Using Economic Indicators in Analysing Financial Markets
Using Economic Indicators in Analysing Financial Markets

BY

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Table of Contents

List of Figures vii
List of Tables xi
List of Market Relevant Economic Indicators xiii
About the Author xv
Preface xvii

Part I On the Pulse of the Economy – Listen to the Signals!

Chapter 1 Procedure for the Economic Cycle Analysis 3
Chapter 2 Toolbox of Economic Indicators 9

Part II Short-Term Economic Assessments – Brevity Is the Spice!

Chapter 3 USA: This Is Where the Music Plays 19
Chapter 4 Asia: China and Japan Provide Further Market Impetus! 119
Chapter 5 Europe and Germany: The Domestic Market Remains Relevant for Us! 137

Part III Medium- and Long-Term Economic Trends – A Lot of Ideas!

Chapter 6 Growth Contributions to Quarterly GDP Growth: Slowly Approaching the Goal 163
Chapter 7  Longer Term Growth and Inflation Assessment: Leading Indicators Show Direction  173

Chapter 8  The Cream of the Crop of Business Cycle Analysis: Correct Prediction of a Recession  195

Part IV  It’s the People Who Matter – Sentiment and Psychology Play a Decisive Role

Chapter 9  Sentiment Surveys – The NAHB Index With a Special Focus on the Subprime Crisis  209

Chapter 10  Psychology as a Factor on the Financial Markets Not to Be Underestimated  217

Chapter 11  Conclusion  227

Appendix  229

Selected Sources  231

References  233

Index  235
List of Figures

Part I
Chapter 2
Figure 1. Use of Different Signals by Type of Analysis Depending on the Time Horizon. 11
Figure 2. Overview of Interactions in Economic Activity, Market Developments and Government Influence. 12
Figure 3. Leading Indicators and Lagging Indicators. 12
Figure 4. Economic Indicators Worldwide Most Sensitive to Stocks, Bonds, Currencies in the Monthly Schedule. 15

Part II
Chapter 3
Figure 5. USA: GDP Growth and Leading Indicators. 26
Figure 6. ISM® PMI vs. Philadelphia Fed and NY Empire State. 30
Figure 7. Non-farm Payrolls vs. Unemployment Rate. 52
Figure 8. Durables and Aircraft Order Intake at Boeing. 79

Chapter 4
Figure 9. China: GDP Growth and Leading Indicators. 123
Figure 10. Japan: GDP Growth and Leading Indicators. 133

Chapter 5
Figure 11. Germany: GDP Growth and Leading Indicators. 138
Figure 12. Ifo Business Expectations and ZEW Economic Expectations. 144
Figure 13. Ifo Business Assessment and ZEW Economic Situation. 145
Part III
Chapter 6
Figure 14. USA: GDP Growth Contribution Consumption and GDP Growth. 165
Figure 15. USA: GDP Growth Contribution Consumption and Explanatory Time Series. 166
Figure 16. USA: GDP Growth Contribution Structures and Explanatory Time Series. 167
Figure 17. USA: GDP Growth Contribution Equipment and Software and Explanatory Time Series. 168
Figure 18. USA: GDP Growth Contribution Residential Investment and Explanatory Time Series. 169
Figure 19. USA: BIP GDP Growth Contribution Inventories and Explanatory Time Series. 170
Figure 20. USA: GDP Growth Contribution Net Exports and Explanatory Time Series. 171

Chapter 7
Figure 21. GDP Growth and New York Empire State Survey (3 Months Ahead). 174
Figure 22. GDP Growth and Philadelphia Fed (3 Months Ahead). 175
Figure 23. GDP Growth and ISM® Services PMI (3 Months Ahead). 175
Figure 24. GDP Growth and ISM® PMI (5 Months Ahead). 176
Figure 25. GDP Growth and Personal Spending (3 Months Ahead). 177
Figure 26. GDP Growth and Rail Freight Transport (3 Months Ahead). 178
Figure 27. GDP Growth and Building Permits (4 Months Ahead). 178
Figure 28. GDP Growth and Aruoba Diebold Scotty Index (4 Months Ahead). 179
Figure 29. GDP Growth and Money Supply M1 (7 Months Ahead). 180
Figure 30. GDP Growth and Stock Market (6 Months Ahead). 181
Figure 31. GDP Growth and Real Interest Rate (9 Months Ahead). 182
Figure 32. GDP Growth and Yield Curve (18 Months Ahead). 183
Figure 33. GDP Growth and Oil WTI. 185
Figure 34. GDP Growth and Gold and Silver. 186
Figure 35. GDP Growth and Copper and Aluminium (2 months ahead). 187
Figure 36. CPI Food versus PPI Crude Food and S&P GSCI Agriculture Index®. 190
Figure 37. CPI Energy versus Oil Price WTI and Gasoline Price. 190
Figure 38. CPI Housing and CPU Shelter versus Housing Prices. 191
Figure 39. CPI Used Car & Trucks versus Mannheim Auctions Used Car Value Index. 191
Figure 40. CPI Clothing versus Cotton Price. 192
Figure 41. CPI Core Versus NFIB ‘Higher Prices’. 193
Figure 42. CPI Core Versus Wage Growth (Hourly Earnings and Personal Income Compensation). 193

Chapter 8
Figure 43. Possible Causes for Recessions. 196
Figure 44. Recessions and Yield Curve (10Y–2Y). 198
Figure 45. Recessions and ISM® PMI. 199
Figure 46. Recessions and Unemployment Rate. 200
Figure 47. Recessions and the Change in the Unemployment Rate. 201
Figure 48. Recessions and Conference Board® Consumer Confidence®. 202
Figure 49. Recessions and Personal Spending. 202
Figure 50. Recessions and Duncan Leading Indicator. 203
Figure 51. Recessions and the Stock Market S&P 500®. 204

Part IV
Chapter 9
Figure 52. NAHB and University of Michigan Buying Conditions for Houses (BCH). 212
Figure 53. NAHB and Real Estate Prices. 214
Figure 54. NAHB and Building Permits, Housing Starts. 215
Chapter 10

Figure 55. Multiple Interdependencies in the Financial Markets. 218
Figure 56. Main Topics of Behavioural Finance. 219
Figure 57. Different Assessment of Risk in the Loss Area and in the Profit Area. 223
# List of Tables

## Part I
### Chapter 2
Table 1. Criteria for the Relevance of Business Cycle Indicators in the Financial Markets. 14

## Part II
### Chapter 3
Table 2. Overview of US Economic Data by Segment. 20
Table 3. Monthly Schedule of US Economic Data Releases. 21
Table 4. Daily Schedule of US Economic Data Releases. 22
Table 5. US GDP Growth Release Dates. 24

### Chapter 4
Table 6. Monthly Schedule of Other Economic Data Releases. 120
Table 7. Daily Schedule of Other Economic Data Releases. 121

## Part III
### Chapter 6
Table 8. Overview of Relevant Indicators for GDP Growth Contributions. 172

### Chapter 7
Table 9. Overview of Leading Indicators for Economic Activity (GDP Growth). 188
Table 10. Overview of Leading Indicators for CPI Components (Inflation). 194

## Part IV
### Chapter 10
Table 12. Growth and Disintegration of (Opinion) Parties. 226
# List of Market Relevant Economic Indicators

<table>
<thead>
<tr>
<th>Category</th>
<th>Indicator</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>USA</strong></td>
<td>GDP growth</td>
<td>23</td>
</tr>
<tr>
<td><strong>National Business Surveys</strong></td>
<td>ISM® PMI</td>
<td>29</td>
</tr>
<tr>
<td></td>
<td>ISM® Services PMI</td>
<td>34</td>
</tr>
<tr>
<td></td>
<td>IHS Markit® PMI</td>
<td>37</td>
</tr>
<tr>
<td></td>
<td>NFIB Small Business Optimism</td>
<td>40</td>
</tr>
<tr>
<td><strong>Regional Business Surveys</strong></td>
<td>Philadelphia Fed</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>NY Empire Survey</td>
<td>47</td>
</tr>
<tr>
<td></td>
<td>MNI Chicago Business Barometer</td>
<td>49</td>
</tr>
<tr>
<td><strong>Labour Market</strong></td>
<td>Non-farm payrolls</td>
<td>53</td>
</tr>
<tr>
<td></td>
<td>Unemployment rate</td>
<td>57</td>
</tr>
<tr>
<td></td>
<td>Average hourly earnings</td>
<td>61</td>
</tr>
<tr>
<td></td>
<td>Average weekly hours</td>
<td>64</td>
</tr>
<tr>
<td></td>
<td>Initial claims</td>
<td>65</td>
</tr>
<tr>
<td></td>
<td>Job openings</td>
<td>68</td>
</tr>
<tr>
<td></td>
<td>ADP employment</td>
<td>70</td>
</tr>
<tr>
<td><strong>Manufacturing</strong></td>
<td>Industrial production</td>
<td>72</td>
</tr>
<tr>
<td></td>
<td>Capacity utilisation</td>
<td>76</td>
</tr>
<tr>
<td></td>
<td>Durable goods orders</td>
<td>78</td>
</tr>
<tr>
<td><strong>Private Consumption</strong></td>
<td>Retail sales</td>
<td>83</td>
</tr>
<tr>
<td></td>
<td>Personal spending</td>
<td>87</td>
</tr>
<tr>
<td></td>
<td>Personal income</td>
<td>89</td>
</tr>
<tr>
<td><strong>Consumer Surveys</strong></td>
<td>University of Michigan consumer confidence</td>
<td>92</td>
</tr>
<tr>
<td></td>
<td>Conference Board® Consumer Confidence®</td>
<td>95</td>
</tr>
</tbody>
</table>
**List of Market Relevant Economic Indicators**

(Continued)

<table>
<thead>
<tr>
<th>Category</th>
<th>Indicator</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate Market</td>
<td>NAHB Index</td>
<td>99</td>
</tr>
<tr>
<td></td>
<td>Building permits</td>
<td>102</td>
</tr>
<tr>
<td></td>
<td>Housing starts</td>
<td>104</td>
</tr>
<tr>
<td>Other Macro Data</td>
<td>Trade balance of goods and services</td>
<td>106</td>
</tr>
<tr>
<td>Prices</td>
<td>Consumer prices (CPI)</td>
<td>109</td>
</tr>
<tr>
<td></td>
<td>Producer prices (PPI)</td>
<td>113</td>
</tr>
<tr>
<td></td>
<td>Import Prices</td>
<td>115</td>
</tr>
<tr>
<td></td>
<td>PCE price deflator</td>
<td>116</td>
</tr>
<tr>
<td></td>
<td>GDP price deflator</td>
<td>118</td>
</tr>
<tr>
<td>China</td>
<td>GDP growth</td>
<td>124</td>
</tr>
<tr>
<td></td>
<td>CFLP PMI</td>
<td>127</td>
</tr>
<tr>
<td></td>
<td>Caixin PMI</td>
<td>130</td>
</tr>
<tr>
<td>Japan</td>
<td>GDP growth</td>
<td>134</td>
</tr>
<tr>
<td></td>
<td>Tankan business conditions</td>
<td>135</td>
</tr>
<tr>
<td>Germany</td>
<td>GDP growth</td>
<td>139</td>
</tr>
<tr>
<td></td>
<td>ifo Index</td>
<td>142</td>
</tr>
<tr>
<td></td>
<td>ZEW survey</td>
<td>149</td>
</tr>
<tr>
<td></td>
<td>Sentix® economic indices</td>
<td>152</td>
</tr>
<tr>
<td>Belgium</td>
<td>Business conditions</td>
<td>155</td>
</tr>
<tr>
<td>Euroland</td>
<td>Economic sentiment</td>
<td>156</td>
</tr>
</tbody>
</table>
Bernd Krampen has studied economics at the universities of Kiel (Germany) and Swansea (United Kingdom). Since 1997 he has worked as financial analyst and economist for Norddeutsche Landesbank in Hanover (Germany). He is responsible for assessing and forecasting economic activity, inflation, interest rates and exchange rates for various countries. His focus lies on fundamental economic analysis, but he also examines behavioural aspects. He also has gained some relevant experience teaching financial economics in educational institutions (e.g. Sparkassenakademie Niedersachsen). His publications include contributions to peer-reviewed journals such as the *German Journal of Risk and Insurance*. He lives in Barsinghausen near Hanover with his wife Sandra and their daughters Alessia and Noelia.
Preface

Research is formalized curiosity. It is poking and prying with a purpose.

(Zora Neale Hurston)

Imagination is the highest form of research.

(Albert Einstein)

Where are the economy and the financial markets heading? What is the outlook for growth, and what are the growth drivers? What does this mean for the expected trends on the financial markets? These questions, which at first glance seem rather academic, can mean hard cash – with the right investments on the financial markets. After all, economic developments have a significant influence on financial market variables such as interest rates, exchange rates and shares. Correct positioning on the financial markets can actually generate profits for one’s own investments when macroeconomic trends materialise. In this respect, the question of the economy is not merely an academic-sporting exercise, but creates advantages for one’s own wallet.

More than 2 ½ decades of working as an economist in a bank have provided a wealth of experience on how capital markets work and how they can react to new news. Which moods of people, impulses from politics and other (unexpected) influences cause which market movements? Such a wealth of experience is accumulated quasi incidentally over time. Theories and models learned at University have to be compared with experienced reality again and again and can then be considered useful or less useful. Obviously, some of the experiences and insights gained are of interest and of added value.

The main point of this book is to recognise that business cycle analysis is firstly complex, secondly affected by many interdependencies, and thirdly that a forecast of future development should not be overrated. For although there are a large number of indicators that show good tendencies, one problem of analysis is that they often go in different directions. This also explains the differing opinions of economists and analysts when it comes to the future. The weighing of the different indicators is decisive. Unfortunately, however, there is not even agreement on the effects and developments either to the present or the past. One of the intentions of this book is to make readers pause, question, reflect and look critically at many things when connections are all too clear. Things are not always as they –
Business cycle analysis and economics are not sciences, but applied theories that are supposed to describe the summed actions of many people as a result.

The first step in the analysis to assess the economic development and the implications for the financial markets should be to correctly evaluate the new news flying in every day. It is important to be able to classify the publications of economic data. What do the indicators contain, which are relevant to the market, how to forecast them? Part II deals with the most market-relevant indicators from the major regions.

Analysts want to get an assessment for the coming months to several years. The tools that can be used for this are discussed in Part III. Basically, the aim is to identify the trends for GDP growth and inflation in the next quarters with the help of the economic data available on a monthly basis. The focus is on growth contributions, leading indicators and forecasting recessions. The good forecast properties of sentiment indicators, the NAHB index as an example for the real estate market and an introduction into psychology in analysing financial markets will be discussed in Part IV.