COINCIDENT INDICATORS

Institute of Trading & Portfolio Management

Contents

Employment Situation Report

Frequency: Monthly
Release Time: 8:30am (ET) – typically on the first Friday of every month
Source: Bureau of Labor Statistics, Department of Labor
Link: https://www.bls.gov/news.release/empsit.toc.htm
Revisions: Usually the latest two months of data are revised with every new release. Also, benchmark revisions to the whole data series can be made up to once a year.

How is it used?

It is used by Professional Traders to gauge whether their views determined by leading Indicators are either confirmed or denied. It is also used to assist government policy makers and economists determine the current state of the economy (coincident). It is not purely an economic number but a political one too.

Make-up of Employment Situation Report and Non-Farm Payrolls

The Employment Situation Report provides significant detail on the job market and household earnings in the United States. Wages and salaries from employment are the main source of household income and that in turn is responsible for around two-thirds of the economy's total output.

The Employment Situation Report (ESR) has various numbers that can give us clues as to whether the Economic conditions predicted by the Leading Indicators 6-12 months previously, are starting to show in the Economy.

The ESR is made up of the following numbers:

1. The Unemployment Rate
2. Total Non-Farm Payrolls
3. Private Sector Employment
4. Government Sector Employment

The Non-Farm Payrolls number tells us how many jobs were added in the U.S. Economy excluding the following area's – "General" Government Employees, private Household Employees, Employees of Non-Profit Organisations that provide assistance to individuals and Farm Employees (Seasonal).

The Unemployment Rate is calculated separately by the Current Population Survey (CPS). This is because the Government cannot accurately calculate the true Unemployment Rate by simply counting up the number of people that have claimed for Unemployment Insurance (UI) or knock on every household's door in the U.S. Read further here - https://www.bls.gov/cps/cps_htgm.htm.

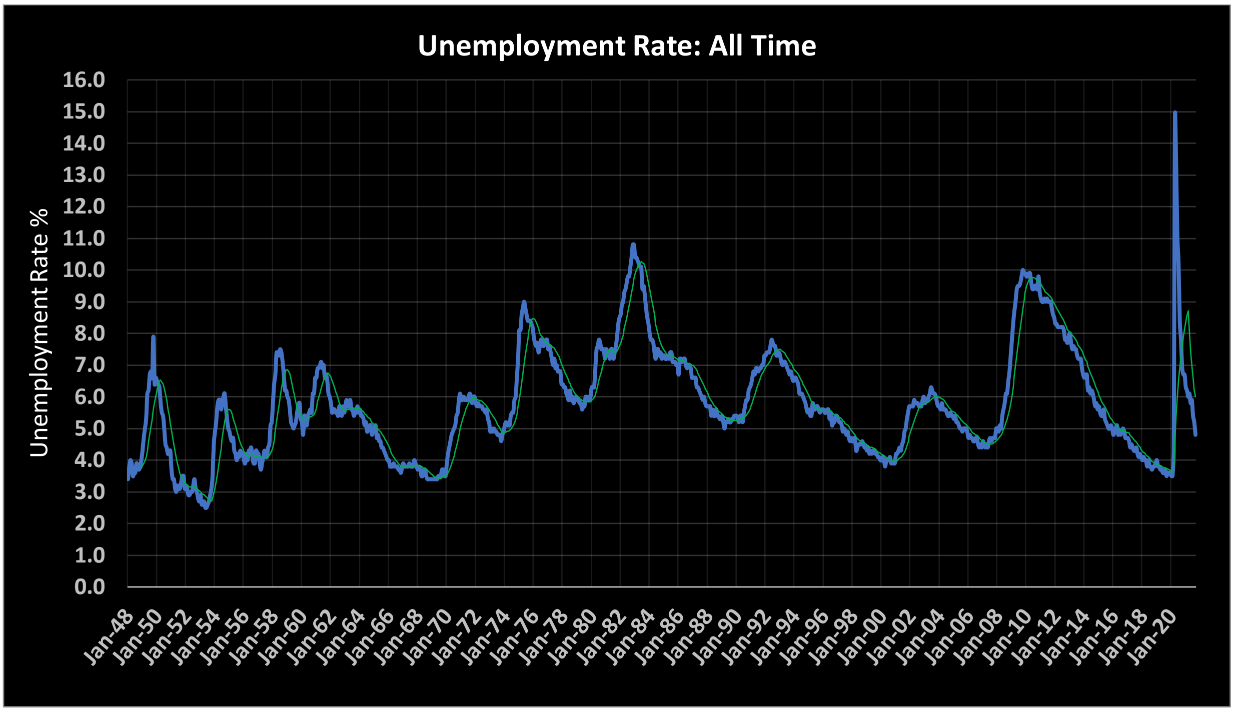
The Non-Farm Payrolls number therefore tells us what has happened in the previous month and is therefore a coincident indicator.

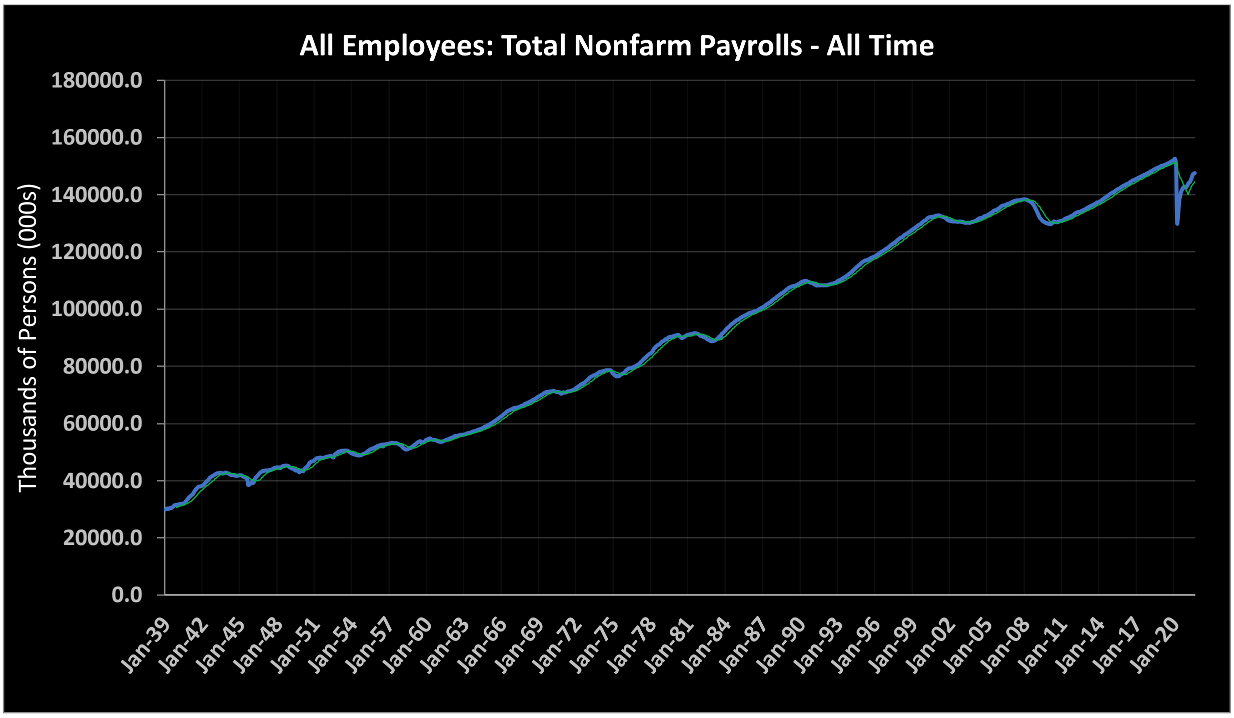
Why is it important?

As already outlined, it is important because it tells us whether the Economic conditions predicted by the Leading Indicators 6-12 months previously, are starting to show in the Economy. However, it is also important because it is one of the most watched and talked about numbers in the United States by the public (consumers), the Government (politicians) and Traders. For consumers it can affect Consumer Sentiment if they constantly hear good (bad) Employment data in the media and for Government (Politicians) it can affect policy. Day traders tend to focus on the Non-Farm Payrolls number as their main Economic guide as to what is happening in the Economy. This is wrong as it is a co-incident indicator and lags Leading Indicators (also, there are more timely labour statistics like Weekly Jobless Claims numbers). By the time the NFP number is reported there should be no surprises and more often than not there isn't.

We should be using the ESR report to confirm or deny our views on GDP growth that we have already taken from our Leading Indicators. Additionally, the Fed may be reactive to surprise decreases in Non-Farm Payroll data and surprise increases in the Unemployment rate. The Fed has a dual mandate to target a low and stable Inflation rate and a low and stable Unemployment rate.

One of the most amateur mistakes made by Retail Traders is to use coincident indicators to initiate positions. For Example – If it is forecast by Economists that Non-Farm Payrolls this month (for last month) will come in at 150,000 jobs added in the U.S. Economy and the number “beats” and is reported at 200,000 jobs added, this doesn’t mean buy U.S. Stocks. Professional Traders will have been told for months that the employment situation is set to improve in the Employment components of the ISM and NMI not least in the previous month with lowering Weekly Jobless Claims. The vast majority of times the NFP number will be “priced in” to the market via what we term a “whisper number” ..., as in the market will have already forecasted 200,000 monthly job additions and Economists simply haven’t updated their estimates





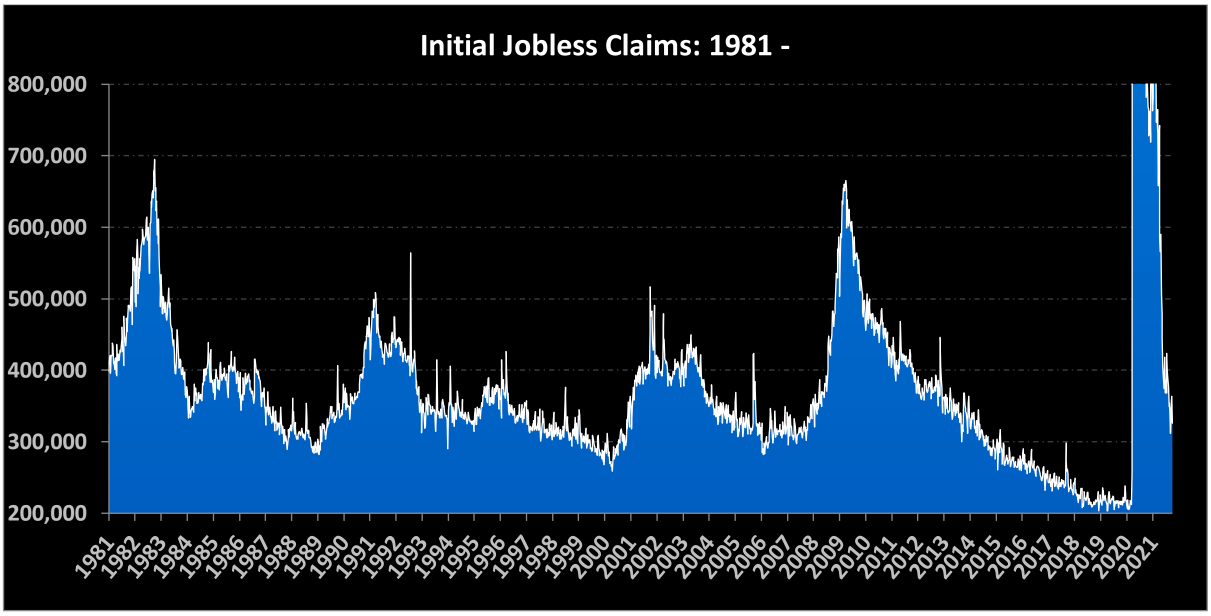
Jobless Claims – Initial and Continuing

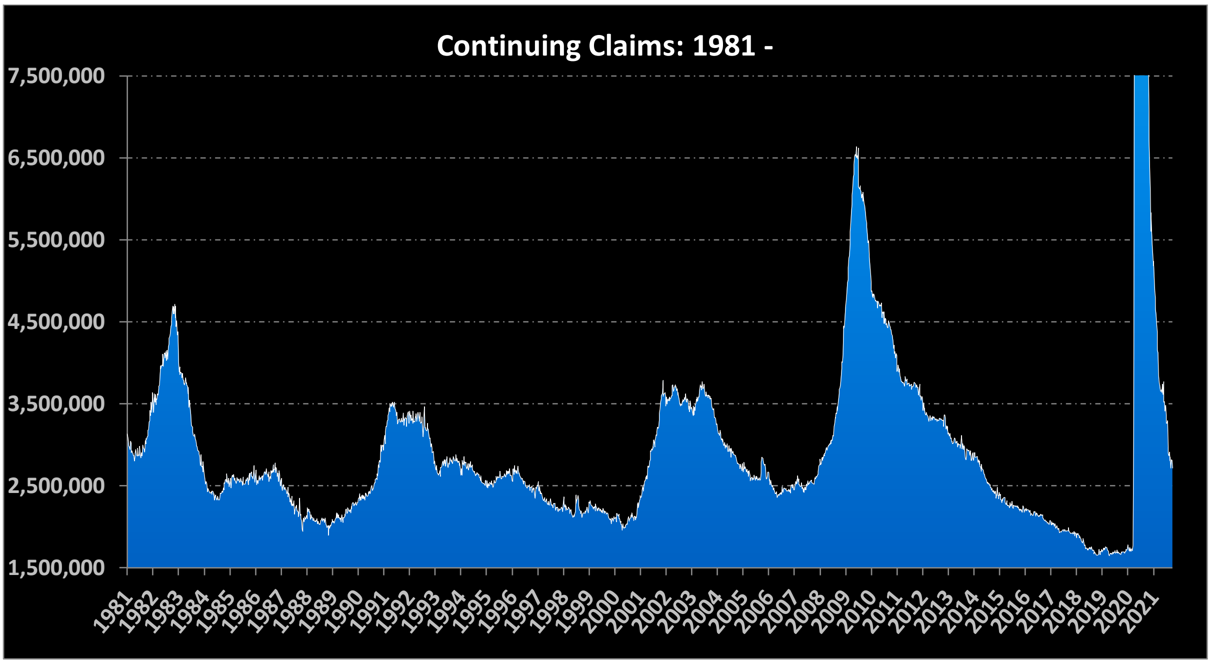
Frequency: Weekly
Release Time: 8:30am (ET) – every Thursday, covering the week ending the previous Saturday
Source: Department of Labor, Employment & Training Administration
Link: https://oui.doleta.gov/unemploy/DataDashboard.asp
Revisions: Minor changes.

Initial and Continuing claims of Unemployment Insurance are reported every Thursday. Initial Claims are for the previous week, whilst Continuing Claims are lagged by two weeks.

Initial Claims of Unemployment insurance are the number of people filing for Unemployment Insurance (benefit) for the first time (new claims). Continuing Claims of Unemployment insurance are the number of people in long term Unemployment.

The main appeal of the weekly jobless claims report is its timeliness. New filings for unemployment benefits are released every week (as opposed to the monthly ESR) and are based on actual reports from state agencies around the US. Falling or rising Initial and Continuing Claims will show up in the Non-Farm Payrolls statistics in the future. If companies are planning on taking more employees (ISM and NMI), then this swill show up in both the claims numbers and payroll numbers in the future (Leading).





Durable Goods and Shipments Report

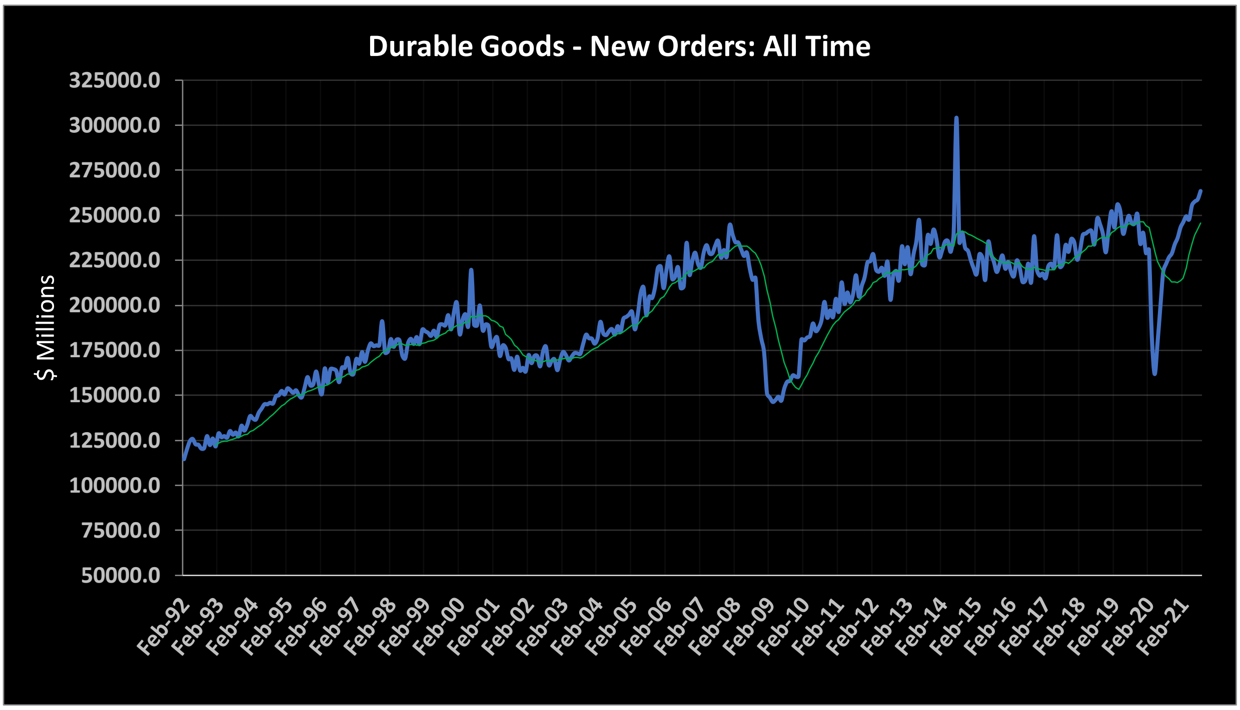
Frequency: Monthly
Release Time: 8:30am (ET) – released 3-4 weeks after the end of the reporting month
Link: https://www.census.gov/manufacturing/m3/index.html
Revisions: Can be major and cover the two preceding months.

The Durable Goods Report provides data on New Orders received from over 4,000 manufacturers of Durable Goods, defined as higher-priced capital goods orders with a useful life of three years or more. Over 85 industries are represented in the sample.

The Durable Goods and Shipments Report is useful for Traders, not only in the nominal terms of order levels, but as a Coincident sign of business demand as a whole. Capital Goods represent the higher-cost capital upgrades a company can make, and signals confidence in business conditions, which could lead to increased (decreased) sales further up the supply chain.

The Durable Goods Report is a Coincident Indicator (even though most believe it is Leading). For businesses to invest in Capital Goods requires Purchasing Managers (ISM and NMI) to have budget and to be confident about the future of the U.S. Economy.

The headline figure will often leave out Transportation and Defence orders, as they can show higher volatility than the rest of the areas.



Industrial Production

Frequency: Monthly
Release Time: 9:15am (ET) – around the 15th of the month, and reports the previous month.
Link: https://www.federalreserve.gov/releases/g17/current/
Revisions: Modest revisions for the last three months, and an annual revision that can go back many years.

Industrial Production numbers for the United States are based on the monthly raw volume of goods produced by industrial firms such as factories, mines, electric utilities etc.

The Industrial Production data is used in conjunction with industry capacity estimates to calculate capacity utilization ratios for each line of business, with a base year used as a benchmark level of 100% (currently 2002).

The release shows percentage changes month-to-month and year-over-year shedding light on short-term rates of change and business cycle growth, respectively.

Industrial Production numbers for the United States are coincident indicators telling us what is happening in the Economy now. They usually lag the ISM and NMI by around 6 months.