Know Your Economic Data

Why do you need to know your data?

Why Economic Data is Important:
- Central Bank (CB) Interest Rate Decisions
- Core Economic data the stable of CB decision making

Defining data by categories:
- **CB:** Statements, Minutes, Quarterly Inflation Report, Projections
- **Inflation:** CPI, PPI, PCE
- **Employment:** Non-farm Payrolls, Jobless Claims, ADP
- **Sentiment:** IFO, ZEW, Michigan
- **Manufacturing:** ISM, PMI's, Business Inventories, Regional Survey's
- **Productivity:** GDP, Durable Goods, Industrial Production & Capacity Ultilisation, Trade Balance
- **Housing:** Building Starts & Permits, New & Existing Homes Sales
- **Consumer:** Personal Income & Spending, Retail Sales, Consumer Confidence
- **Energy:** API, DoE & Genscape Crude Oil Inventories

Learning Objective

By the end of this lecture candidates should have a comprehensive understanding of what each major economic data point is and its importance

Central Bank Data

- Central Bank (CB) is constantly accessing various parts of the economy to make regular decisions on policy
- The decisions are forward looking and taken to manage the future path of expectations as well as current economic conditions
- Each CB will communicate which area of the economy they are focussing on which in turn gives you a strong sign as to the changing importance of specific data

Central Bank Information

CB's themselves communicate directly to market participants through several regular reports as well as monitoring in-coming economic data in order to access the economic environment.

Bank of England

Quarterly Inflation Report
(Feb, May, Aug, Nov)

Policy Statement & Minutes

Monthly Bulletin & Agents
Summary of Business Conditions

European Central Bank

Policy Statement & Minutes

ECB Staff Projections
(Mar, Sep)

Euro-system Projections
(Jun, Dec)

Federal Reserve

Policy Statement & Minutes

Summary of Economic
Projections
(Mar, Jun, Sep, Dec)

Beige Book (8-times per year)

Inflation Data

‘Inflation’ is the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of currency is falling.

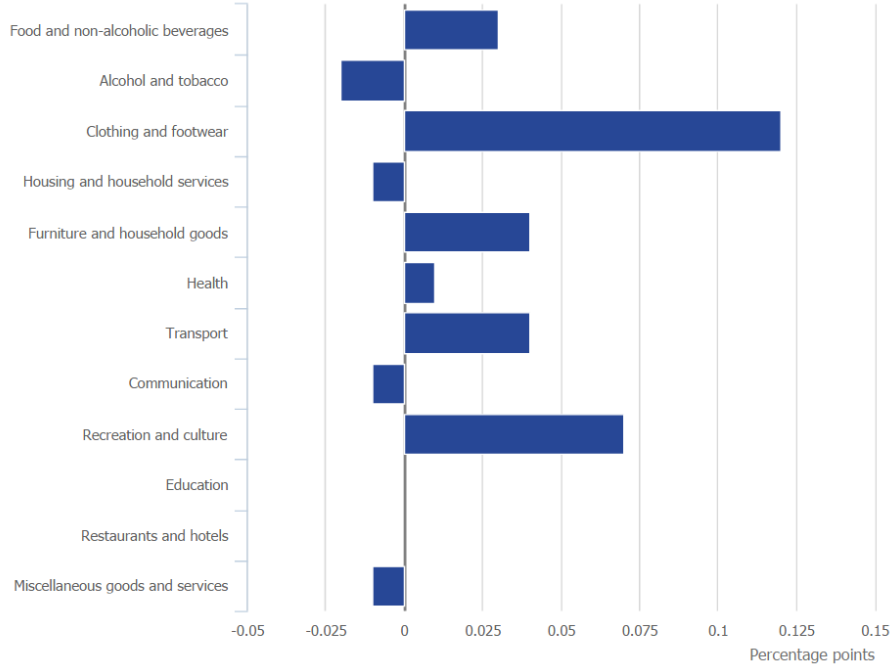
Example: In the UK, CPI is the inflation measure used in the government’s target for inflation (2%).

At the centre of CB policy is an objective of price stability

CB’s often use ‘core’ readings to exclude volatile industries such as food & energy

Consistent prices allows companies to better plan for the future

CPI – Consumer Price Index
RPI – Retail Price Index
PPI – Producer Price Index



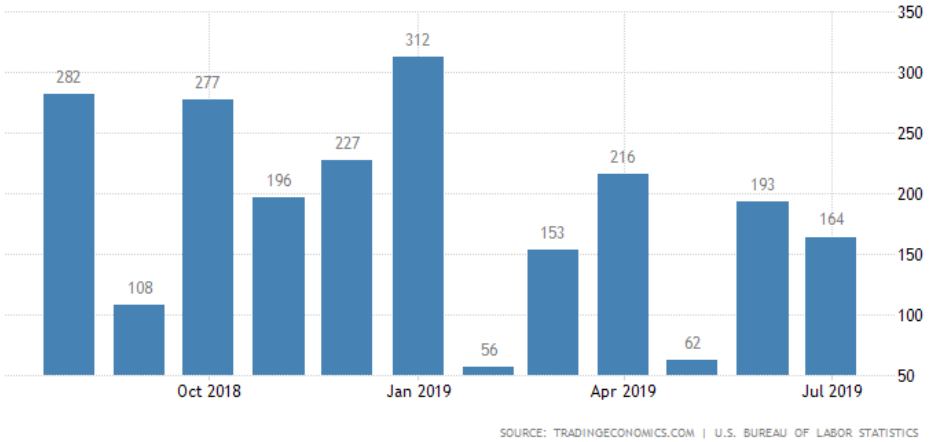
Employment Data

HIGH importance

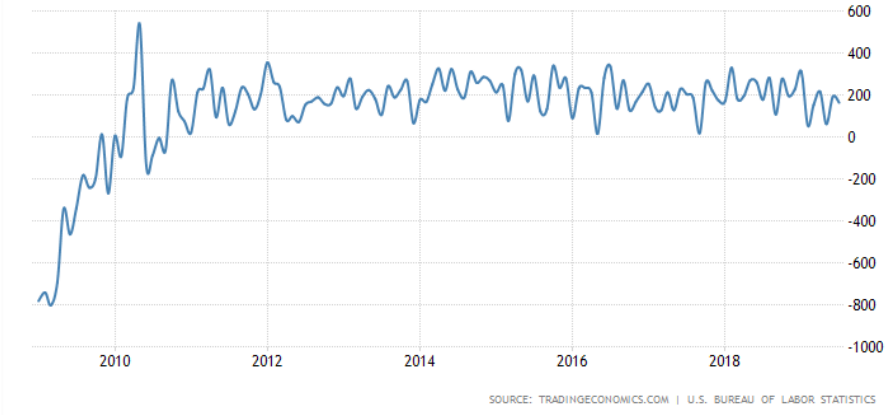
US Non-farm Payrolls (1.30pm)

- Typically reported on the first day of the month
- Survey conducted by the Bureau of Labour Statistics (BLS)
- The report excludes farm employees due to issues of seasonality
- The total non-farm payroll accounts for approximately 80% of workers who produce the entire GDP of the U.S.A.
- Has the propensity to move all asset classes: fixed income (T-notes), equities (S&P, DJIA), FX (USD) and energy (WTI)

Last 12-months to date



Last 10-yrs



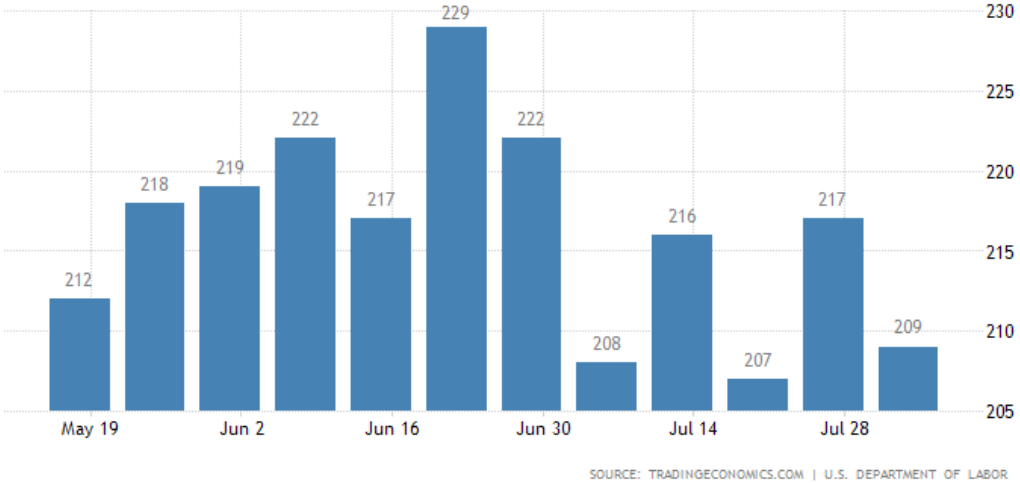
Employment Data

MEDIUM importance

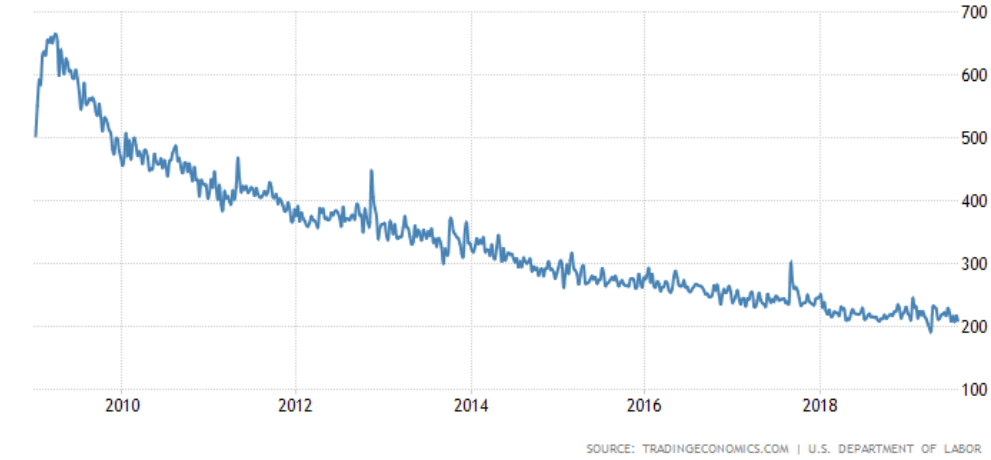
Weekly Jobless & Continuing Claims (1.30pm)

- Reported weekly on a Wednesday
- Survey conducted by the US Department of Labour
- Leading indicator of the state of employment in the economy
- Traders also monitor the four-week moving average
- Has the propensity to move all asset classes: fixed income (T-notes), equities (S&P, DJIA), FX (USD)

Last 12-months to date: Initial jobless



Last 10-years: Initial Jobless Claims



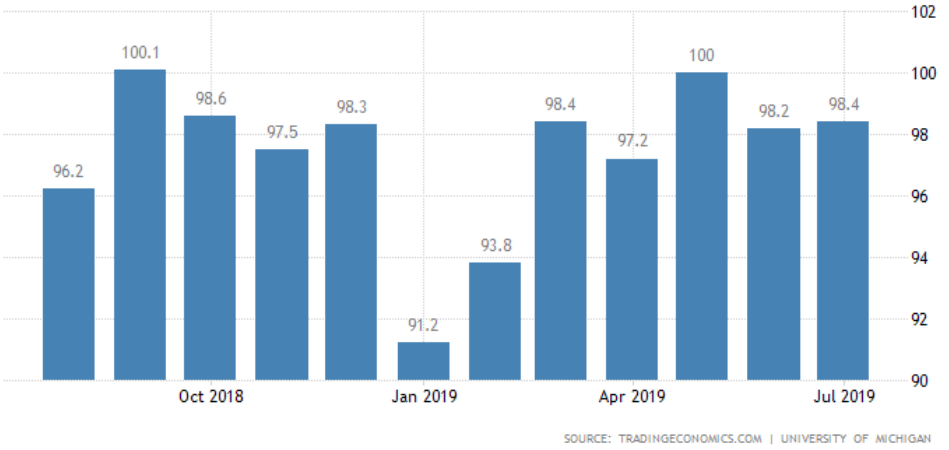
Sentiment Data

MEDIUM importance

University of Michigan Sentiment (3pm)

- Reported twice a month via a preliminary and final reading
- Prelim report includes 60% of all responses
- Is a telephone survey on consumer expectations regarding the economy
- Acts as forward looking barometer on spending appetite
- Has the propensity to move all asset classes: fixed income (T-notes), equities (S&P, DJIA), FX (USD) and energy (WTI)

Last 12-months to date: UoM headline



Last 10-years: UoM headline

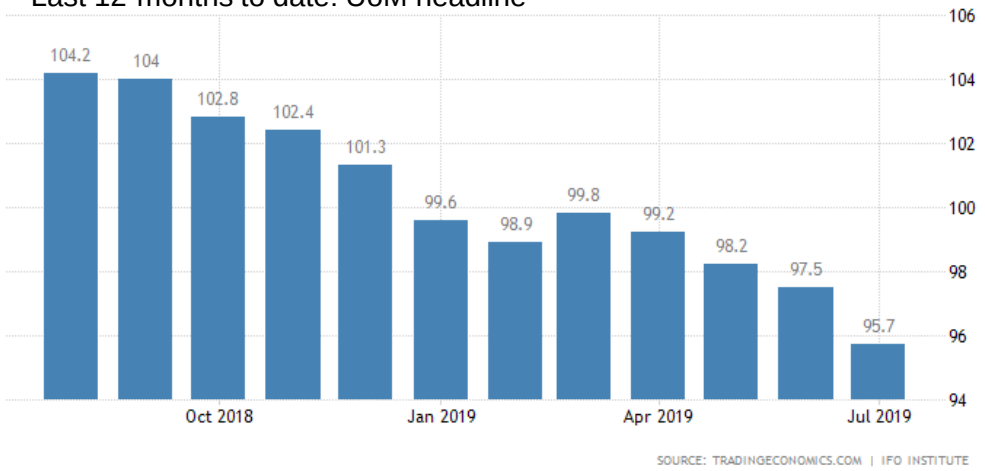
Sentiment Data

HIGH importance

IFO Business Climate (9am)

- Monthly report
- Classified as the most important monthly figure for Germany
- Based on 7,000 responses from co.'s in manufacturing, construction, wholesale, and retail
- Based on assessment of current conditions and expectations for next six-months
- Has the propensity to move EU asset classes: fixed income (bunds), equities (DAX/Eurostoxx), FX (EUR)

Last 12-months to date: UoM headline



Last 10-years: UoM headline

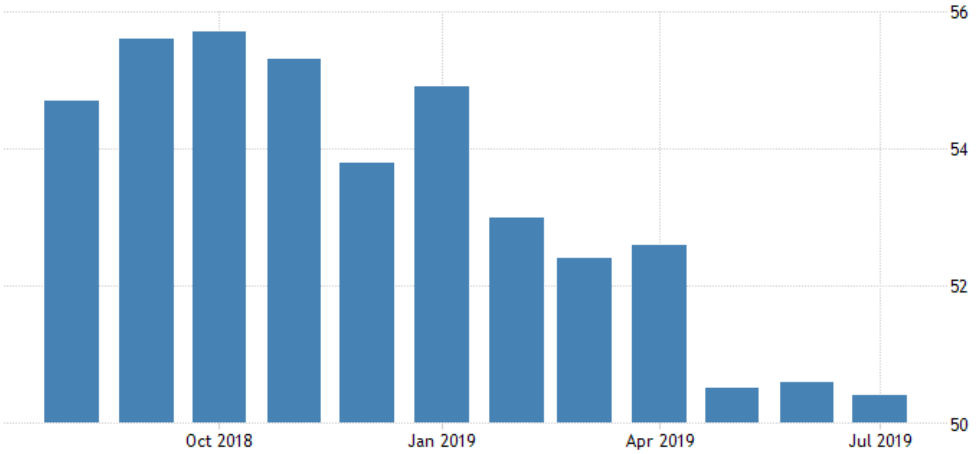
Manufacturing Data

HIGH importance

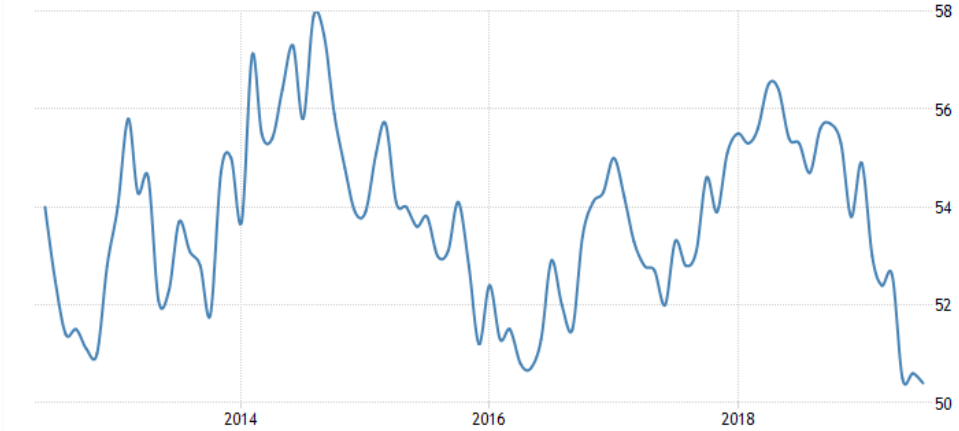
ISM Manufacturing PMI (3pm)

- Monthly report (early in the month)
- Survey of >300 manufacturing firms by the Institute of Supply Management
- Monitoring purchasing managers supply chain, measuring business confidence
- Report is comprised of several constituents: employment, new orders, prices paid, production, inventories
- Has the propensity to move US asset classes: fixed income (T-notes), equities (S&P, DJIA), FX (USD)

Last 12-months to date: ISM Manufacturing PMI headline



Last 10-years: ISM Manufacturing PMI headline



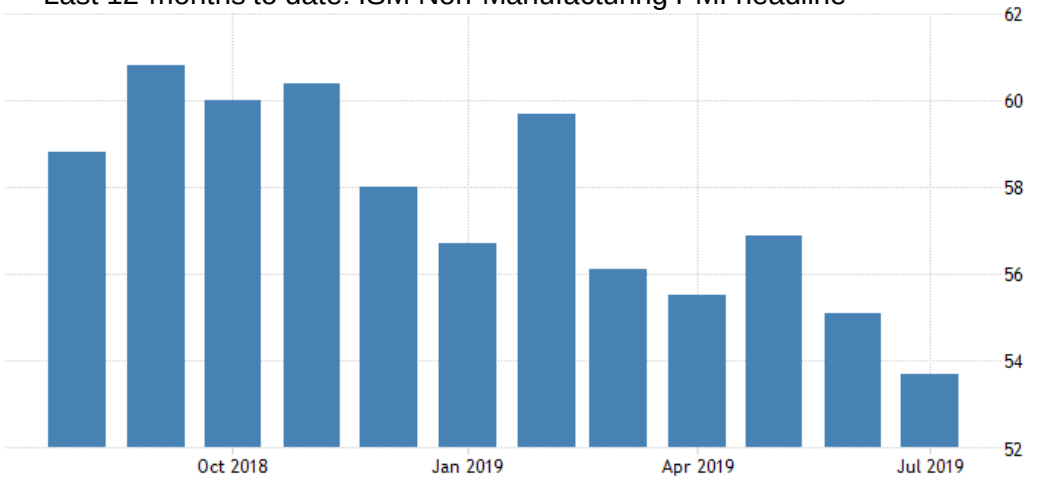
Manufacturing Data

HIGH importance

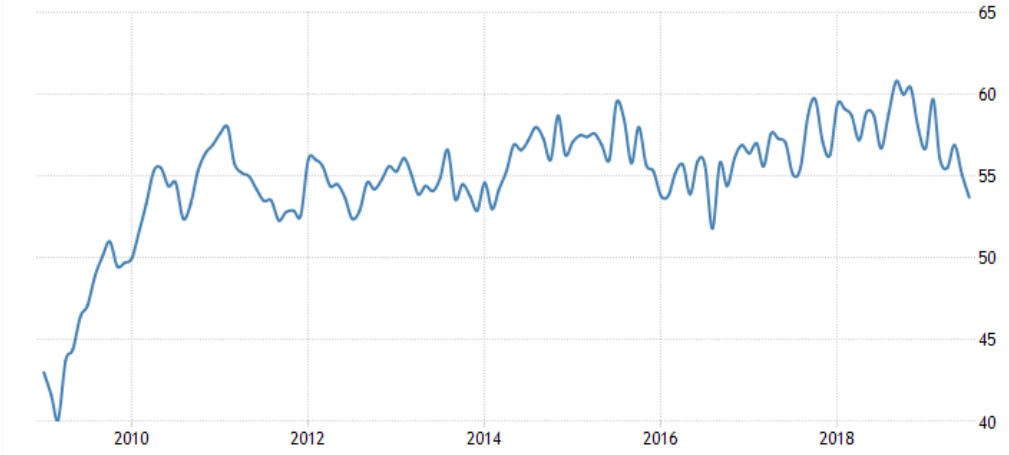
ISM Non-Manufacturing PMI (3pm)

- Monthly report
- 50 the marker of expansion/contraction
- Survey of <400 non-manufacturing firms and supply executives
- Report is comprised of several constituents: employment, new orders, prices paid, production, inventories
- Has the propensity to move US asset classes: fixed income (T-notes), equities (S&P, DJIA), FX (USD)

Last 12-months to date: ISM Non-Manufacturing PMI headline



Last 10-years: ISM Non-Manufacturing PMI headline



Productivity Data

HIGH importance

Gross Domestic Product (GDP) (1.30pm)

- Monthly report
- Compiled by the Bureau of Economic Analysis (BEA)
- Monetary value of all finished goods and services produced within the country over a set period
- Three readings released over a quarter; Advanced, Preliminary and final
- Report is seen as the main measurement of overall economic activity
- Has the propensity to move US asset classes: fixed income (T-notes), equities (S&P), FX (USD)

MEDIUM importance

Industrial Production & Capacity Utilisation (1.30pm)

- Monthly report
- Compiled by the Federal Reserve
- IP measures the output of businesses integrated in industrial sector of the economy
- CU is an important operational metric in measuring economic output actually realised
- Has the propensity to move US asset classes: fixed income (T-notes), equities (S&P, DJIA), FX (USD)

Housing Data

LOW importance

Housing Starts & Building Permits (1.30pm)

- Monthly report
- Conducted by the US Commerce Department
- Surveys from homebuilders nationwide are used to measure new residential construction projects
- In a strong economic environment people would have confidence to purchase a new home
- Was a key indicator during the sub-prime crisis BUT now not so much a focus for the Fed

LOW importance

New Home Sales (1.30pm)

- Monthly report
- Conducted by the US Commerce Department
- Includes both quantity and price statistics
- Seen as a lagging indicator for demand BUT may impact mortgage rates
- Is defined as any deposit or contract signing either in the year the house was built or the year after

LOW importance

Existing Home Sales(1.30pm)

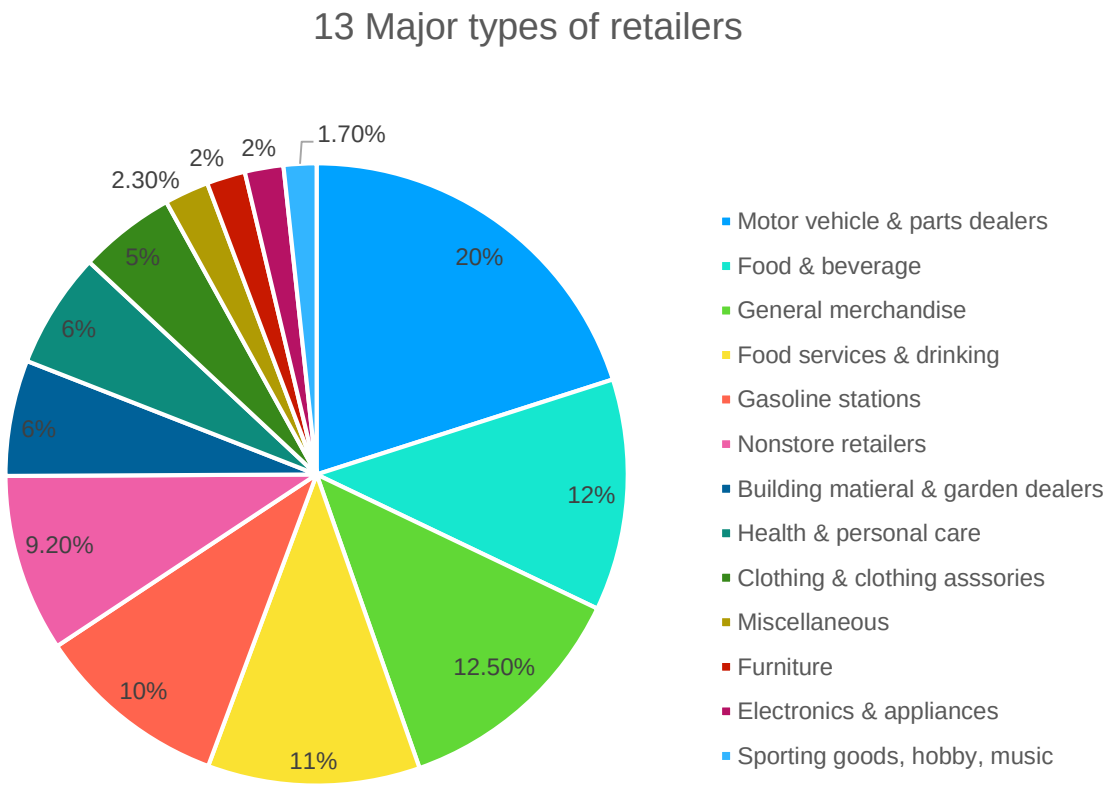
- Monthly report
- Conducted by the US National Association of Realtors
- Does not look at newly built homes
- Measures the number and prices of existing single-family homes, condos and co-op sales over a one-month period
- Is a lagging indicator as often reacts to change in mortgage rates

Consumer Data

HIGH importance

Retail Sales (1.30pm)

- Monthly report
- Compiled by the Census Bureau and Department of Commerce
- Aggregated measure of sales of retail goods and services over a month
- Core number is often looked at in order to exclude volatility (i.e. auto, gas)
- Has the propensity to move US asset classes: fixed income (T-notes), equities (S&P, DJIA), FX (USD)



Consumer Data

MEDIUM importance

Consumer Confidence (1.30pm)

- Monthly report (last Tuesday of every month)
- Compiled by the Conference Board
- Is a survey of 5,000 households
- Five questions in total, two on current economic conditions and three on future expectations
- Is seen as a strong barometer for purchasing intentions for goods and services
- Has the propensity to move US asset classes: fixed income (T-notes), equities (S&P, DJIA), FX (USD)

MEDIUM importance

Personal Income & Spending (1.30pm)

- Monthly report
- Compiled by the Bureau of Economic Analysis (BEA)
- Income refers to all collectively received by all of the individuals or households in a country
- Personal income has a meaningful impact on consumer consumption which gives traders a great insight into spending power and thus future performance of the economy
- Has the propensity to move US asset classes: fixed income (T-notes), equities (S&P, DJIA), FX (USD)

Energy Data

Three major energy reports to monitor for crude oil

Genscape

- Twice per week (Mon & Thurs)
- First look an inventory at Cushing for the week
- Private Subscription Service
- Largest private network of in-the-field monitors

IMPACT: Low
TIMING: 3pm

American Petroleum Institute (API)

- Once a week (Tues)
- Total US & regional crude inventories and data related to refinery operations, production, imports
- Represents more than 80% of total refinery production
- Reporting to API is voluntary

IMPACT: Medium
TIMING: 9.30pm

Department of Energy (DoE)

- Once a week (Weds)
- Part of the US Energy Information Administration
- Legal requirement for major oil firms to complete their inventory surveys
- API & DoE is 90% the same

IMPACT: High
TIMING: 3.30pm

Energy Data

What have I learned:

1. Understand what Central Banks looks at in order to better understand their decision making

2. Obtained an overview of the different economic data reports and which sector of the economy they represent

3. Appreciate the 'IMPACT' score of each release in order to better prioritise the most important data releases

4. Understand the specific asset classes that maybe effected by each release

What websites should I use to research further?

Investopedia: http://www.investopedia.com/
Trading Economics: http://www.tradingeconomics.com/

Bureau of Economic Analysis: https://www.bea.gov/index.htm
Federal Reserve: https://www.federalreserve.gov/
Bureau of Labor Statistics: https://www.bls.gov/
Conference Board: https://www.conference-board.org/
Institute of Supply Management: https://www.instituteforsupplymanagement.org/