

ACTIVITY 16.1

TEN LEADING ECONOMIC INDICATORS

1. Average weekly hours, manufacturing

Manufacturing workers are usually hired to work longer hours when their employers plan to hire more workers in the future. They usually work fewer hours when employers plan to lay off workers in the future.

2. Average weekly initial claims for unemployment insurance

When more workers apply for unemployment compensation for the first time, this signals that there will be more layoffs in the future. When fewer new claims are filed, this signals fewer layoffs in the future.

3. Manufacturers' new orders for consumer goods and materials

More new orders for consumer goods mean that firms will be producing more consumer goods in the future. Fewer new orders mean fewer consumer goods will be produced in the future.

4. Vendor performance diffusion index

This measures the speed at which companies receive materials from their suppliers. Slower deliveries indicate increases in demand for materials. When this index goes up (or down), it signals that production in the economy will go up (or down) in the future.

5. Manufacturers' new orders for non-defense capital goods

More new orders for capital goods mean that firms will be producing more capital goods in the future. Fewer new orders mean fewer capital goods will be produced in the future.

6. Building permits for new private housing units

When more building permits are issued, construction of houses will go up in the future. Fewer building permits mean fewer houses will be constructed in the future.

7. Stock prices, 500 common stocks

The S&P 500 stock index reflects price changes for a broad selection of common stocks. Changes in the stock index can reflect the general feelings of investors about the future of the economy.

8. Money supply, M2

The M2 money supply includes currency, checking account deposits, and small savings deposits. If the money supply goes up faster than inflation, banks lend more and the economy can expand in the future. If not, the economy may contract.

9. Interest rate spread, 10-year Treasury bonds less federal funds

This is the difference between interest rates on long-term and short-term investments. Because the Federal Reserve Board has some control over the short-term federal funds rate, it is thought to indicate the intent of monetary policy. It rises when the economy may expand in the future and falls when the economy may contract in the future. When it has been negative, it has been a strong indicator of an on-coming recession.

10. Index of consumer expectations

This index reports results of a monthly survey asking consumers whether they think the economy will improve in the future. If the index goes up, consumers are optimistic and may purchase more goods and services. It goes down if consumers are pessimistic.

ACTIVITY 16.2

TRY YOUR HAND AT ECONOMIC FORECASTING

Congratulations, your firm has been hired to make an important economic forecast. Your job is to predict what will happen to GDP in the economy six to nine months from now. You will base your decision on information you have today about leading economic indicators and the current economic situation. Carefully analyze the information and select one of the following three options:

- a. the economy will experience significant growth,
- b. the economy will be sluggish, without significant growth but without a recession, or
- c. the economy will take a turn for the worse, and a recession is coming.

Prepare a one-to-two minute persuasive speech supporting your forecast. Use evidence from the leading indicators to convince the class that your forecast will prove to be accurate.

This is what you know today:

It is February XXXX. The Bureau of Economic Analysis announced today in the *Survey of Current Business* that real GDP increased 0.6 percent in the fourth quarter of last year, down from 4.9 percent in the third quarter. Consumer spending slowed in the fourth quarter, increasing 2.0 percent after increasing 2.8 percent in the third quarter. Inflation accelerated in the fourth quarter, increasing 3.8 percent after increasing 1.8 percent in the third quarter.

The leading indicators (obtained from The Conference Board):

1. **The average weekly hours worked in manufacturing** have been fairly steady over the past several months.
2. **Average weekly initial claims for unemployment** increased in October, fell in November, increased in December, fell in January, and held steady in February.
3. **Manufacturers' new orders for consumer goods** fell in December, but they had increased during September, October, and November.
4. **The vendor performance index** increased in October, fell in November, and then increased in December, January, and February.
5. **Manufacturers' new orders for non-defense capital goods** fell in the past two months.
6. **Building permits for new private housing** fell in October, November, December, January, and February.
7. **The prices of 500 common stocks** rose in October and November, fell in December, rose again in January and then fell in February.
8. **The money supply (M2)** grew steadily over the past five months.
9. **The interest rate spread**, long-term minus short-term rates, has fallen fairly consistently over the past several months.
10. **The index of consumer expectations** fell in November, December, and January but then increased in February.

ACTIVITY 16.3

TRY YOUR HAND AT ECONOMIC FORECASTING

Congratulations, your firm has been hired to make an important economic forecast. Your job is to predict what will happen to GDP in the economy six to nine months from now. You will base your decision on information you have today about leading economic indicators and the current economic situation. Carefully analyze the information and select one of the following three options:

- a. the economy will experience significant growth,
- b. the economy will be sluggish, without significant growth but without a recession, or
- c. the economy will take a turn for the worse, and a recession is coming.

Prepare a one-to-two minute persuasive speech supporting your decision. Use evidence from the leading indicators to convince the class that your forecast will prove to be accurate.

This is what you know today:

It is January XXXX. The Bureau of Economic Analysis announced today in the *Survey of Current Business* that real GDP increased 1.6 percent in the third quarter of last year, down from 4.7 percent in the second quarter. Corporate profits increased by \$5.4 billion in the third quarter, about half as much as in the second quarter. The U.S. trade deficit continued to increase. The latest figures you have for prices indicate that the annual rate of inflation is about 3 percent.

The leading indicators (obtained from The Conference Board):

1. **The average weekly hours worked in manufacturing** have been fairly steady, at more than 41 hours for the past several months.
2. **Average weekly initial claims for unemployment** increased in September, fell in October and November, and increased in December.
3. **Manufacturers' new orders for consumer goods** fell in December, but they had increased during September, October, and November.
4. **The vendor performance index** fell in September, but it increased in October, November, and December.
5. **Manufacturers' new orders for non-defense capital goods** increased in June and July, fell in August, increased in September and October, and fell in November and December.
6. **Building permits for new private housing** fell in August, September, and October, but they rose in November and December.
7. **The prices of 500 common stocks** have risen consistently since last July.
8. **The money supply (M2)** grew steadily over the past six months.
9. **The interest rate spread**, long-term minus short-term rates, has fallen fairly consistently over the past several months.
10. **The index of consumer expectations** has increased consistently and quite dramatically over the past nine months.