Key Economic Releases:
Where They Come From and What They Mean

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December 12, 2019
Industrial Production and Capacity Utilization

- Capacity utilization rate provides an estimate of how much factory capacity is in use.
- High-capacity utilization rates (above 85%) can lead to inflationary bottlenecks.
- Industrial production measures current output and assists in determining turning points in the business cycle such as the start of a recession or a recovery.

Released monthly

Federal Reserve Board of Governors
Industrial Production and Capacity Utilization

Measures output from manufacturing, mining, and electric & gas utilities.
Industrial Production and Capacity Utilization

Industrial Production

Yearly Index % Change


Capacity Utilization

Yearly Index % Change


Source: Bloomberg
Durable Goods Orders

Durable goods orders are new orders placed with domestic manufacturers for factory hard goods, more specifically goods that do not quickly wear out.

Durable goods orders are a leading indicator of industrial production and capital spending and indicate how busy factories will be in the coming months.

Released monthly

Bureau of the Census, U.S. Department of Commerce
Durable Goods Orders

Source: Bloomberg
Personal Income and Outlays

Represents all income received from all sources including:

- Wages
- Rents
- Financial assets
- Transfers from the government

Disposable Income = Personal Income - Personal Current Taxes

Major determinant of spending? Income

- Consumer spending accounts for more than 2/3 of overall economic activity

Personal consumption expenditures (PCE) price index is released with the personal income report

- Federal Reserve’s preferred inflation measure
- Measures a basket of goods and services that is updated annually versus CPI that measures a fixed basket

Released monthly

- Bureau of Economic Analysis, U.S. Department of Commerce

Source: Econoday
Personal Income and Outlays

Yearly Personal Income % Change

Source: Bloomberg
Personal Income and Outlays

Personal Consumption Expenditure (PCE)

Yearly Price Index % Change


Source: Bloomberg
The Consumer Price Index (CPI) is a measure of the change in the average price level of a fixed basket of goods and services.

The CPI is the most widely followed monthly indicator of inflation and is used to adjust various payments including labor contracts, Social Security payments, and tax brackets.
Consumer Price Index

The CPI is reported on both an overall number and a “core” number that removes the volatile food and energy components.

The Producer Price Index measures the average change over time in the prices received by domestic producers of goods and services. A portion of inflation at the producer level gets passed through to the CPI.

Released monthly


Source: Econoday
ISM Manufacturing Index

The Institute for Supply Management surveys purchasing managers from approximately 300 manufacturing firms nationwide.

The survey queries purchasing managers about the direction of:

- Production
- New orders
- Order backlogs
- Their own inventories
- Supplier deliveries
- Employment
- Customer inventories
- Exports & imports
- Prices
- Production
- New orders
- Order backlogs
- Their own inventories
- Supplier deliveries
- Employment
- Customer inventories
- Exports & imports
- Prices

Questions are qualitative vs quantitative, focusing on the direction rather than the specific level of activity.

A reading above 50 indicates that the manufacturing sector, and conversely the overall economy, is growing.

50

Readings between 50 - 42.5 indicate that the economy is still growing but the manufacturing sector is contracting.

50 - 42.5

Readings below 42.5 indicate that both the economy and manufacturing sectors are contracting.

42.5

Released first business day of the month

Institute for Supply Management
The Institute for Supply Management surveys more than 375 purchasing executives from non-manufacturing firms across the U.S.

The non-manufacturing composite index has four, equally weighted components:

- Business Activity
- New Orders
- Employment
- Supplier Deliveries

For the composite index, a reading above 50% indicates the non-manufacturing is generally expanding and below 50% indicates that it is generally declining.

Released third business day of the month

Source: Econoday
Retail Sales

Measures the total sales of new and used goods to the general public

Sales by retail and food service stores

- Both durable and nondurable

Retail sales account for approximately $\frac{1}{2}$ of consumer spending or $\frac{1}{3}$ of total economic activity

Released monthly
Bureau of the Census, U.S. Department of Commerce from the data collected from the Monthly Retail Trade Survey
Retail Sales

Monthly % Change

Source: Bloomberg
Gross Domestic Product - GDP

GDP Represents:

Total market value of all final goods & services produced in a country in a given year

= Total consumer, government, & investment spending

+ Value of exports – the value of imports

Source: Econoday
GDP is the country’s most comprehensive scorecard

Four major categories of GDP:

- **Personal Consumption Expenditures**
- **Investment** (Private housing and business purchase of nonresidential structures, durable equipment, and computer software)
- **Government Spending**
- **Net Exports**
Healthy GDP growth usually translates into strong corporate earnings and rising stock prices.

Released on a quarterly basis

Bureau of Economic Analysis, U.S. Department of Commerce

Source: Econoday
Gross Domestic Product - GDP

Source: Bloomberg
Jobless Claims

Complied weekly to show individuals filing for unemployment insurance for the first time.

Jobless claims are a good way to gauge the strength/weakness in the labor market.

The four week moving average smooths out weekly volatility.

The lower the number of unemployment claims, the stronger the job market.

Released weekly

Employment & Training Administration, U.S. Department of Labor
Employment Situation

The most closely watched report of all economic indicators based on two separate reports

Establishment survey that tracks 650,000 employers and provides the number of jobs created (lost) and the average hourly earnings data

Household survey that interviews 60,000 households and generates the unemployment rate
The unemployment rate measures the number of unemployed as a percentage of the labor force. A worker must be actively looking for work to be counted as unemployed.

Nonfarm payrolls track the number of full-time and part-time workers in both business and government as well as sector i.e. retail, finance, construction, education, etc.

The employment report gives the most comprehensive data on:

1) How many people are looking for jobs?
2) How many have them?
3) What they are getting paid?
4) How many hours they are working?
The employment report is the primary monthly indicator of aggregate economic activity because it encompasses all major sectors of the economy.

Released first Friday of the month

Employment Situation

Nonfarm Payrolls

Net Monthly Change (Thousands)

Nov-18  Feb-19  May-19  Aug-19  Nov-19

Source: Bloomberg
Employment Situation

Unemployment Rate

Source: Bloomberg
## FOMC Rate Cut Probabilities – December 10, 2019

**Region:** United States  
**Instrument:** Fed Funds Futures  
**Pricing Date:** 12/10/2019  
**Cur. Imp. O/N Rate:** 1.559

<table>
<thead>
<tr>
<th>Meeting</th>
<th>#Hikes/Cuts</th>
<th>%Hike/Cut</th>
<th>Imp. Rate Δ</th>
<th>Implied Rate</th>
<th>A.R.M.</th>
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</thead>
<tbody>
<tr>
<td>12/11/2019</td>
<td>-0.002</td>
<td>-0.2%</td>
<td>-0.001</td>
<td>1.559</td>
<td>0.250</td>
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<tr>
<td>01/29/2020</td>
<td>-0.067</td>
<td>-6.4%</td>
<td>-0.017</td>
<td>1.543</td>
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<tr>
<td>03/18/2020</td>
<td>-0.216</td>
<td>-15.0%</td>
<td>-0.054</td>
<td>1.505</td>
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<tr>
<td>04/29/2020</td>
<td>-0.327</td>
<td>-11.0%</td>
<td>-0.082</td>
<td>1.477</td>
<td>0.250</td>
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<tr>
<td>06/10/2020</td>
<td>-0.474</td>
<td>-14.7%</td>
<td>-0.118</td>
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<td>07/29/2020</td>
<td>-0.587</td>
<td>-11.3%</td>
<td>-0.147</td>
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<td>09/16/2020</td>
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<td>-13.4%</td>
<td>-0.180</td>
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<td>11/05/2020</td>
<td>-0.819</td>
<td>-9.8%</td>
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<td>12/16/2020</td>
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<td>-12.6%</td>
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<td>01/27/2021</td>
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<td>-4.2%</td>
<td>-0.247</td>
<td>1.313</td>
<td>0.250</td>
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**Implied Overnight Rate & Number of Hikes/Cuts**

- **Implied Policy Rate (%)**
- **Number of Hikes/Cuts Priced**

**Source:** Bloomberg
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