

Leading Economic Indicators (Direction of the economy) only answer question one

Leading indicators are indicators that usually change before the economy as a whole changes. They are therefore useful as short-term predictors of the economy. Stock market returns are a leading indicator: the stock market usually begins to decline before the economy as a whole declines and usually begins to improve before the general economy begins to recover from a slump. Other leading indicators include the index of consumer expectations, building permits, and the money supply.

Economic indicators are among the most closely watched pieces of news in the investment world. Practically every week there is some announcement that affects investors' predictions about the future of the economy. Leading indicators are those which are believed to change in advance of changes in the economy, giving you a preview of what is going to happen before the change actually occurs. (There are also coincident indicators, which change about the same time as the overall economy, and lagging indicators, which change after the overall economy, but these are of minimal use as predictive tools.) In addition, the Fed watches many of these indicators as it decides what to do about interest rates.

The most important indicator is the **GDP report**. Basically, the GDP is the widest measure of the state of the economy. The figure is released at 8:30 am EST on the last day of each quarter and reflects the previous quarter. The GDP is the aggregated monetary value of all the goods and services produced by the entire economy during the quarter (with the exception of international activity). The key number to look for is the growth rate of GDP. Generally, the U.S. economy grows at around 2.5-3% per year and deviations from this range can have a significant impact. Growth above this level is often thought to be unsustainable and a precursor to high inflation, and the Fed usually responds by trying to slow down the "overheated" economy. Growth below this range (and especially negative growth) means that the economy is running slowly, which can lead to increased unemployment and lower spending.

In the 1960s, the U.S. Department of Commerce began researching and releasing business cycle indicators, which use composite data points (including manufacturing, construction, and stock market indicators) to time economic expansions, recessions, and recoveries. In December 1995, The Conference Board took over the business indicator program from the government and continues to publish leading, coincident, and trailing indexes for the U.S. economy each month. The Conference Board publishes a composite Leading Economic Index consisting of ten indicators designed to predict activity in the U. S. economy six to nine months in future.

Components of the Conference Board's Leading Economic Indicators Index

1. Average weekly hours (manufacturing) — Adjustments to the working hours of existing employees are usually made in advance of new hires or layoffs, which is why the measure of average weekly hours is a leading indicator for changes in unemployment. and also
2. Average weekly jobless claims for unemployment insurance — The CB reverses the value of this component from positive to negative because a positive reading indicates a loss in jobs. The initial jobless-claims data is more sensitive to business conditions than