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RICHARD YAMARONE

THE ECONOMIC INDICATOR HANDBOOK

HOW TO EVALUATE ECONOMIC TRENDS TO MAXIMIZE PROFITS AND MINIMIZE LOSSES

THE ECONOMIC INDICATOR HANDBOOK

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THE ECONOMIC INDICATOR HANDBOOK

How to Evaluate Economic Trends to Maximize Profits and Minimize Losses

Richard Yamarone

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Published by John Wiley & Sons, Inc., Hoboken, New Jersey.
Published simultaneously in Canada.

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Library of Congress Cataloging-in-Publication Data is available:

ISBN 9781118204665 (Hardcover)
ISBN 9781118228470 (ePDF)
ISBN 9781118233122 (ePub)

Cover Design: Wiley
Cover Images: Blue Whispy Flow © colecom/Getty Images, Inc.;
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Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

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Dedicated to the loving memory of Milton and Nash Yamarone.

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Acknowledgments

This project is overwhelmingly related to economics as seen from the Bloomberg terminal. So it is only natural that I express my gratitude to the countless—and I do mean countless—Bloomberg employees that have provided invaluable help over the last 20-plus years that I have been associated with Bloomberg either as a client (since 1992) or as an employee (October 26, 2009). There's a real reason why Bloomberg, LP is so successful, and it is undoubtedly due to its employees. I've never seen such dedication to a company and to the client in my more than 30 years on the Street. If you know anyone that has ever worked at Bloomberg, you know exactly what I am talking about.

I have the great fortune to work with some of the brightest and hardest-working people in all of business. At any hour of the day or evening, weekend, or holiday, I feel I could reach out with an issue and get an immediate response . . . that's an incredible team to draw upon. I call each of them my friend as well as co-worker.

My thanks are extended first to the Bloomberg Intelligence Economics team. At the top is Mike McDonough, the global director of economics who has set up this solid powerhouse and is responsible for making it the preeminent economic research group on all of Wall Street that it is today. He is a great leader. Carl Riccadonna is the sharpest economist I have ever worked with and is the best "big picture" economics writer on the Street today; I learn from him every day. Yelena Shulyatyeva has a gifted ability to find the most meaningful detail in economic indicators, draw intelligent inferences, and place them in a macro context. She does this masterfully, despite having the tremendous misfortune of having to sit next to me for over 10 hours a day. Bless you.

Many thanks go to the rest of the team, including Richard Marquit, Felipe Hernandez, Marco Maciel, Jaime Murray, Tom Orlik, David Powell, Niraj Shaw, Mark Bohlund, Dan Hanson, Maxime Sbaihi, Tamara Henderson, Fielding Chen, Yuki Masujima, and Tricia Franceschina. Special thanks to James Callan, the brilliant editor that takes my scribblings and polishes them into coherent commentary.

Bloomberg Intelligence is an incredible research group, undoubtedly the best on the Street, and as helpful as they are insightful. Imagine what a joy it is (especially as an economist) to be able to draw upon the knowledge from industry legends—yeah, legends—like Poonam Goyal, Ken Hoffman, Kevin Tynan, Kit Konolige, Paul Sweeney, Josh Zaret, Lee Klaskow, John Butler, Karen Ulbelhart, and Jason Miner. Seriously, who couldn't form an accurate economic perspective with so many talented professionals feeding the information channel with top-tier insights and analyses? Additional thanks are extended to Richard Salditt, Dragos Aoloie, and Mike McGlone.

There are countless employees around the globe that I work with only on occasion, but have helped me beyond measure. This includes my personal friend, Janice Slusarz; I couldn't ask for a better friend. In Multimedia there is another dear friend, Julie Hyman—I am very lucky to call her a friend. In addition, my many thanks are extended to Matt Miller, David Westin, Ted Fine, Pimm Fox, Mike McKee, Tom Keene, Kathleen Hays, Vonnie Quinn, Taylor Riggs, David Sucherman, Paul Brennan, Sam Lenga, Carol Massar, John Tucker, Cory Johnson, Emily Haas-Godsil, Paris Wald, Vielka Todd, Richard Trueman, Charlie Pellet, Rachel Wehrspann, Erik Schatzker, Joe Weisenthal, Courtney Donohoe, Lisa Abramowicz, Scarlet Fu, Mark Crumpton, and Bob Moon.

I could fill an entire book with the hundreds of salespeople that I have worked with over the last seven years, who have taught me so much about the importance of the client during the close to a thousand presentations, speeches, and one-on-one meetings I have had with our clients and prospects. My hat is tipped to Matt Nolfo, the King of university sales. No one compares to you and your seemingly never-ending ability to let people know the power of the terminal. Tom Rogers, Kevin G. Murphy, Annie Sears, Stephen Smith, Ariel Pariser, Thomas Pennella, Alex Shomber, Logan McClennan, Wayne Pasternack, Mary Briatico, Caroline Bauer, Craig Kesten, and Chris Piekarski.

My gratitude is also extended to other colleagues that I indirectly work with, including Hillary Conley, Peter Coy, Dorothy Lata, Shelly Banjo, Deirdre Fretz, James Crombie, Ben Baris, Anne Riley, Joe Mysak Jr., Jackie Jozefek, Mary Ann Thomas, Steven Moy, Mike Nol, Doug Simmons, Rose Constantino, Florent Ouelle, Mike Finnegan, Clifton Simmons, David Noguerol, Tony Bolton, Derek Pryor, Monica Betran, Jacqueline Thorpe, Caitlin Noselli, Vince Golle, Vinny DelGuidice, Alex Tanzi, Vivien Lou Chen Sho Chandra, and Doug Edler. And to a true Bloomberg giant, Ted Merz, you are a wonderful source of wisdom; I consider you a very valuable friend.

I must express my most sincere thanks to a true diamond at Bloomberg, Reileen Brown. You have saved me on hundreds of occasions. Without you, I would be lost . . . literally.

To the thousands of clients with whom I interact, thanks for all of your thoughts, comments, and idea-generating conversations. You have contributed to this project in more ways than you may realize. Along these lines, I must extend thanks to the near 700 members of the Bloomberg Macro Economic Chatroom. I cannot divulge any individual members—it is an anonymous chatroom—but I must tell you there are numerous occasions where members have inspired me to read, study, and learn about specific topics and economic issues weeks ahead of them appearing in the broader business press.

Thank you all.

About the Author

Richard Yamarone is a Bloomberg senior economist with more than three decades of experience on monetary and fiscal policy, economic indicators, fixed income, commodities, and general macroeconomic conditions.

As a member of Bloomberg Intelligence–Economics, he is a contributor to the Real-Time Economics product that features analysis, data, and news on the forces shaping the global economy. Mr. Yamarone and the Bloomberg Intelligence–Economics team provide in-depth analysis of macroeconomic data, policy, and trends and how they will impact financial markets.

He is also the creator of the Bloomberg Orange Book of CEO Comments, a compilation of macroeconomic anecdotes gleaned from comments C-suite executives made on quarterly earnings conference calls. He travels extensively to speak to clients and corporate executives on the economic outlook, public speaking, and career and management coaching. The author of *Trader's Guide to Key Economic Indicators* (Bloomberg Press, 2012), Mr. Yamarone is a member of the National Association for Business Economists, the American Economic Association, the New York State Economics Association, and the Money Marketeers of New York University. He has won numerous accolades for his work, including being featured as one of the top 10 economists in the United States by *USA Today* in 2007 and "Nostradamus of the Financial Industry" by Bank Advisor in 2008 for his prediction of the financial crises.

CHAPTER 1

The Daily Blotter

Perhaps the best way to appreciate the most important and meaningful economic indicators used by Wall Street economists is to present them in the manner that they are used by those professionals. Every bank, money manager, hedge fund, or financial institution has an interest in economic indicators, and each of those producing the analysis possesses their own individual routine in which they obtain the data, produce a product, and disseminate their respective analysis. For the most part, Wall Street economists use the Bloomberg Professional service for their data, write a daily newsletter—with oftentimes several updates a day—and send it electronically to their clients, investment professionals, and the media.

This chapter attempts to present the most important information used on Wall Street trading desks, and how the desk economist goes about prepping for the day, understanding and appreciating anything that might move the financial markets or alter the outlook for the economy.

The traditional market reaction to news, events, and economic data—particularly the top tier economic indicators—is usually with respect to what insight the news brings to the entire financial market. While some equity analysts use economic releases to determine the trends in some of their respective industries and stocks, most investment professionals look to see how information will influence the broader markets.

For example, should news break about a refinery fire at an integrated oil company, then there may be an immediate negative reaction to that specific company's stock price. Depending on how severe the damage was to its facilities and how long that refinery would be out of commission would dictate the value of the price adjustment. Similarly, if the refinery was large, producing a tremendous amount of gasoline, then the lost supply could disrupt the commodity market, and send prices higher. This wouldn't upset the entire stock, bond, or currency market, with the damage being concentrated in just the trading of some energy products.

When a major economic release hits the newswires, market participants look at the details with respect to how the information contained in the report will influence the prices of a security.

When economic releases are better than expectations, that is, with a positive or bullish implication, equity prices rise and bond prices fall. Yields on bonds (or fixed-income securities) rise since they are inversely related to prices). The economics behind this is that a stronger economic posting like a large number of jobs added in a month, an increase in the orders for durable goods, or an extremely upbeat reading in consumer confidence, implies companies will be conducting a greater amount of business, which is good for revenues and profits.

The reaction to strong economic data in the fixed income market would be very different. Stronger economic conditions possess potentially inflationary conditions. An increase in demand or production is usually accompanied by greater prices. So exceptionally stronger gains in activity are viewed as inflationary, which erodes the value of a fixed income security. The yields on those bonds would rise since they are inversely related.

The opposite holds true for weak economic reports. In the event that one of the manufacturing condition surveys is less than expectations, industrial production contracts, or housing starts fall, stock prices would sour on that news and bond prices would rise (yields would fall).

While each Wall Street economist has varying responsibilities and individual routines, they do share some common traits. Knowing what releases are scheduled for any given day is atop that list. The economic calendar is so important that vacations and time off is planned around economic releases by order of importance. You never call in sick or walk in late for an Employment Situation release, an FOMC meeting, or a day when three or more top-tier indicators are slated for release.

The Economic Calendar

The Bloomberg calendar depicted in Exhibit 1.1 may be obtained by typing ECO <GO> on the Bloomberg Professional terminal. It is the most comprehensive and trusted source for releases in all of finance, detailing the name of the release, date, time, previous value, and the current Street consensus estimate. There's also a relative importance graph identifying how the Street views each index—the larger the number of subscription alerts there are for an individual indicator, the greater the number of bars highlighted in the bar graph located in the "R" column (relative importance) to the left of the Event column. In the associated exhibit, the ISM Milwaukee index clearly is not considered to be as important as the Chicago Purchasing Managers Index.

The Bloomberg ECO calendar may be customized to include economic releases like durable goods orders and economic events like speeches by policy

EXHIBIT 1.1 The Economic Calendar


1) Calendars 2) Settings 3) Alerts 4) Export Economic Calendars

United States 6) Browse 18:02:04 08/29/15 - 09/06/15

All Types ALL View Agenda Weekly

	Date Time	A M R	Event	Period	Surv(M)	Actual	Prior	Revised
21)	08/29 12:25		U.S. Fed Vice Chair Fischer Remarks on Inflation Developments					
22)	08/29 12:25		BOE's Mark Carney Speaks at Jackson Hole Symposium					
23)	08/29 12:25		ECB Vice President Constancio Speaks on Jackson Hole Panel					
24)	08/29 17:46		Triple Crown Winner American Pharoah Runs in Travers Stakes					
25)	08/27 08/29		Kansas City Fed Hosts Symposium in Jackson Hole, Wyoming					
26)	08/30 08/31		U.S.'s Kerry Hosts Leadership Conference in Anchorage					
27)	08/31 07:30		The American Legion holds its 97th National Convention,...					
28)	08/31 08:30		The Intelligence and National Security Alliance (INSA)...					
29)	08/31 09:00		ISM Milwaukee	Aug	50.00	--	47.12	--
30)	08/31 09:45		Chicago Purchasing Manager	Aug	54.5	--	54.7	--
31)	08/31 10:30		Dallas Fed Manf. Activity	Aug	-3.8	--	-4.6	--
32)	08/31 11:00		Export Inspections - Corn	Aug 27	--	--	883.99	--
33)	08/31 11:00		Export Inspections - Soybeans	Aug 27	--	--	210.13	--
34)	08/31 11:00		Export Inspections - Wheat	Aug 27	--	--	277.99	--
35)	08/31 11:30		3M High Yield Rate	Aug 31	--	--	0.050%	--

Overview	12) Real GDP YoY	13) Unempl. Rate	14) CPI YoY	15) Central Bank R	16) Indust. Prod. Y
Survey	--	5.2	--	.50	--
Actual	2.7	5.3	.2	.25	1.32
Prior	--	5.3	.1	.25	1.10

Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2015 Bloomberg Finance L.P.
SN 239155 EDT GMT-4:00 G353-315-0 29-Aug-2015 18:02:04

Source: Bloomberg

makers or Federal Reserve Open Market Committee meeting announcements. The addition of all the government conferences and speeches like those from the secretaries of the Departments of Treasury or State are also available. All Treasury financing auctions are listed as well. Even the commodity reports such as crop conditions or crude oil inventory levels are available. While we are only addressing the U.S. economic indicators, the ECO calendar is available for 189 countries and regions (e.g., Eurozone, G8, G20).

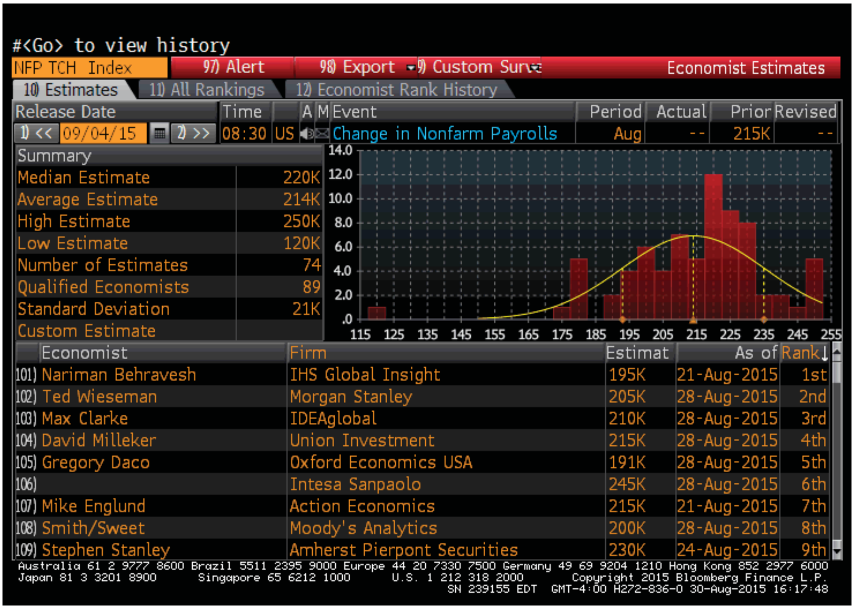
Traders, analysts, and economists always want to know what the market is thinking, so when an economic release hits the tape, they know whether the report is stronger, weaker, or in line with Street expectations.

With respect to the calendar on economic releases, right-clicking on any of the indexes will reveal the detail of all those economists polled and their respective forecast history for that specific indicator (ECOS). The most popular economic releases possess upwards of 100 individual forecasts.

Economist Estimates and Expectations

Once in the calendar on economic releases, right-clicking on any of the indexes reveals the Street expectations, as seen in Exhibit 1.2. Here we see the graphical distribution for nonfarm payroll estimates by 74 economists, as well as the

EXHIBIT 1.2 Economist Estimates



Source: Bloomberg

average, median, high, low, and standard deviation. There is also a ranking of the economist for that indicator in the lower-right-hand corner, which is based on two years of contributed estimates.

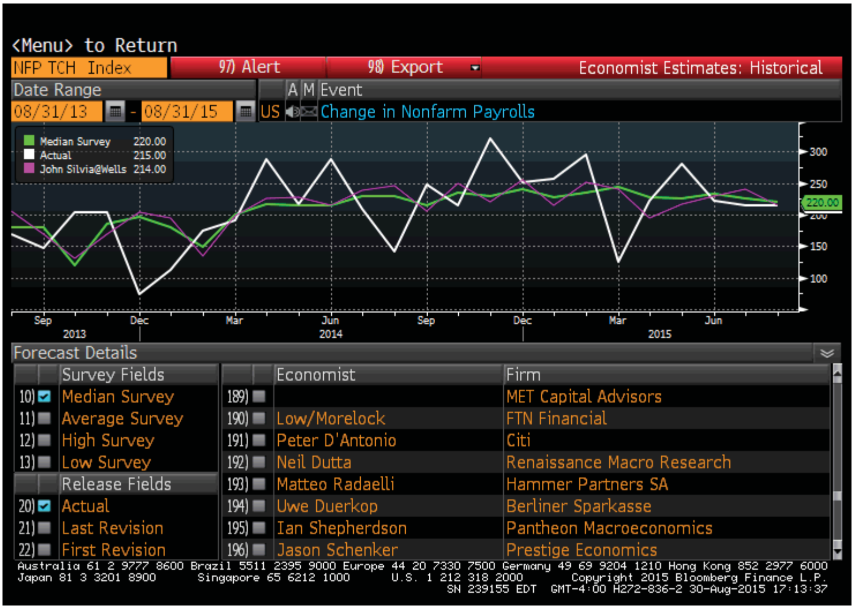
Then, clicking again on an individual economist or firm reveals a chart of the forecasting history of that particular forecaster for that economic release (Exhibit 1.3), as well as the median and actual number. You can also select several economists at a time. Now we are capable of seeing just how good some are at the estimating game.

And since we have the Street estimates for dozens of indicators—and history—we can plot to see how far off the experts as a consensus were with respect to the actual number. Exhibit 1.4 shows the Economic Surprise Monitor (ECSU <GO>), which contains a dashboard of the latest top-tier indicators and their associated postings (by date) and the amount that each differed from the survey median as polled by Bloomberg, divided by the survey standard deviation.

The Bloomberg Economic Surprise Index

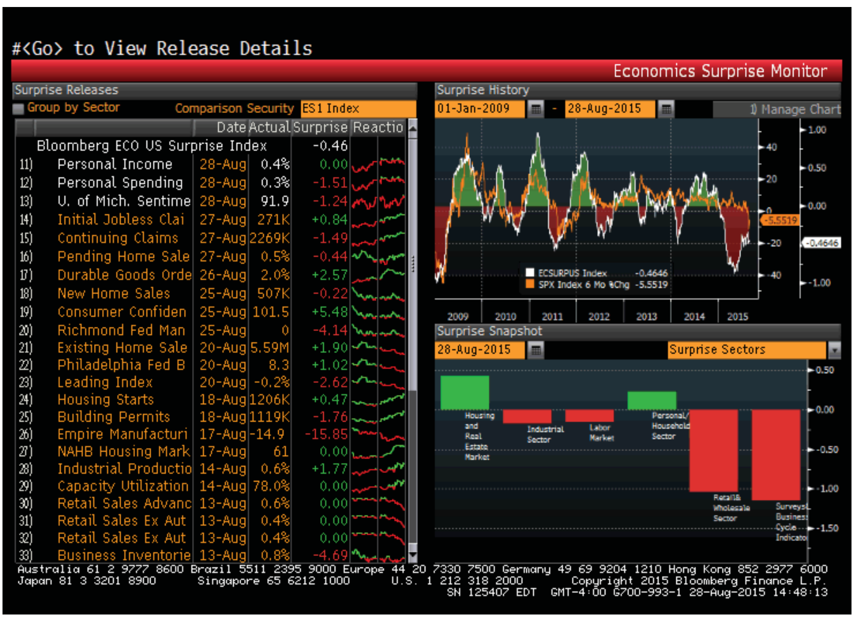
The Bloomberg Economic Surprise Index (ESI) shows the degree to which Street economists either under- or overestimate those top-tier indicators posted in ECO <GO>.

EXHIBIT 1.3 Economist/Firm Forecast History



Source: Bloomberg

EXHIBIT 1.4 The Economic Surprise Monitor



Source: Bloomberg

When the actual number exceeds the Street estimates, it's a sign that the measured performance of a particular economic indicator bettered Street expectations, implying the economy may be performing better than the pros believe. Conversely, lower actual values suggest weaker economic conditions compared to what the forecasters believe. The associated exhibit lists the most recent releases in the Bloomberg ECO U.S. Surprise Index and whether they missed to the up side (green) or to the down side (red).

Formal releases of economic data aren't the only incidents that move the market or may change the outlook of the economy. The daily events calendar is an extremely important tool used in the analysis of the economic environment. While there are rarely specific data or indexes revealed in the countless events that occur during any given trading session, there are nuggets of information in many of the conference calls or releases—the sharp analyst just has to know where to look.

Most analysts and economists know days in advance about what is on the docket regarding investor meetings, industry or bank-sponsored conferences, earnings calls, corporate updates, annual meetings, and special company announcements like a merger or acquisition. The Bloomberg Events Calendar in Exhibit 1.5 (EVTS <GO>) identifies one page of the thousands that exist on the terminal.

EXHIBIT 1.5 Events Calendar

Enter all values and hit <Go>.

95) Calendars | 96) Output | 97) Actions | 98) AutoSync... | Page 8/74 Events Calendar

Source: All Securities | Region: United States | Date: Custom 08/15/15 - 09/04/15

Location: <Enter Location> | Host: <Enter Broker> | Sector: ICB | Industry: All

Event Type: 21) All Event Types | 22) Earnings Releases | 23) Earnings Calls | 24) Earnings Releases & Calls | 25) More

31) Daily | 33) Monthly

40) Analyze List | Grouping: Date | 41) Collapse All | Companies 1105 | Events 1455

	A	Company	Date	Time	ET	Event Description	P	T	S	A	C
1)		Synchrony Financial	08/17		OT	Credit-card Charge-offs and Delinquenci					
2)		08/18/2015 (120 events)									
3)		Akers Biosciences Inc	C 08/18	02:00	ER	S1 15 A:-0.66* E:-- S:-- G:--					
4)		Gaming Innovation Group	08/18	05:00	EC	Q2 15 Ph:Webcast Only Pin:--					
5)		Eros International PLC	C 08/18	Bef-mkt	ER	Q1 16 A:0.05 E:-- S:-- G:--					
6)		Home Depot Inc/The	C 08/18	06:00	ER	Q2 16 A:1.71 E:1.707 S:0.2 G:--					
7)		Wal-Mart Stores Inc	08/18	07:00	EC	Q2 16 Ph:877-523-5612 Pin:9256278					
8)		Hain Celestial Group Inc/The	C 08/18	07:30	ER	Q4 15 A:0.55 E:0.555 S:-0.9 G:--					
9)		Dick's Sporting Goods Inc	C 08/18	07:30	ER	Q2 16 A:0.77 E:0.747 S:3.1 G:0.75					
10)		American Bankers Association In	08/18	07:30	CP	American Bankers Association Inc (032					
11)		Sprint Corp	08/18	07:34	CP	Sprint (S US) - CEO Marcelo Claure: BT					
12)		Sypris Solutions Inc	C 08/18	07:45	ER	Q2 15 A:-0.43 E:-0.270 S:-59.3 G:--					
13)		Yew Bio-Pharm Group Inc	C 08/18	08:00	ER	Q2 15 A:0.03* E:-- S:-- G:--					
14)		Blue Bird Corp	08/18	08:00	EC	Q3 15 Ph:877-407-4018 Pin:--					
15)		BB&T Corp	08/18	08:00	OT	Acquisition of National Penn Bancshares					
16)		Hain Celestial Group Inc/The	08/18	08:30	EC	Q4 15 Ph:855.354.1855 Pin:5053910					
17)		Eros International PLC	08/18	08:30	EC	Q1 16 Ph:(646) 254-3374 Pin:6459652					
18)		TJX Cos Inc/The	C 08/18	08:34	ER	Q2 16 A:0.80 E:0.757 S:5.7 G:0.73					
19)		MasTec Inc	08/18	09:00	EC	Q2 15 Ph:(913) 312-0416 Pin:--					
20)		Home Depot Inc/The	08/18	09:00	EC	Q2 16 Ph:(913) 981-5592 Pin:6061859					

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Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2015 Bloomberg Finance L.P.
SN 125407 EDT GMT-4:00 G700-993-1 28-Aug-2015 14:14:26

Source: Bloomberg

The Events Calendar

The company is identified, as well as a description of the event type. Where applicable, the dial-in number is listed along with the necessary PIN code in the event that the listener would like to call in directly and ask questions.

The last five columns are functions that permit the user to read the associated press release (P), download a PDF file of the transcript of the entire conference call (T), read a transcript summary (S), listen to an audio file of the entire conference call (A), or sync the event to your calendar (C). These, of course, are all archived and available on an historical basis.

To be sure, not every call will generate insight to the goings on of the economy. But the wise desk economist should listen to (or read the transcripts of) the most economically sensitive companies that may be complaining of a high-interest-rate environment, stagnant spending by the consumer, or high input prices. Just about anything that can disrupt a company's performance will be mentioned in these calls. Many times, the comments made by executives on these calls forewarn changes in the economic data.

In Exhibit 1.5, it would be wise to listen to what Home Depot, Wal-Mart, and TJX Companies might have to say. The information contained in those calls might identify the underlying tone of the consumer. And since the consumer is responsible for a large portion of economic activity, the anecdotes can be invaluable to the forecasting process.

Having a treasury of economic data is essential for every economist or analyst. The Bloomberg Professional terminal provides a trove of economic and financial market data ranging from the common government reports and all the associated detail like GDP, consumption expenditures, the price indexes, and the confidence measures to the more obscure North American rail carloads of forest products. Just think of how valuable the latest data on industrial production of veneer, plywood, and engineered wood products, the retail price of carbonated drinks, or the number of persons employed in museums, historical sites, and parks can be to a housing, beverage, or not-for-profit industry analyst.

The Economic Statistics Table (ECST)

As Exhibit 1.6 highlights, the data are available on tens of thousands of indicators and are easily searchable and downloadable with a mere click on the menu—all in one place.

Having the ability to work with data is also critical in the analysis process. All of the charts in this book were created using data from the Bloomberg terminal, and almost all have been produced in the Economic Workbench (ECWB <GO>). This function permits you to "play" with data. That is, insert different indicators or indexes and look at relationships, ideally identifying the

EXHIBIT 1.6 Economic Statistics Table

Source: Bloomberg

temperature of the economic climate or other key indicators to better appreciate the tone of an industry, the possible direction of a stock or bond, or changes in the business cycle.

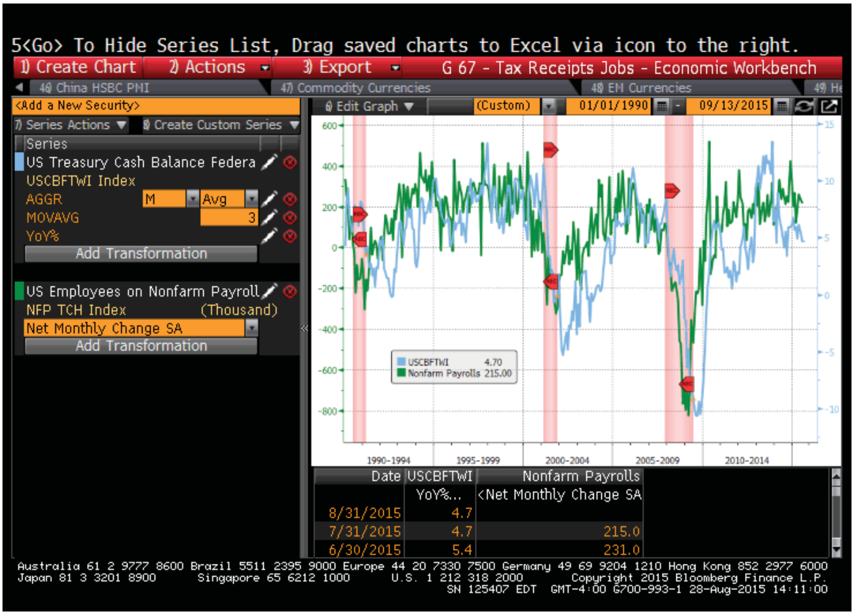
The Powerful Economic Workbench

Exhibit 1.7 displays the Bloomberg Economic Workbench. Basically, this is a charting tool. Any of the historical data on the terminal may be loaded into a field and then altered to identify a particular pattern or association. Sometimes economists want to compare data that are reported in different bases, like a quarterly GDP and weekly initial jobless claims, or daily commodity prices and monthly producer price indexes.

In Exhibit 1.7, we chart the U.S. Treasury cash balance of federal tax deposits withheld from employment income and tax receipts against the monthly nonfarm payrolls. The economic explanation behind this is that the more people employed, the greater will be the amount of tax withholdings by the federal government.

There are several other applications that analysts like to apply to data such as moving averages—especially for volatile economic time series or for high frequency daily or weekly data. Year-over-year analysis of indicators is often the

EXHIBIT 1.7 Economic Workbench



Source: Bloomberg

best perspective used on the Street, since this smooths so many fluctuations that may occur in data that are presented week-to-week, month-to-month, or quarter-to-quarter. In this book, the majority of data are presented on a year-over-year basis.

Other transformations frequently used in economic analysis are aggregation, whereby data points are summed or averaged. There are times when only the last data point of the month is desired. In addition, the analyst might like to perform many different applications like absolute values, logarithms, exponential, and power transformations.

Because economic indicators can adopt a leading, lagging, or coincident nature, the ability to transform the data by leading or lagging a few periods is also a common analytical tool that economists perform on data. Some indicators are lagged by sizable periods—five or six months, or even a year. You'll want to be able to make these adjustments to the many indicators.

Nearly all of the major trading floors have a morning squawk. During this internal broadcast, market participants—particularly those on the trading floor—are alerted to the top events, earnings announcements, and economic data.

Basically, this is a condensed and informative interpretation of the events and economic calendars. Discussions about potential market trends and possible market conditions are also mentioned. This is also a forum for analysts to pitch ideas, as well as investment products and securities, to the salespeople. Bloomberg has a version called the First Word Audio Squawk, and can be accessed on the terminal by typing SQUAWK <GO>.

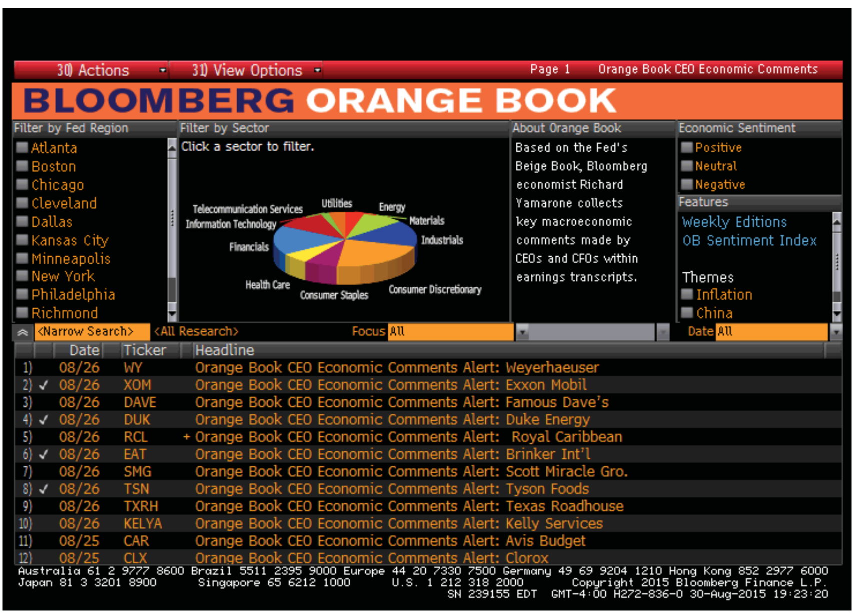
Another type of communication on the Street is called the hoot-and-holler, whereby an economist would analyze the economic releases as they hit the tape. Admittedly, these instant analyses were much more prevalent in the 1970s through 1990s, but there are a few trading institutions that carry on this live interpretation of the data.

The task of the hoot-and-holler is not one for an amateur and is extremely difficult; a mere slip can cost traders millions. You have to be aware of the underlying market conditions, particularly the fixed-income market, and you must know what the Street expectations for the release are. It's also important to know how the markets will react to economic releases.

The Bloomberg Orange Book of CEO Comments

The Bloomberg Orange Book of CEO Comments (Exhibit 1.8) is a creation born out of the need to improve an existing, and somewhat staid publication used by policy makers, the *Beige Book*. Every seven weeks or so—eight times a

EXHIBIT 1.8 The Bloomberg Orange Book of CEO Comments



Source: Bloomberg

year—the Federal Reserve releases the *Beige Book Summary of Commentary on Current Economic Conditions by Federal Reserve District*. This is essentially a compilation of anecdotes gathered by economists in each of the Fed's 12 districts. Once collected, the Fed economists strip away the source information (the name of the person or company making the comment) and don't offer a date of when the comments were made.

The Bloomberg Orange Book of CEO Comments is assembled by reading some 300 quarterly earnings transcripts of the most economically sensitive companies and extracting the most economically relevant comments by C-suite executives. Anything related to hiring, inflation, capital spending, interest rates, growth, spending, consumer developments, global economic conditions, or confidence makes it to the Orange Book. They are all collated by company and posted to the terminal. These are the actual unedited comments made by executives, identified by the person making the comment and the date that it was made.

By typing ORANGE <GO> on the Bloomberg terminal, you will access the history of all entries, ordered by several different classifications. By clicking on a sector in the pie chart on the Orange Book page depicted in Exhibit 1.8, any of the companies may be found. So, for example, if you wanted to know the comments made by executives in the energy sector, a mere click would reveal the comments made by Hess, Chevron, Halliburton, or Arch Coal.

In addition, there is a search function that permits the user to filter comments by Fed District. So, if you wanted to mimic the Fed's *Beige Book* by district, you simply check the regional bank on the left, say Atlanta, and all the comments made by executives that are headquartered in the district will be revealed—for example, in the Atlanta District: Flowers Foods, UPS, Coca-Cola, Beazer Homes, Home Depot, and so on.

One of the more useful functions of the Orange Book is to identify trends in specific economic conditions. By entering a specific phrase of word like *deflation, job cuts*, or *Obamacare* in the <Narrow Search> field, any mention of those terms from a conference call would appear.

This makes the analysis of so many topics and themes considerably easy. With the Bloomberg Orange Book, you can learn what is on the minds of some of the most important business people in the United States.

In addition, the company transcripts are each scored with respect to its tone—that is, positive, negative, or neutral. Admittedly, the overwhelming majority (usually 290 of 300) are neutral since every conference call doesn't exude a definitive tone. But it is quite evident when a company is downbeat or sanguine about the economic outlook. Keep in mind, the gist of the Orange Book is not to understand how an individual company is performing, but what their perceptions are regarding the U.S. economic situation. A company can have stellar financial results, soaring earnings and escalating profits, but if they mention a near-term recession or a mass furlough of workers that might be scored a "negative." This is another reason so many companies are graded as "neutral," C-suite officials don't always mention the economic assessment.

Economists need to know where the financial markets are trading throughout the session, particularly those of Treasuries and currencies. The equity market is a very important measure as well, but its relevance is somewhat limited since it is not open as long as the fixed income and currency market. For example, when an economic release hits the tape at 8:30 a.m. ET—as so many major reports do—the U.S. stock market hasn't begun trading and will not for another hour. Not only will the fixed-income and currency markets be open and trading for the majority of economic releases, but in the event that some news or event breaks overseas (in Europe, Asia, or Africa and the Middle East) and overnight, bonds and currencies will trade with respect to the circumstances.

The Treasury and Money Market Rates

One of the more informative sources for all of this information—and more—is the Bloomberg Treasury and Money Market page (BTMM <GO>) and is depicted in Exhibit 1.9. This is essentially a summary of the more important measures and indicators that trade throughout the day. Circled are the

EXHIBIT 1.9 Bloomberg Treasury and Money Market page

Source: Bloomberg

"on the run" Treasuries (the latest issues for the major maturities) and currencies of five of the most popular traded currencies with respect to the U.S. dollar, which is the world's reserve currency.

There are also many money market instruments including commercial paper, 90-day euro dollar futures, LIBOR fixings, and Fed funds futures. There are a few major stock market aggregates like the Dow Jones Industrial Average, the S&P 500, and the NASDAQ Composite.

Other important economic indicators are posted on this page as well, including the CRB Commodity Index and the latest price of gold and crude oil (West Texas Intermediate).

If something is stirring the markets, it will be identified by movements in several, if not all, of the measures on this page. Professionals can tell how severe or mild the market swings are simply by looking at a snapshot of this page.

There is a rather unique financial market metric that the Street now focuses on in order to appreciate the underlying tone of the markets.

The Bloomberg Financial Conditions Monitor

After the 2008 financial crisis, it became increasingly important for economists to be aware of the amount of stress ruminating throughout the financial system, which lead to the creation of several financial market stress indicators.

The Bloomberg Financial Market Conditions Monitor (FCON <GO>) shown in Exhibit 1.10 contains the individual components of the U.S. Financial Conditions Index (FCON) in the three asset classes, a graphical history of the index, and the latest and 52-week range of each of the components in the FCON.

The FCON is an index of three equally weighted (33 percent each) asset classes, the Money Market, the Bond Market, and the Equity Market. The headline index comprises a total of 10 indicators. In each of the three asset classes are instruments that represent their respective category.

In the Money Market group there are three measures (the U.S. LIBOR/OIS Spread, the U.S. TED spread, and the U.S. commercial paper/T-bill spread), each carrying an 11.1 percent weight in the total index. The Bond Market section includes five measures (the BAA-10-year Treasury spread, the U.S. High-Yield-10-year Treasury spread, the 10-year swap-Treasury spread, the U.S. muni-10-year Treasury spread, and the swaption volatility index), each possessing a 6.7 percent weight in the headline index. The Equity market group contains the S&P 500 five-year moving average and the VIX Index of S&P 500 volatility, and each of these carries a 16.7 percent weight.

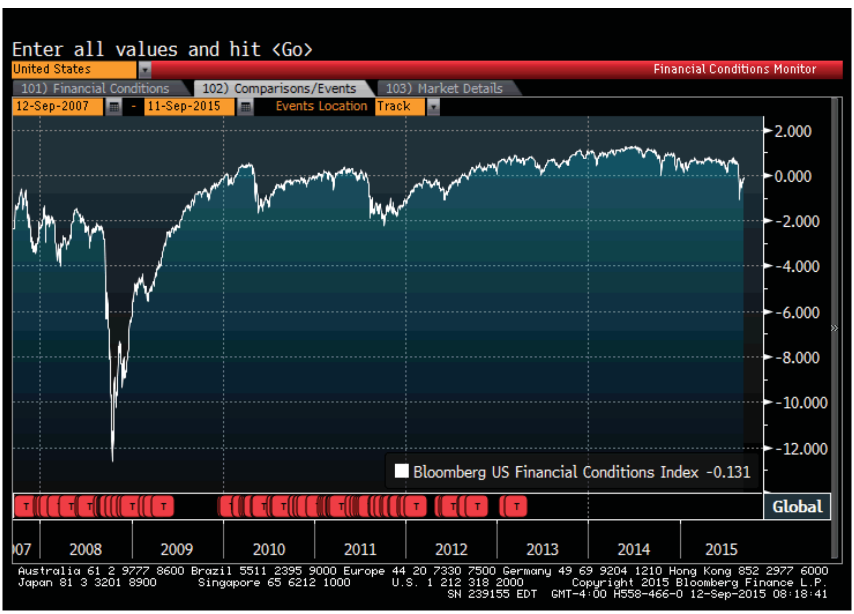
As Exhibit 1.11 shows, there were seven notable events/periods since late 2007, when financial conditions were flashing worry signs.

In late 2007, the liquidity issues surfaced in the interbank funding market, while the Bank of England provided a loan facility for Northern Rock, a major

EXHIBIT 1.10 Bloomberg Financial Market Conditions Monitor

Source: Bloomberg

EXHIBIT 1.11 Bloomberg Financial Market Conditions Index—History



Source: Bloomberg

mortgage provider in the United Kingdom. This was essentially the first of several sizable declines in the Financial Conditions Index. The Federal Reserve commenced its rate-cutting campaign in September 2007 and continued to slash its target rate throughout 2008, which had a steady deceleration in financial conditions. Also in 2008, the primary cause for the momentous plunge in the Financial Conditions Index during September of that year was the collapse of Lehman Brothers. This would be the first major domino to fall in a string of global bank failures, which rattled the markets for years. Congress subsequently provided a $700 billion Troubled Asset Relief Program (TARP), purchasing the assets of failing banks and injecting liquidity into the melting financial markets. This move, in combination with monetary policy accommodation and other actions, soon resulted in an increase in the Financial Conditions Index as fears of calamity subsided through 2009.

In mid-2010, the euro area started to unravel with fears of a Greek default and possible exit from the Eurozone. The International Monetary Fund (IMF) and European nations created the Financial Stabilization Mechanism and Facility of €750 billion and agreed to loan €110 billion to Greece. This ultimately sent the Financial Conditions Index back into negative territory.

In July and August of 2011, conditions deteriorated once again on Greek fears, and the ratings agency Standard & Poor's cut America's credit rating from AAA to AA+ amid concerns that policy makers wouldn't be able to raise revenues and reduce spending enough to reduce its burgeoning budget deficit. The Bank of England made asset purchases. This stabilized the financial markets.

Then in early 2012, Europe's situation grew more dire. Spain was up against the ropes, and the Republic of Cyprus needed an emergency loan. The European Central Bank (ECB) soon announces a bond-buying program and financial market stress is arrested.

Conditions returned to a relatively safe status until a temporary hit in August of 2015, when the People's Bank of China devalued its currency and China experienced a tremendous sell-off in its stock market in 2015. This sent jitters throughout the markets, since the concerns were exacerbated by the expectations of a Federal Reserve rate increase. The Financial Conditions Index fell, but returned to less worrisome levels once the fears dissipated.

Test Yourself

Answer the following multiple-choice questions:

1. Economists occasionally adjust data in order to:
   a. identify a relationship between economic variables.
   b. make a similar comparison of data.
   c. remove noisy timing elements from time series.

   d. none of the above.
   e. all of the above.
2. Why is the economic calendar an extremely important tool?
   a. Economists use all of the indicators in it to forecast GDP.
   b. It provides the Street consensus expectations for particular releases.
   c. It forecasts all of the economic indicators in a month.
   d. All of the above.
   e. None of the above.
3. Why are anecdotes found in company earnings transcripts and other events important?
   a. Executives have the economic releases before they are released to the Street.
   b. Executives provide an industry perspective not seen in the economic releases.
   c. Executives have the best forecasting record.
   d. All of the above.
   e. None of the above.
4. Upbeat or positive economic releases usually result in:
   a. an increase in the stock market, and a decrease in fixed-income prices.
   b. an increase in the stock market, and an increase in fixed-income prices.
   c. an increase in the stock market, and a decrease in fixed-income yields.
   d. all of the above.
   e. none of the above.
5. A financial conditions or stress index tells us:
   a. the likelihood of an economic downturn in an economy.
   b. the number of companies issuing negative assessments of the financial market.
   c. the amount of stress that exists in the financial banking system based on the levels and trends of several fixed-income assets.
   d. all of the above.
   e. none of the above.

Answers

1. e
2. b
3. b
4. a
5. c