

US Economic Glossary

May 2009

This note details the well-known US economic releases. Release calendars show the flow through the month. Data is important because the Federal Reserve, the controller of US short term rates, uses it in their decision making processes. Credit, bond, equity and forex markets change their **expectations** of Fed rates based on trends in spending, growth and inflation. Data can be broadly split into growth, inflation and business/financial conditions indicators. *Data relevance varies: T1 is most important (eg payrolls), T4 the least.*

Beige Book (a.k.a. Tan) T2	Partly anecdotal, partly analytical, qualitative account of US business conditions. Compiled, alternately, by the 12 Federal Reserve Districts. <i>Released prior to FOMC and used in its deliberations. Every 6 weeks</i>
Bonds	US Treasury and corporates issue bonds to finance spending. Maturities can be 2 to 50 years. US treasuries are a "safe haven". Shares, retained profits and bank debt are other sources of finance.
Budget, Federal	October to September financial year. Budget surpluses from 1996 to 2001 now replaced by large (+5% of GDP) deficits. Federal Gross Debt around 70% of GDP in 2009. \$70bn auctioned weekly. <i>Monthly</i>
Capacity Utilisation T3	Fed's measure of manufacturing and industrial capacity. 85%, historically, seen as precursor to rising goods inflation since average factory running at 85% of capacity. <i>Monthly</i>
Chicago Purchasing Managers' Index (PMI) T2	The Chicago PMI is the earliest of the monthly PMIs. It has about a 90% leading correlation to the best known US PMI - the ISM, which is released a week later - so it is closely watched. See ISM. <i>Monthly</i>
Consumer Confidence T1	Conference Board's index is main survey of consumer attitudes to current and future prosperity/spending patterns. <i>Monthly</i>
Corporate bonds	Most common form of US corporate borrowing. Complement to equity market. Issuers range from AAA to junk, from 2 to 100 year maturities. Highly liquid market for investors and issuers.
Consumer Price Index CPI T1	Consumer Price Index gives price changes of consumer's basket of goods and services. Core CPI excludes food and energy to capture underlying inflation. Fed does not target CPI, but prefers GDP deflators, namely PCE deflator. <i>Monthly</i>
CRB T4	Commodities Research Bureau's tradeable index of <i>futures prices</i> for 19 consumer oriented food, materials, energy and metal commodities. 66% rural items. Not a leading indicator of inflation.
Current Account Deficit T3	Quarterly account of trade and income flows. Is very large and a negative for the USD. Was \$700bn (5% of GDP) in 2008. <i>Quarterly</i>
Dow Jones	Dow Jones Industrial Average is price-weighted index of only 30 leading US stocks. Peaked near 14160 in September 2007.
Durable Goods Orders T3	Main measure of business (and government) spending on capital, defence and investment items. Super-cyclical. <i>Monthly</i>
Employment Cost Index T2	Covers wage and benefit costs in index form. Fed preferred. <i>Quarterly</i>
Federal Reserve	Ben Bernanke is Fed Chairman. Controls, via 12 member FOMC, US short term interest rates by changing the Fed Funds rate, the overnight cost of cash to the banks. Fed targets optimum growth and inflation outcomes, and stability of financial sector. FOMC meets 8 times a year.
Fed Funds rate	Fed controlled inter-bank cash/overnight interest rate varied by adding or subtracting reserves to inter-bank market. Rising Fed funds denotes attempt to restrict economic activity by reducing money supply growth and raising cost of debt. Fed uses "real" rate to determine monetary conditions. Higher (lower) real rates slow (accelerate) activity.
Fed Index eg. Atlanta T3	Index of regional industrial business conditions via Fed District survey. Largely qualitative but important since compiled by Federal Reserve. <i>Monthly</i>
FOMC - meets 8 times per year	Federal Open Market Committee has 12 voting members. It determines monetary policy settings, by changing Fed funds and discount rates. Members are 7 Fed Board of Governors, including Chairman, New York Fed President and rotating 4 Presidents of 11 other Fed Res banks.

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Web sites for US data

www.federalreserve.gov/
www.treas.gov/t
www.bls.gov
www.commerce.gov
www.ism.ws/
www.conference-board.org/

Web sites for Global data

www.imf.org
www.oecd.org
research.stlouisfed.org/fred2/
www.unstats.un.org
www.bis.org
www.nber.org
www.bloomberg.com
www.reuters.com

www.research.commbank.com.au
www.ecommcorporate.com.au
www.comsec.com.au



G7, G8, G10 & G20		Seven leading economies that account for 70% of world GDP: US, Japan, Germany, France, Italy, UK and Canada. G8 adds Russia. G10 is financial regulations group based in Basle. G20 is everybody.
GDP (Gross Domestic Product) T1		Broadest measure of goods and services production. Total US GDP in 2008 was \$14,200bn in nominal terms. Also reported in real or inflation adjusted terms to determine volume changes. Real GDP fell by 0.8% in 2008. <i>Quarterly</i>
Housing Starts	T2	Gives number and value of new housing construction across US. Major influence on jobs cycles because of multiplier links to manufacturing and services. <i>Monthly</i>
Industrial Production	T2	Industry (mining, manufacturing & energy) accounts for 14% of US output. Inflation pressures, via capacity utilisation, are watched closely. <i>Monthly</i>
Inflation	T1	Measured by CPI. But Fed prefers the broader GDP deflators that look at inflation through all stages of production. <i>Deflation is period of falling prices and is endemic in computers/technology areas.</i> Disinflation is ever lower annual inflation.
Initial claims	T2	Claims for government unemployment pay. Leading indicator of payrolls trends which influence consumer confidence and spending. <i>Weekly.</i>
Investment Banks		US banks regulated into distinct markets until 1990s. Investment banks were specialists in financial markets, trading securities, mergers and acquisitions.
ISM (was NAPM) www.ism.ws/	T1	Institute of Supply Management (formerly National Association of Purchasing Managers) <i>qualitative</i> report on manufacturing. Covers jobs, orders, vendor supply times, commodity prices and output. <i>Monthly</i>
Johnson Redbook	T3	Private survey of chain store sales. Usually last 2 weeks of month.
Leading Indicators	T3	Compilation of indicators providing accurate "leading" trend on activity levels. Has 7 components such as money supply, housing starts, stock market. <i>Monthly</i>
NAFTA		North American Free Trade Association. US, Mexico, Canada and Chile.
NAIRU		Non-Accelerating Inflation Rate of Unemployment. Considered to be near 5.4% in early 1990s. But 4% unemployment rate in 2000 proved NAIRU moved lower.
Okun's Law		Professor Okun said potential nominal GDP growth was a product of labour force growth and productivity. So, for every 1 point that GDP growth is above 3%, the unemployment rate falls by 0.5%. Higher productivity reduces the fall in unemployment.
Payrolls (Non-farm)	T1	Main US employment measure. Employment report also covers wages and hours worked. The major US economic release because closely watched by Fed. <i>Monthly.</i>
PCE deflator	T1	Personal Consumption Expenditure deflator. Broadest measure of inflation since taken at all levels of production. Favoured by Fed. Used in Taylor Rule calculations.
PPI	T3	Producer Price Index. Measures manufacturing output prices only, so is an upstream price indicator. Seen as guide to, not driver of, emerging inflationary pressures. <i>Monthly</i>
Productivity	T2	Output per worker per hour. Strong productivity growth reduces inflation pressures but limits potential for overall jobs growth. Higher productivity also lifts potential GDP to higher levels, ie economies can grow faster with lower inflation. <i>Quarterly</i>
Ratings Agencies		Ratings agencies (S&Ps, Moodys) rate debt issues by Governments (or sovereigns), supra nationals (like IMF) and corporates for ability to repay debt or risk of default.
Recession		Defined by the media as two consecutive quarters of negative GDP. But usually a period of extreme weakness in output, spending and jobs. Depression is 10% fall in real output.
Retail Sales	T1	Single most important indicator of consumer spending, includes auto sales. Explains close to 35% of total spending (or GDP) in the economy. <i>Monthly</i>
S&P 500		Capitalisation-weighted index of top 500 US stocks on New York Stock Exchange.
Taylor Rule (via Professor John Taylor of Stanford Uni & US Treasury)		Equation that gives interest rate (cash) target for desired growth and inflation outcomes. $FF = 2 + CPI + [0.5(actual\ CPI - planned) + 0.5(actual\ GDP - planned)]$. More complicated versions used by Central Banks. PCE can replace CPI.
Trade, International Good and Services	T3	Compiles imports and exports of goods and services. US trade deficit in 2008 was near USD680bn or 4.8% of GDP. Should be major negative for USD.
Treasuries		US Federal Government debt issued to cover Budget deficits. Rated as AAA because of tax backed funding. Maturities now concentrated on 2 to 10 years. The 30 year note is being phased out. Used as benchmark for corporate issuance and general cost of funding models. Indexed securities are linked to the CPI.
Yield curve		The "shape" of line showing yields across all maturities on a given day. A steep curve (long rates above short) implies high growth, rising inflation. A flat curve implies no change in interest rates expected and steady growth/inflation outlook. An inverse curve is when markets see a sharp drop in growth and inflation coming.

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