# Preface

"You want to write a book about *what? Economic indicators?* How did you come up with this death wish?"

That was the first response I got after telling a colleague at TIME what I was up to. She, too, was a financial journalist, and so I expected some sage advice and support. We continued our conversation over lunch. "Did I hear you correctly?" she asked, still incredulous. "We *are* talking about you writing a book on economic *statistics* right?" Yes, I nodded, and then went on to explain why this idea had been percolating in my mind for months. I knew it was a tough topic to write about, but I was ready to take it on. She listened patiently to my reasoning and then let loose a barrage of suggestions.

"First, let's get real here. To make this work, a book on economic indicators has to be sexy. Edgy. Really funny. Get in some lurid details about consumer prices. Tell some lascivious tales about industrial production and capacity utilization. Toss in lots of jokes on durable goods orders. Then there's the humor that just springs at you when writing about foreign trade and non-farm productivity. And . . . hey, shouldn't you be taking notes on all this?"

The appetite I came to the restaurant with was suddenly gone. Not because she was poking fun at the idea. Just the opposite. Beneath all that sarcasm was a genuine message that I knew had to be taken seriously. The subject of economic indicators can be lethally boring because of its impenetrable jargon and reliance on tedious statistics. I realized from that brutal lunch encounter that my biggest challenge in writing this book was not simply to identify and describe the world's most influential economic indicators, but to make the whole subject approachable and even—dare I say it—interesting. My purpose from the start was to reach out to those who had little or no experience navigating the maze of key economic statistics and to dispel the notion that you need to have an economics degree, an MBA, or a CPA to understand what these indicators tell us about the economy and how we can use them to make better investment and business decisions.

The broader question, of course, is why do this book at all? Why should anyone outside the economics profesion even care about economic indicators? Why is it important for the average person to know how many new homes are under construction, whether factories produced more or fewer goods in the latest month, or whether executives charged with buying raw material for their companies are increasing their orders or cutting back? Why bother with any of this stuff? Why not let the experts sort out the mishmash of economic numbers and tell us what it means?

Indeed, most Americans have little desire to follow such esoteric measures. They are content to rely on the insights of their investment advisers or hear television pundits muse endlessly about the economy and the financial markets. Other than that, few show interest in probing any further. However, that attitude changed abruptly in 2000 with the bursting of the stock market bubble and the collapse of the dot.com sector. Investors were sickened and then angered by the resulting loss of trillions of dollars in personal wealth. It made no difference whether the money was in one's personal savings, a 401(k), or a pension. No investment escaped unscathed. The decimation was universal, and for Americans, it became a painful and sobering reminder of just how much one's financial well-being was staked to the risky business of stocks and bonds.

Perhaps the most troubling revelation to come out of this awful experience was how utterly dependent ordinary investors had allowed themselves to become on so-called "experts" for virtually all investment advice. It turned out that these very "experts"—veteran portfolio managers and long-time professional market watchers—failed miserably in their responsibility to help protect the assets and curb the losses of their investing clients. Worse still, investors became justifiably furious when they realized they were also being lied to by some of the companies they had invested in and even by the brokerage firms with whom they had entrusted their hard-earned money.

The result was predictable. Disillusioned by the ineffectual advice of their brokers, the seemingly endless revelations of corporate fraud, and the biased research reports put out by some well-known Wall Street firms, a growing number of Americans have since decided to venture out into the investment world by themselves, trusting their own instincts rather than someone else's. These investors are emboldened by the fact that they can now access a huge assortment of information resources from home and work. They can even access it while traveling. There is today an unprecedented abundance of economic and financial news and analysis instantly available to anyone, anytime. This includes virtually 24/7 radio and television coverage of business news and, of course, hundreds of useful Web sites that offer valuable data as well as varied perspectives on the outlook for the financial markets and the economy.

How do the economic indicators fit into all this? Why should investors—or business executives, entrepreneurs, and ordinary workers—pay particular attention to these reports? Because they are the vital barometers that tell us what the economy is up to and, more importantly, in what direction it is likely to go in the future. These indicators describe the economic backdrop that will ultimately affect corporate earnings, interest rates, and inflation. They can also influence the future cost of financing a car or a house, the security of our jobs, and our overall standard of living. Even business leaders are under pressure to monitor the economic indicators more closely. Knowledge of economic conditions in the U.S. enables CEOs to make decisions with greater confidence on whether to buy more equipment, increase inventories, hire workers, or raise fresh capital. In addition, for firms competing in the global marketplace, international economic indicators are of particular importance because they allow executives to assess business opportunities abroad.

But how do you begin to evaluate these economic reports? There is such a bewildering variety of economic statistics in the public domain that following them all can be harmful to your health. New sets of economic numbers come out every day, week, month, and quarter, and they often tell conflicting stories about what's going on in the U.S. In addition, stocks, bonds, and currencies react differently to economic indicators. Some economic news can cause tremors in the financial markets, while other news produces no reaction at all. Many indicators have no forecasting value whatsoever, while others have established a track record for being able to predict how the economy will behave during the next 12 months.

Moreover, different indicators originate from different sources. The U.S. government pumps out loads of economic data through agencies such as the Commerce Department's Bureau of Economic Analysis and the Federal Reserve Board. However, there are also numerous private groups that release market-moving indicators. One of the best known is The Conference Board for its Consumer Confidence and Leading Economic Indicators series. In addition, the National Association of Realtors reports monthly data on existing home sales, and Challenger, Gray and Christmas, the outplacement firm, tallies the number of announced corporate layoffs each month. Note that these sources just gauge U.S. economic activity. When you look at the assortment of economic indicators released by other countries, the quantity of information available becomes simply mind-numbing.

Clearly there is too much economic information out there, and not all of it is useful. So what do you focus on? How does an investor, a CEO, or even an economist decide which of the many gauges of business activity are worth tracking? Which indicators pack the greatest wallop in the financial markets? Which ones are known for doing the best job predicting where the economy is heading? These are the key questions I will try to answer in this book.

The book is organized in a way that I believe makes the most sense for the reader. Chapter 1, "The Lock-Up," begins with the drama that typically surrounds the release of a sensitive economic indicator. After the embargo is lifted and the economic report flashes across computer screens around the world, reaction to the latest news by global money markets can affect the financial well-being of every American.

One cannot successfully write a book on economic indicators without at least gently introducing a few basic economic terms. I tried in Chapter 2, "A Beginner's Guide: Understanding the Lingo," to define as painlessly as possible those key phrases and concepts that are essential to know when reading about economic indicators.

The essence of the book begins with Chapter 3, "The Most Influential U.S. Economic Indicators." Here, all the major U.S. economic indicators are evaluated, and each one is discussed in a format designed to answer these vital questions:

- Why is this indicator important to know?
- How is it computed? (Sure, not everyone will want to get into the nitty-gritty details of how economic indicators are put together. Nevertheless, by understanding the underlying methodology of how they are calculated, one is better able to appreciate the usefulness of these indicators as well as their shortcomings.)

• What does the economic indicator have to say about the future? The purpose of this question is twofold. The reader is first shown how to become familiar with the official report and its accompanying tables. Particular emphasis is placed on highlighting the most interesting and useful data points in the economic release. Second, guidance is given on how to locate valuable clues in the tables that may offer readers a heads-up on how the economy might perform in the months ahead. To make this task easier, copies of actual releases are included with most indicators covered in this book. Virtually all the economic releases mentioned are available on the Internet for free. One can read them on their respective Web sites or download the releases as PDF files. (Note that Internet addresses for the economic indicators are included in this book.)
• How might bonds, stocks, and the dollar react to the latest economic reports? The financial markets often respond differently to economic data. Much depends on the specific indicator released, how timely it is, whether investors were surprised by the news, and what else is going on in the economy at the time.

Chapter 4, "International Economic Indicators: Why Are They So Important?" examines the 10 most influential foreign economic indicators. Because the U.S. economy and its financial markets are closely integrated with the rest of the world, one can no longer afford to ignore measures of economic activity in other countries. If the economies of other nations are growing, they'll buy more from U.S. producers. On the other hand, poor growth abroad bodes ill for many large U.S. companies and their employees. In addition, American investors interested in buying foreign stocks and bonds for their own portfolios should track foreign economic indicators to identify those countries and regions in the world that might offer the most attractive returns.

Chapter 5, "Best Web Sites for U.S. Economic Indicators," is evidence of how much times have changed. Not too long ago, anyone interested in obtaining a set of current and historical economic statistics had to purchase them from a private number-crunching firm. The more stats you wanted, the more costly it was. Today, nearly all this data can be accessed instantly on the Internet for free! The democratization of economic statistics gives everyone, from the experienced professional to the weekend investor, the opportunity to download, read, and analyze economic information. In this chapter, I've assembled what I think are among the best and most authoritative Web sites for economic data. Again, all are free, though some may ask users to register.

Chapter 6, "Best Web Sites for International Economic Indicators," is a compilation of Web sites that enable the reader to quickly locate foreign economic data that might otherwise be tough to find. However, there's one important caveat to keep in mind: No country collects and disseminates as much high-quality economic information as the U.S. Its breadth and integrity make it the gold standard in the world. Although there is a vast amount of international economic data on the Web, one has to approach such sources with caution. There are issues concerning language (many are not in English), comprehensiveness, accuracy, and timeliness. In this chapter, I've listed sites on the Internet that in my judgment are the best and most trustworthy for international economic data—and that are available in English! Once again, every site listed is free, at least at the time of this writing.

Finally, let me close by saying that this book was fun to write largely because I learned a great deal in the process. It was not meant to be a textbook or some intellectual treatise on the economy. My purpose throughout was to help people get a better understanding of how to look at economic indicators, why they can be so influential, what they might tell us about the future, and how people can best utilize all that information. If I have accomplished this in some way, then it was worth all the swearing and temper tantrums I went through every time my computer crashed in the course of this endeavor.

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