

Writing about the economy

Federal Reserve Bank of Richmond

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The reports

- State and federal governments and industry trade organizations regularly issue reports with vital economics data.
- But these releases and reports are heavy on the numbers and light on the personal touch.
- And the reports don't really tell the business journalist what numbers are most important to the reader – and which ones can be ignored.

The reports

- For each report, there are usually one or two key numbers that readers will want to know about.
- These are the numbers that most influence the stock market and corporate decisions.
- The trick is to take those couple of numbers and write a coherent story about them.

The reports

- Be forewarned: If you've never looked at an economic report, they can be dense, full of charts and numbers.
- We're journalists, however. We're paid big bucks to translate gibberish into something a 10th grader -- who considers reading Xbox 360 directions heavy reading -- can understand.

What is the economy?

- Economics is the science dealing with production, distribution and consumption of wealth and with various related problems of labor, finance and taxation.
- All of your readers are affected by labor, finance and taxation.
- The economy is a PEOPLE story. Don't just report the numbers. Give personal examples.

The Federal Reserve Board

- Involved with monetary policy. This means they raise and lower interest rates to affect the economy.
- Fed will raise rates to try to slow economic growth if it believes the economy is growing faster than it should.
- Fed will lower rates to stimulate economic growth.

The Federal Reserve Board

- What's the big deal about the economy growing too fast or too slow?
- Have to explain it to the readers in a way they'll understand: Fast growth might cause the prices of goods and services to rise faster than wages.
- Loaf of bread and gallon of milk might increase faster than my salary.

Fed board meetings

- Board of governors typically meets every other Monday. Meetings are closed.
<http://www.federalreserve.gov/boarddocs/meetings/>
- Federal Open Market Committee meets eight times a year. This is where it's decided whether rates are raised or lowered.
- Closed meetings. Decisions announced at 2 p.m. on Web site.
<http://www.federalreserve.gov/boarddocs/press/monetary/2004/>

What does it mean for readers?

- Higher interest rates means that the rate that consumers are charged on credit cards, home loans, car loans – any type of borrowed money – will go up.
- Lower interest rates means that the rate Joe Six-Pack is charged will go down. Could lead to consumers refinancing home loans, for example.

Interest rate stories

- Make sure you have consumers in there that might be affected.
- Find a homeowner with an adjustable rate mortgage where the rate is tied to the Fed rate.
- Find people refinancing their homes and wanting to lock in a lower rate.
- Examples show the reader what's going on.

Other Fed stuff

- The Fed governors give speeches. Texts of those speeches are also available on the Web.
- Fed's monetary policy report given twice a year to Congress.
<http://www.federalreserve.gov/boarddocs/hh/>
- Fed Beige Book gives anecdotal information on how regional economies are performing. Published eight times a year.
<http://www.federalreserve.gov/boarddocs/hh/>

Gross Domestic Product

- What is it? Measure of all goods and services produced in the economy.
- Federal GDP is measured by the Bureau of Economic Analysis. Released quarterly.
<http://www.bea.doc.gov/bea/dn/home/gdp.htm>.
- Consumption + investment + government purchases + net exports = GDP.
- 69% is consumption, 18% gov't purchases and about 15% investment. Then -3% for trade deficit.

Gross Domestic Product

- What reporters should focus on: The percentage change in the GDP from previous period.
- Bureau of Economic Analysis will issue initial report and then revised number for each quarter.
- Why is it important to readers: It's the broadest measure of the health of the U.S. economy.

What does it mean for readers?

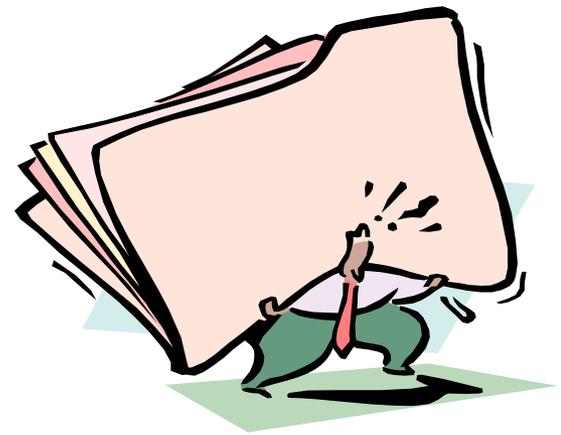
- If the GDP is rising at a strong rate, that could mean that the Fed might raise interest rates to slow growth.
- Slow GDP growth could mean that workers might lose their jobs. Companies will want to produce less if consumers buying less.
- Localize it with gross state product and local personal income statistics.

<http://www.bea.doc.gov/bea/regional/data.htm>

Gross state product

- Gross state product can also be broken down by individual industry.
- Can write stories that say: “The aviation industry is 8% of the state’s gross product, up from a year earlier due to the increase in production at Boeing’s plant.”
- <http://www.bea.doc.gov/bea/regional/gsp/>

The job market



Unemployment

- Employment statistics come from the Bureau of Labor Statistics.

<http://www.bls.gov/news.release/empsit.toc.htm>

- Released on first Friday of the following month.
- Employment is typically the single most important report for the markets because it is released with a short lag and is full of important new information on the broad economy as well as individual sectors.

Unemployment

- How is it measured? Monthly interviews with 60,000 households and survey of 350,000 businesses with 39 million workers.
- Focus is on the percentage change and the numerical change in non-farm payroll.
- Unemployment is perhaps the easiest economy story to localize. Go out and find someone who recently lost job or got new job.

Unemployment

- Department of Labor also issues two other numbers related to country-wide employment.
- The first is “initial claims,” the number of newly unemployed individuals who filed for unemployment insurance benefits in a week.
- The second is “continuing claims,” the sum of all participants receiving benefits in a week.
- Both can be used to gauge how the economy is performing.

State and regional

- Bureau of Economic Analysis also provides employment numbers for a state or metropolitan area.
<http://www.bls.gov/lau/home.htm>.
- Note that many of these employment reports can be delivered direct to your computer with an e-mail notification system.
- Write locally, think nationally.

Inflation

- Inflation is the overall general upward price movement of goods and services in an economy.
- Inflation affects the spending power of investors and households. Maintaining price stability is one of the stated objectives of the Federal Reserve.
- Deflation is when prices of goods and services decline.

Inflation

- The Bureau of Labor Statistics issues the Consumer Price Index on a monthly basis.
<http://www.bls.gov/news.release/cpi.toc.htm>
- The CPI is inflation as experienced by consumers in their day-to-day living expenses.
- The CPI is one of the most widely recognized price measures for tracking the price of a basket of goods.

What does it mean for readers?

- An item that makes up 20% of the average household budget would have the same weight in the CPI.
- For example, food and beverage make up 16% of the CPI.
- So a 1% increase in food and beverage prices would raise the CPI by 0.16 points.

CPI vs. PPI

- There is also something called the Producer Price Index. Also comes from the BLS.
<http://www.bls.gov/ppi/home.htm>
- The PPI measures prices received by producers at the first sale. Also measures prices at three stages: finished, intermediate and crude. But the index for finished goods receives the most attention.

CPI vs. PPI

- The CPI covers both goods and services, while the PPI just covers goods.
- The CPI covers costs facing consumers, while the PPI covers purchasers and wholesalers.
- CPI does include water and sewer service, sales taxes, but not income taxes or investments.
- Food and energy are large components of PPI.

Inflation

- The Consumer Price Index is available for 26 local areas.
- Data comes out on the third week following the month it measures.
- Story focus is on the percentage increase.
- CPI is broken down into major groups of expenditures such as transportation, housing, apparel, medical, food and beverage, etc.
- Many states also compile a CPI.
- California is a good example:
http://www.dir.ca.gov/DLSR/statistics_research.html

Productivity

- Productivity is also measured by the Bureau of Labor Statistics on a quarterly basis.
<http://www.bls.gov/news.release/prod2.toc.htm>
- The higher the productivity, the more efficient companies become in producing goods while holding down costs.
- $\text{Output (goods and services) / Input (number of worker hours)}$.

What does it mean for readers?

- Businesses may try to get away with making their workers perform at higher levels or for longer hours without raising their pay to increase productivity.
- If productivity is increasing, that means that the people in your readership area are working longer and harder for not as much pay.

Productivity

- Productivity data is extremely volatile.
- But over time, the trend in productivity growth is the single most important determinant of changes in living standards.
- Reporters focus on the percentage increase or decrease in productivity. Broken out between non-farm and manufacturing.

The consumer's feelings



Consumer confidence

- Assesses whether or not people are more likely to spend money in the future on goods and services.
- If consumer confidence falls, then those purchases may be delayed.
- Two major reports done: The Conference Board (<http://www.conference-board.org>) and the University of Michigan (<http://www.sca.isr.umich.edu/>).
- Conference Board emphasizes labor conditions, while the Michigan survey focuses on financial conditions.

Consumer confidence

- Sample questions from Conference Board: “How would you rate the present general business conditions in your area – good, normal or bad?”
- Sample question from Michigan: “Would you say that you and your family living there are better off or worse off financially than you were a year ago.”

Consumer confidence

- The Conference Board also does an Expectations Index.
- This looks at consumer feelings six months into the future.
- If that index falls below 80 for two consecutive months, then economists believe a recession is coming.

What does it mean for readers?

- Consumers are more likely to spend when they feel comfortable about the economy.
- Focus of the story is on the monthly change in the index. If the index has moved dramatically from the past month, go out and interview local consumers to see if their feelings correspond to the index.
- Consumer confidence reports can be timely, issued within days of when consumers answers questions.

Trade

- Trade between the United States and foreign countries is measured monthly by the Census Bureau. <http://www.census.gov/foreign-trade/www/>
- The United States last had a trade surplus in 1975. In 2001, the U.S. economy imported \$330 billion more in goods and services than it exported.

Trade

- Reporters focus on the trade deficit for the month and whether it changed from the previous month.
- Trade deficit can be affected by the value of the dollar.
- When the currency in the countries where goods are sold falls compared to the dollar, that means when the transaction is converted to U.S. cash, they're receiving less money that can be applied to revenues and profits.
- State export data is also available for localizing:
<http://www.census.gov/foreign-trade/statistics/state/>

What does it mean for readers?

- Is there a manufacturer in your area that is competing against a foreign competitor?
- Many U.S. businesses rely on selling their goods to needy overseas countries.
- Coca-Cola – the most American company there is – sells 70% of its soft drinks outside of North America.
- Biggest deficit is in automotive and consumer goods. We're actually a trade surplus nation with services.

Trade

- Bureau of Labor Statistics also compiles an Import and Export Price Index that is released monthly. <http://www.bls.gov/mxp/>
- This measures the price of goods and services imported or exported from the country.
- Reflects changes in the prices paid by importers or the prices at which exporters sell their goods.

Purchasing Managers Index

- This is a monthly report issued by the Institute of Supply Management. <http://www.ism.ws/>
- Manufacturing report comes out on first business day of the month. Non-manufacturing a few days later.
- Manufacturing report receives the most attention. It has a track record in marking turns in economic activity.

Purchasing Managers Index

- A reading above 50% indicates that the economy is expanding. Below 50% indicates that the economy is contracting.
- The PMI is fairly immune to one-time disruptions such as a storm or a strike.
- Ben Bernanke briefed on the data before it is released to the public.

What does it mean for readers?

- The PMI looks at items such as backlog of orders, perception of inventories, manufacturer prices paid, employment, new orders and export orders.
- These factors could be affecting local manufacturers. Call around to them to see if they are happy with inventory levels and orders.

Manufacturing



Motor vehicle sales

- Car sales are compiled by the Bureau of Economic Analysis on a monthly basis.
<http://www.bea.gov>
- Sales of light vehicles are on the first business day of the following month.
- Car sales are less than 5% of the GDP, but their importance is due to two reasons – it's a highly discretionary purchase and interest rate sensitive.

What does it mean for readers?

- Car sales are often looked at as a sign of whether consumer behavior is changing.
- Go talk to people on the local car lot. Why are they looking? Talk to the sales managers as well.
- Local data is often available as well. Find dealers' association and ask for numbers.

Durable goods orders

- Durable goods and factory orders are compiled by the Census Bureau on a monthly basis.
<http://www.census.gov/indicator/www/m3/>
- This report measures manufacturers' shipments, new orders, inventories and unfilled orders.
- Durable goods are those with an expected life of at least three years – machines, computers, furniture, appliances.

Durable goods orders

- Reporters focus on total orders, non-transportation orders and non-defense orders.
- Orders are more important than shipments. They're considered more of a leading indicator.
- Not all companies report new orders. They're measured indirectly through adding shipments plus the change in unfilled orders.

What does it mean for readers?

- Purchases of durable goods can easily be postponed when spending power or consumer confidence weakens.
- They're much more cyclical than non-durable goods such as food.
- Go interview consumers shopping for durable goods at the local furniture store or Circuit City.

The Home Stretch



New home sales

- New home sales data is compiled monthly by the Census Bureau.
<http://www.census.gov/const/www/newressalesindex.html>
- The report is for new, single-family homes. Also includes median price, sales by price and stage of construction.
- New home sales make up about 15% of total sales.

New home sales

- Report comes out the last week of the following month.
- New home sales are more important to the economy than existing home sales because they reflect new investment rather than transfer of ownership.
- Reporters focus on the level and monthly change in total sales.

Existing home sales

- Existing home sales data is compiled by the National Association of Realtors on a monthly basis.
- The report shows data for the nation and four regions.
- Reporters also focus here on the level of monthly change in total sales.

Mortgage applications

- Mortgage application data is released weekly on Wednesdays by the Mortgage Bankers Association of America. <http://www.mbaa.org/>
- Two main indexes are the overall purchase and refinance indexes.
- Reporters focus on the change in the purchase index and refinance index and the four-week moving average.

What does it mean for readers?

- Refinancing mortgages have had two major effects on household balance sheets.
- One, it has allowed a shift to lower debt-service payments.
- Two, people have been able to add their debt to their mortgage when they refinance.
- This is one of the key reasons consumer spending proved more resilient than widely feared after drop in stock market wealth in 2000 and 2001.

Housing starts

- Housing starts and permits are compiled monthly by the Census Bureau.
<http://www.census.gov/hhes/www/housing.html>
- Released around the middle of the following month.
- Date on starts and permits for new, privately owned houses, including single-family homes and individual apartments.
- Many states also track housing data. Washington state has great data:
<http://www.ofm.wa.gov/databook/economy/ct13.htm>

Housing starts

- The data does not include mobile homes, dorms, rooming houses and long-term hotels.
- Housing starts shows the number of sites where excavation has begun for footings or foundation.
- Permits show new housing units authorized by local building authorities.
- Focus on both is on change from previous month and same month year earlier.

Retail sales

- Retail sales are reported on a monthly basis by the Census Bureau.
- It measures the dollar value of sales of both auto and non-auto goods by retailers as well as restaurants.
- Auto is about 25% of total retail sales.
- Released around middle of next month. Compiled from 11,000 retailers.

Retail sales

- Reporters focus on increase in total spending. Story is written on the year-over-year change in the data.
- Major retailers such as Wal-Mart and Target often release their individual results before the Census Bureau.
- Census Bureau is also compiling data on E-commerce sales on quarterly basis.

<http://www.census.gov/mrts/www/current.html>

The end

- Write about the economy in a way that the average person can understand the significance.
- My three rules for economics reporting:
 1. Explain what the numbers mean.
 2. Provide examples of real people.
 3. Quote experts.

What does it mean for readers?

- Go out and talk to people shopping. Are they spending more now than they were six months ago in your community?
- Has a new retailer in your readership area boosted total sales?
- Virtually all states also measure retail sales through Department of Commerce or Department of Revenue.