most important part of international trade data. It is the broadest measure of sales and purchases of goods, services, interest payments and unilateral transfers. The entire merchandise trade balance is contained in the current account.

DURABLE GOODS – Measures new orders placed with domestic manufacturers for immediate and future delivery of factory hard goods. A durable good is defined as a good that lasts an extended period of time (over three years) during which its services are extended.

FACTORY ORDERS & MANUFACTURING INVENTORIES – Contains data on orders and shipments of non-durable goods, manufacturing inventories, and the inventory/sales ratio. Order data are useful because they tell us something about the likely pace of production in the months ahead. They are extremely volatile and can fluctuate by three or four percentage points in any given month. They are subject to sizeable revisions and are very difficult to forecast.

GROSS DOMESTIC PRODUCT (GDP) -The sum of all goods and services produced either by domestic or foreign companies. GDP indicates the pace at which a country's economy is growing (or shrinking) and is considered the broadest indicator of economic output and growth.

HOUSING STARTS – A measure of the number of residential units on which construction is begun each month. A start in construction is defined as the beginning of excavation of the foundation for the building and is comprised primarily of residential housing. Housing is very interest rate sensitive and is one of the first sectors to react to changes in interest rates. Significant reaction of start/permits to changing interest rates signals interest rates are nearing trough or peak. To analyze, focus on the percentage change in levels from the previous month. Report is released around the middle of the following month.

INDUSTRIAL PRODUCTION – It is a chain-weighted measure of the change in the production of the nation's factories, mines and utilities as well as a measure of their industrial capacity and of how many available resources among factories, utilities and mines are being used (commonly known as capacity utilization). The manufacturing sector accounts for one-quarter of the economy. The capacity utilization rate provides an estimate of how much factory capacity is in use.

ISM (INSTITUTE FOR SUPPLY MANAGEMENT) – See Purchasing Managers Index.

NEW HOME SALES – Monthly new home sales data contains information on home prices and number of houses for sale, which indicate consumer spending patterns and economic activity. Volatility and revisions, however, are common in the report.

NON-FARM PAYROLL (NFP) REPORT – Released every first Friday of the month by the U.S. Bureau of Labor Statistics, the NFP represents approximately 80% of paid workers of any business, excluding government, private household, farm and non-profit employees, employees. It is used to determine the current state of the economy and predict future levels of economic activity. Of all the economic indicators, the NFP is one of the most anticipated reports.

PRODUCER PRICE INDEX (PPI) – A measure of price changes in the manufacturing sector. It measures average changes in selling prices received by domestic producers in the manufacturing, mining, agriculture, and electric utility industries for their output.

PURCHASING MANAGERS INDEX (PMI) – The National Association of Purchasing Managers (NAPM), now called the Institute for Supply Management, releases a monthly composite index of national manufacturing conditions from data collected on new orders, production, supplier deliveries, inventories, prices, export orders, and import orders. It is divided into manufacturing and non-manufacturing sub-indices.

RETAIL SALES – A measure of the total receipts of retail stores from samples representing all sizes and kinds of business in retail trade throughout the nation. It indicates consumer spending patterns.

TANKAN SURVEY – Released quarterly by the Bank of Japan, this is Japan's chief business survey consisting of the previous, current and projected macro- and micro-economic variables and business conditions.

TRADE BALANCE – A measure in the difference of total imports compared to total exports. A positive number represents an increase of exports over imports for the prior month. This report can have an impact on GDP and influence the preceived value of a currency.

UNEMPLOYMENT RATE – A measure of the percentage of total unemployed workers. An increase in the unemployment rate can suggest a decline in the economy and possible decrease in industrial production and manufacturing output.

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