# Macroeconomic Fundamental

This Document contains notes for the MacroEconomic Fundamental lesson. Use this to reference terms and formulas, you will also find detailed explanations of specific tasks, which are aimed to help you develop skills.

## Gross Domestic Product

GDP is a measure of economic output; the measure is the monetary value of all finished goods and services produced by a country over a specified period of time.

GDP = Private Consumption + Gross Private Investment + Government Investment + Government Spending + (Exports – Imports)

Private Consumption: This is the amount of money consumers spend.

Gross Private Investment: The amount of money that domestic businesses invest within the country.

Government Investment: The amount of money the government spends investing into infrastructure

Government Spending: The amount of money the government spends to “provide services” to people of the country.

Net Exports: The money amount of Goods sold to foreign markets, less the money amount of Goods bought from foreign markets.

### Gross Domestic Product

A simplistic way to understand Gross Domestic Product, is to view GDP as a proxy for a countries Income.

GDP grows and contracts, this is known as the business cycle. Periods of expansion (positive change in GDP) are characterised by a strong economy, whilst periods of contraction (negative change in GDP) are characterised as weak economy.

GDP is a coincident indicator as it’s calculated at the end of each quarter, showing the level of activity for the previous 3 months. GDP growth is the percentage change in GDP over the previous Year or Quarter.

GDP as a level (the monetary sum of GDP) is far less useful, when we refer to GDP throughout this MOOC we are talking about: Real Gross Domestic Products Annualised Growth Rate. This is the percentage change in GDP from the same Quarter one Year ago, adjusted for the rate of inflation.

### What Correlates to GDP expansions and contractions?

GDP growth and contraction is correlated to many things such as; Demand/Consumption, Corporate Sales & Profits (Equity Returns, Employment). There are many things which are correlated to GDP but these are some of the main things which can be practically implemented.

## Leading Indicators: Business Surveys

Business Surveys are leading indicators, made from compiling comments and sentiment from managers at extremely large companies in various sectors across both the manufacturing and service economy.

These indicators lead GDP, the indices are released monthly and have an extremely high correlation to GDP Growth. Business Survey include many indices such as; Purchasing Manager Index, Business Confidence Index, and are generally broken down into components such as New Orders, Business Activity, Employment, Prices, etc.

### Survey Questions

The surveys typically ask questions such as;

* Did the level of new orders received by your company increase, decrease, or stay the same compared to the previous month?
* Did the level of production at your company increase, decrease, or stay the same compared to the previous month?
* Did the level of employment at your company increase, decrease, or stay the same compared to the previous month?
* Did the level of supplier deliveries to your company increase, decrease, or stay the same compared to the previous month?
* Did the level of inventory at your company increase, decrease, or stay the same compared to the previous month?
* Did the level of prices paid by your company for inputs increase, decrease, or stay the same compared to the previous month?
* Did the level of prices charged by your company for outputs increase, decrease, or stay the same compared to the previous month?

From this a diffusion index is calculated which shows the how many survey companies are positive/neutral/negative about the market. The Business Survey is a proxy for GDP Growth and can be used to measure and forecast the business cycle trend.

### Practical Application of the Business Cycle

Business Surveys and Purchasing Managers Indices can be used to spot Peaks and Troughs in the Business Cycle. Spotting material changes in business conditions (the economy) will help you time investments and signal when you should and shouldn’t take large risks. Riding the prevailing macroeconomic growth trends will give you a probabilistic edge over the long run, in all financial areas of life.

Macro should be the driving force, with a strong weighting in any financial decision. Be that;

* deciding a fixed or floating mortgage rate on your home
* investing into CAPEX project or other business expansion strategies
* investing in F (Ford: [Consumer Cyclical](https://finviz.com/screener.ashx?v=111&f=sec_consumercyclical): Auto Manufacturing = Sensitive to the Business Cycle: Non-Necessity Products)
* investing in CL (Colgate: [Consumer Defensive](https://finviz.com/screener.ashx?v=111&f=sec_consumerdefensive): Supermarket = Not Sensitive to the Business Cycle: Necessity Products)

## Leading Indicators: Consumer Surveys

Consumer Surveys are leading indicators, made from compiling comments and sentiment from consumers, “consumers” are just people like you and I, we all purchase and consume things every day. Because we are the end consumers for most industries, we are the driving force in the economy. The government relies on us for taxes and businesses rely on us for demand & labour.

These indicators lead GDP, the indices are released monthly and have an extremely high correlation to GDP Growth. Consumer Surveys are generally broken down into components such as Future Expectations, Current Economic Conditions, Prices, etc.

### Survey Questions

The surveys typically ask questions such as;

* In general, do you think that right now is a good time or a bad time to buy major household items?
* Would you say that you (and your family living with you) are better off or worse off financially than you were a year ago?
* Looking ahead, do you expect that a year from now you (and your family living with you) will be better off financially, or worse off, or just about the same as now?
* Do you approve or disapprove of the way the President is handling the economy?
* What do you think will happen to the stock market over the next year?
* What do you think will happen to the unemployment rate over the next year?

From this a diffusion index is calculated which shows the how many survey consumers are positive/neutral/negative about the economy. The Consumer Survey is a proxy for GDP Growth and can be used to measure and forecast the business cycle trend, It also negatively correlates to the Inflation Rate. Consumer surveys should be used with Business Survey for a good general oversight of economic conditions in an economy from the macro level.

## Inflation: Consumer Price Index

## Unemployment

## Base Interest Rates

## Money Supply