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ECONOMIC INDICATORS

Balance of Payments

Definition: The balance of payments is a simple measure of the payments in financial capital that flow from one nation to another. If more money flows in than out, one has a positive balance of payments - if more flows out than in, one has then a negative balance. The money flowing over the border is like other money paying for goods, commodities, real estate, services, securities.

It's usually separated into:

- Current Account. Goods and services.
- Financial Account. Financial assets. (Stocks, Bonds, Foreign Direct Investments).
- Capital Account. Non-financial assets

Balance of Trade

Definition: Balance of trade figures are the sum of the money gained by a given economy by selling exports, minus the cost of buying imports. They form part of the balance of payments, which also includes other transactions such as international investment. The figures are usually split into visible and invisible balance figures. The visible balance represents the physical goods, and invisible represents other forms of trade, e.g. the service economy.

A positive balance of trade is known as a trade surplus and consists of exporting more (in financial capital terms) than one imports. A negative balance of trade is known as a trade deficit and consists of importing more than one exports. Neither is necessarily dangerous in modern economies, although large trade surpluses or trade deficits may sometimes be a sign of other economic problems.

If the balance of trade is positive, then the economy has received more money than it has spent. This may appear to be a good thing but may not always be so.

Beige Book Fed Survey

Definition: 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.



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Business Inventories and Sales

Definition: Business inventories consist of items produced and held for future sale.

Capacity Utilization

Definition: Capacity utilization consists of total industrial output divided by total production capability. The term refers to the maximum level of output a plant can generate under normal business conditions. A normal “figure” for a steady economy is 81.5 percent. If the figure reads 85 percent or more, the data suggests that the industrial production is overheating, that the economy is close to full capacity. High capacity utilization rates precede inflation, and expectation in the foreign exchange market is that the central bank will raise interest rates in order to avoid or fight inflation.

Capital Account

Definition: Balance of international transactions in financial capital. The ‘capital account’ is associated with the relationship between import and export capital, direct investment & loans, and also deals with securities investments such as repayment of principals of foreign debts, overseas investments, and by investments made by foreign enterprises.

Construction Spending

Definition: Measures the total amount of spending in the U.S. on all types of construction. The residential construction component is useful for predicting future national new homes sales and mortgage origination volume.

Consumer confidence

Definition: The Consumer Confidence index attempts to gauge consumers' feelings about the current condition of the economy and their expectations about the economy's future direction.

Consumer Price Index

Definition: The consumer price index (CPI) gauges the average change in retail prices for a fixed market basket of goods and services. The CPI data is compiled from a sample of prices for food, shelter, clothing, fuel, transportation and medical services that people purchase on daily basis.

Current Account

Definition: Balance of trade plus NET investment income & transfers. The difference between what the country earns and spends overseas. The ‘current account’ more specifically deals with the daily recurring transactions in the ordinary course of business. It involves international receipts & payments including trading receipts & payments, service receipts & payments and unilateral transfers such as payment of royalties, repatriation of after-tax profits & dividends, remittance of after-tax wages & other income by foreign employees and any payment of interest on foreign debts.



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Durable Goods Orders

Definition: Durable goods orders consist of products with a life span of more than three years. Examples of durable goods are autos, appliances, furniture, jewelry and toys.

This data is fairly important to foreign exchange markets because it gives a good indication of consumer confidence. Because durable goods cost more than nondurables, a high number in this indicator shows consumer's propensity to spend. Therefore, a good figure is generally bullish for the domestic currency.

Employment Cost Index

Definition: The Employment Cost Index measures wages and inflation and provides the most comprehensive analysis of worker compensation, including wages, salaries and fringe benefits. The ECI is one of the Fed's favorite quarterly economic statistics.

Employment Report (Labor Report)

Definition: In the US, the employment report, also known as the labor report, is regarded as the most important among all economic indicators. The report provides the first comprehensive look at the economy, covering nine economic categories.

Here are the three main components of the report:

Payroll Employment: Measures the change in number of workers in a given month and measures the number of jobs in more than 500 industries (ex-farming) in all states and 255 metropolitan areas. The employment estimates are based on a survey of larger businesses and counts the number of paid employees working part-time or full-time in the nation's business and government establishments. This release is the most closely watched indicator because of its timeliness, accuracy and its comprehensiveness. It is important to compare this figure to a monthly moving average (6 or 9 months) to capture a true perspective of the trend in labor market strength. Equally important are the frequent revisions for the prior months, which are often significant.

Unemployment Rate: The percentage of the civilian labor force actively looking for employment but unable to find jobs. Although it is a highly proclaimed figure (due to simplicity of the number and its political implications), the unemployment rate gets relatively less importance in the markets because it is known to be a lagging indicator -- it usually falls behind economic turns.

Average Hourly Earnings Growth: The growth rate between one month's average hourly rate and another's sheds light on wage growth and, hence, assesses the potential of wage-push inflation. The year-on-year rate is also important in capturing the longer-term trend.

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. Fed chairman Alan Greenspan frequently talks about this data. By tracking the jobs data, investors can sense the degree of tightness in the job market. If wage



inflation threatens, usually interest rates will rise, and bond and stock prices will fall. One weakness in this indicator is it is subject to significant revisions and large seasonal distortions.

Existing Home Sales

Definition: Existing Home Sales is a measure of the selling rate of pre-owned single-family homes, collected by the National Association of Realtors from 650 realtor associations.

Factory Orders

Definition: Factory orders refer to the total of durable and nondurable good orders.

FOMC Meeting

Definition: The Federal Open Market Committee is a twelve-member committee made up of the seven members of the Board of Governors and five Federal Reserve Bank presidents. It meets eight times per year to determine the near-term direction of monetary policy, such as setting guidelines for the purchase and sale of government securities and setting policy relating to System operations in the foreign exchange markets. These changes in monetary policy are now announced immediately after FOMC meetings. Most importantly, the Fed determines interest rate policy at FOMC meetings. Market participants speculate about the possibility of an interest rate change at these meetings, and if the outcome is different from expectations, the impact on the markets can be dramatic and far-reaching. The interest rate set by the Fed the federal funds rate serves as a benchmark for all other rates. A change in the fed funds rate, the lending rate banks charge each other for the use of overnight funds, translates directly through to all other interest rates from Treasury bonds to mortgage loans. It also changes the dynamics of competition for investor dollars: when bonds yield 10 percent, they will attract more money away from stocks than when they only yield 5 percent. The level of interest rates affects the economy higher rates tend to slow activity; lower rates stimulate activity, a ripple effect that expands into all sectors of the economy

Gross Domestic Product

Definition: Gross Domestic Product (GDP) is the total value of final goods and services produced within a country's borders in a year. It is one of the measures of national income and output. It may be used as one indicator of the standard of living in a country, but there may be limitations with this view.

Housing Starts/Building Permits

Definition: An estimate of the number of housing units on which construction was started. Starting construction is defined as excavation for the footings or foundation, or the first shovel of dirt to break ground. (In response to natural disasters such as Hurricane Andrew in August of 1992, that definition has been expanded to a housing unit built on an existing foundation after the previous structure had been completely



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destroyed.) Housing starts are divided into single-family and multifamily(2+) units. Beginning construction on a 100 unit apartment building, for example, is counted as 100 starts. -

IFO

Definition: The Ifo Business Climate Index is based on ca. 7,000 monthly survey responses of firms in manufacturing, construction, wholesaling and retailing. The firms are asked to give their assessments of the current business situation and their expectations for the next six months. They can characterise their situation as “good”, “satisfactorily” or “poor” and their business expectations for the next six months as “more favourable”, “unchanged” or “more unfavourable”. The balance value of the current business situation is the difference of the percentages of the responses “good” and “poor”, the balance value of the expectations is the difference of the percentages of the responses “more favourable” and “more unfavourable”. The business climate is a transformed mean of the balances of the business situation and the expectations. For calculating the index values the transformed balances are all normalized to the average of the year 2000.

Implicit Deflator

Definition: The implicit deflator is calculated by dividing the current dollar GDP figure by the constant dollar GDP figure. GDP implicit deflator is released quarterly with the respective GDP figure.

Index of Leading Economic Indicators

Definition: The Index of Leading Indicators consist of the following economic indicators

- Average workweek of production workers in manufacturing.
- Average weekly claims for state unemployment.
- New orders for consumer goods and materials
- Vendor performance (companies receiving slower deliveries from suppliers)
- Contracts and orders for plant and equipment
- New building permits issued
- Change in manufacturers' unfilled orders, durable goods
- Change in sensitive materials prices
- Index of stock prices
- Money supply
- Index of consumer expectations

This index is designed to offer a 6 to 9 month future outlook of economic performance.

Industrial Production

Definition: Industrial production consists of the total output of a nation's plants, utilities, and mines. From a fundamental point of view, it is an important economic indicator that reflects the strength of the economy, and by extrapolation, the strength of a specific currency.



Institute for Supply Management (ISM) Index

Definition: The Institute for Supply Management (ISM) Index is a composite diffusion index of national manufacturing conditions. Readings above 50 percent indicate an expanding factory sector. The index is calculated from five of the eight sub-components of a monthly survey of purchasing managers at roughly 400 manufacturing firms representing 20 industries and all 50 states. The survey queries purchasing managers about the general direction of production, orders, inventories, employment, vendor deliveries and prices.

ISM Index: Manufacturing

Definition: A national manufacturing index based on a survey of purchasing executives at roughly 300 industrial companies. Signals expansion when the PMI is above 50 and contraction when below.

ISM Services Index

Definition: Also known as Non-Manufacturing ISM. This index is based on a survey of about 370 purchasing executives in industries of finance, insurance, real estate, communications, and utilities. It reports business activity in the service sector.

Jobless Claims

Definition: New unemployment claims are compiled weekly to show the number of individuals who filed for unemployment insurance for the first time. An increasing (decreasing) trend suggests a deteriorating (improving) labor market. The four-week moving average of new claims smoothes out weekly volatility.

Machine orders (Japan)

Definition: Machine Orders Data (also known as Machine Tool Order Data) is a figure issued by Japan Machine Tool Builders Association (JMTBA) every month. It serves as one indicator of the Japanese economy. In the forex market, the release of such data is often followed by sharp change in currency exchange rate.

Monetary Base (Japan)

Definition: The monetary base is the "Currency Supplied by the Bank of Japan" and is defined as follows. Monetary base = Banknotes in Circulation + Coins in Circulation + Current Account Balances (Current Account Deposits in the Bank of Japan)

Monetary Policy

Definition: An attempt to influence the economy by operating on such monetary variables as the quantity of money and the rate of interest. The nation's central bank is usually involved with monetary policy.



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Money Supply

Definition: The money supply is basically defined as the quantity of money (money stock) held by money holders (general corporations, individuals and local governments).

M1

Definition: A category of the money supply that includes all coins, currency and demand deposits (that is, checking accounts and NOW accounts).

M2

Definition: A category of the money supply that includes M1 in addition to all time deposits, savings deposits and noninstitutional money-market funds.

M3

Definition: A category of the money supply that includes M2 in addition to all large time deposits, institutional money-market funds, short-term repurchase agreements and certain other large liquid assets.

National Association of Purchasing Managers (NAPM CHICAGO)

Definition: The Chicago PMI (officially known as the Business Barometer) is a monthly composite index based on opinion surveys of more than 200 Chicago purchasing managers regarding the manufacturing industry. The survey responses are limited to three options: slower, faster and same. As such, the index will not capture if a component is growing but at a much slower rate or vice versa. The index is a composite of seven similarly constructed indexes including: new orders, production, supplier delivery times, backlogs, inventories, prices paid, and employment. New orders and orders backlog indices indicate future production activity. It signals factory-sector expansion when it is above 50 and contraction when below it. The index is seasonally adjusted for the effects of variations within the year, differences due to holidays and institutional changes. Because it is an opinion survey, it is often influenced by respondents' perception of current events, as opposed to actual hard data. Also, it does not capture technological and production changes, which make it possible for production to expand, while employment contracts. Because the Chicago PMI is released the day before the ISM, it is watched in order to predict the more important ISM report, which is in itself a good leading indicator of overall economic activity. It frequently moves markets

New Home Sales

Definition: The New Home Sales report shows the number of newly constructed homes with a committed sale during the month. The level of new home sales indicates housing market trends, and economic momentum signaling consumer purchases of furniture and appliances. Simply, the volume of sales indicates housing demand. Also, the monthly supply of homes serves as an input into the level of housing pressure.



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However, when analyzing sales trends, one must remember to take into account unusual weather and seasonal effects

NY Empire State Index

Definition: The New York Fed conducts this monthly survey of manufacturers in New York State. Participants from across the state represent a variety of industries. On the first of each month, the same pool of roughly 175 manufacturing executives (usually the CEO or the president) is sent a questionnaire to report the change in an assortment of indicators from the previous month. Respondents also give their views about the likely direction of these same indicators six months ahead. This index is seasonally adjusted using the Philadelphia Fed's seasonal factors because its own history is not long enough with data only going back a couple of years.

Personal Income

Definition: Personal income is simply the income received by individuals, nonprofit institutions, and private trust funds.

This indicator is vital for the sales sector. Without an adequate personal income and a propensity to purchase, consumer purchases of durable and nondurable goods are limited.

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.

Producer Price Index

Definition: The PPI gauges the average changes in prices received by domestic producers for their output at all stages of processing. The PPI data is compiled from most sectors of the economy, such as manufacturing, mining and agriculture.

Productivity

Definition: The economic measure of efficiency summarizing the value of outputs relative to the value of inputs.

Purchasing Managers' Index (PMI)

Definition: The Index is widely used by industrialized economies to assess business confidence. Germany, Japan and the UK use PMI surveys for both manufacturing and services industries. The numbers are arrived at through a series of questions regarding Business activity, New Business, Employment, Input Prices, Prices Charged and Business Expectations. In addition to the headline figures, the prices paid components is highly scrutinized by the markets for evaluating pricing power and inflationary risks.



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Retail Sales

Definition The retail sales report is 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 is the most timely indicator of broad consumer spending patterns and is adjusted for normal seasonal variation, holidays, and trading-day differences. Retail sales include durable and nondurable merchandise sold, and services and excise taxes incidental to the sale of merchandise. Excluded are sales taxes collected directly from the customer. It also excludes spending for services, a large component of consumer expenditures. Retail sales is a the first picture of consumer spending for a given month. Retail sales are often viewed ex-autos, as auto sales can move sharply from month-to-month. Also, gas and food component changes are often a result of price changes rather than shifting consumer demand. Retail sales can be quite volatile and the advance reports are subject to large revisions.

Tankan Survey

Definition: An economic survey of Japanese business issued by the central Bank of Japan, the survey is conducted to provide an accurate picture of business trends of enterprises in Japan, thereby contributing to the appropriate implementation of monetary policy . The report is released four times a year in April, July, October and mid-December.

Tertiary Industry Index (Japan)

Definition: The tertiary index measures activity in six industries: utilities, transport and telecommunications, wholesale and retail, finance and insurance, real estate and services.

Treasury International Capital (TIC)

Definition:These Treasury data track the flows of financial instruments into and out of the United States. Instruments tracked include Treasury securities, agency securities, corporate bonds, and corporate equities.

Unemployment Rate

Definition: The percentage of the people classified as unemployed as compared to the total labor force.

Wholesale Trade

Definition: Wholesale Trade is the dollar value of sales made and of inventories held by merchant wholesalers. It is one of the components of business inventories. Statistics include sales, inventories, and stock/sale ratios, collected via mail-out/mail-back survey of about 7,100 selected wholesale firms.



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ZEW

Definition: 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's duty is to carry out economic research, economic counseling 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.

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.