



# DON'T BE FOOLED BY... ECONOMIC INDICATORS

Keeping up with the economy, in good times or bad, can be a challenge, especially when politicians are trying to persuade you to see things their way. As one guide to understanding the economy put it, "Economic figures can be manipulated to demonstrate almost anything."<sup>1</sup> Politicians are wont to spin those figures to support their arguments and to attract voters to their side.

Critical consumers of politics have some tools available to help them sort through the political spin and figure out how the economy is doing. Objective measures of the economy are of two kinds: *coincident economic indicators* help us understand how the economy is currently functioning, and *leading economic indicators* predict how it will look in the future. Coincident economic indicators include such variables as employment, personal income, and industrial production. Leading economic indicators focus on variables that indicate a reemergence from a recession and growth in the economy, like consumer confidence, stock market prices, and "big-ticket purchases" such as automobiles and homes. Understanding these two kinds of economic indicators can help us figure out how the economy is really doing and can arm us against the persuasive words of politicians.

Here we examine just a few of literally dozens of these variables. You can find the most recent data from these leading economic indicators and others at [www.economicindicators.gov](http://www.economicindicators.gov). For a more complete guide to understanding a wide range of economic indicators, you might want to consult a reference book, such as *The Economist's Guide to Economic Indicators*.<sup>2</sup>

- **Real GDP.** The real gross domestic product (GDP) is the total economic activity in constant prices. Because of inflation, it is important to put all prices on the same scale. In other words, to see how much the economy has grown from 2000 to 2012, you would want to convert 2012 dollars into 2000 dollars. Because real GDP uses constant prices, it is a useful measure to track economic growth over time. A real GDP growth of around 3 percent per year is a good sign for the American economy.<sup>3</sup> A rise in real GDP shows that production and consumption are increasing.
- **Unemployment.** The unemployment rate is the percentage of the labor force (defined as those aged sixteen and older) that is out of work. An

unemployment rate of 5 percent or less is generally considered to be a sign of a strong economy and a growing GDP. However, the unemployment rate can be misleading because it includes only people who are available for and actively seeking work. Therefore, the real percentage of those unemployed is usually higher than the unemployment rate because some people are not actively seeking jobs.

- **Personal income and personal disposable income.** Personal income is an individual's income received from many sources but primarily from wages and salaries. It also includes interest, dividends, and Social Security. Personal disposable income is a person's income after taxes and fees are deducted. A growth rate of 3 percent per year is considered to be a healthy increase in personal income, although growth should be steady. Too rapid an increase in personal income can lead to inflation.<sup>4</sup> These two measures predict the ability of citizens to consume and save.
- **Consumer spending.** The amount of goods that people are buying is another way to measure the health of the economy because it is the key factor in the increase or decrease of the GDP. One way to measure consumer spending is by the Department of Labor's Consumer Expenditure Survey, which asks American consumers questions about their buying habits on items such as food, apparel, housing, and entertainment. Consumer spending accounts for approximately 70 percent of the GDP and has a big impact on job growth.<sup>5</sup>
- **Stock market price indexes.** A stock market price index measures the overall change in stock prices of corporations traded on U.S. stock markets. There are many different stock market price indexes, including the New York Stock Exchange (NYSE) Composite Index, the NASDAQ Composite Index, and the Dow Jones Industrial Average Index. The Dow Jones Industrial Average Index, for instance, provides the average price per share of thirty large companies' stocks on the NYSE. The NYSE Composite Index covers the prices of approximately 2,900 companies listed on the NYSE. A strongly performing stock market affects consumer and investment spending. If the stock market is performing well, people are more optimistic about the economy and are more likely to buy or invest.