What’s an example of ‘key economic data’ and why do they move markets?

Economists and traders around the world closely monitor dozens of economic surveys and indicators that are released each week across a range of countries. However, the most important market indicators which can shift the needle on global market performance are:

**GDP figures:** The gross domestic product (GDP) is the most comprehensive of all economic indicators as it is an aggregate measure of a country’s total economic production and spending. It represents the market value of all goods and services produced by a country over a quarter on an annualised per cent basis, net of inflation. It comprises personal consumer spending, government purchases and investment, private investment spending on new equipment and buildings, including housing, private inventories; and the balance of foreign trade, which is calculated by subtracting imports from the level of exports. Given how comprehensive GDP figures are, and the relationship over time with corporate earnings, GDP figures for the world’s largest economies are the most closely watched indicators.

**Inflation:** The main indicator of inflation that is closely watched is the Consumer Price Index (CPI) which measures changes in the prices of average consumer items. The overall reading provides a summary of how average living costs are changing. Meanwhile, the Producer Price Index measures the change in prices of goods produced by manufacturers and distributors. In theory, if these rise significantly, the cost will be passed onto consumers, leading to faster growth in the CPI.
with unemployment data, the importance of inflation figures is raised because most central banks target a rate of growth in inflation when setting the level of short-term interest rates. Typically central banks target a level of inflation of around 2%, although in Australia the Reserve Bank is targeting a rate of inflation between 2-3%.

**Employment figures:** Are another closely watched summary indicator of economic activity. This owes to the fact that not only do employment and unemployment data give a simple, timely and transparent view of overall growth, but also because most central banks directly target a level of the unemployment rate when they set short-term interest rates. In addition, employment growth leads back into future growth in an economy by influencing consumer confidence and spending. On the first Friday of each month, the U.S. Bureau of Labor Statistics releases monthly unemployment and job creation figures for the US economy. The release of these figures can drive swings in both bond and stock markets.

**The housing market:** Housing figures are more localised than other data. Local metrics include housing starts, new home sales, new building permits and house prices. Housing activity indicators tend to be watched closely as the sector is particularly impacted by changes in sentiment (due to the size of the transactions involved) while housing activity is the most impacted by interest rate changes.

**Consumer activity:** Consumer spending and retail sales figures are closely followed, as seeing what people buy and where they buy can provide valuable information about the economy. Consumer confidence surveys are another metric, as they give an insight into what the future trends in spending may be. Stock prices may also closely reflect the future opinions about consumer activity.

**Manufacturing data:** Is based on surveys of the top manufacturing firms monitoring commercial activity such as future contracts and orders. For example the Institute of Supply Managers (ISM) Manufacturing Index monitors production, new orders, employment, supply times and inventories. These measures allow investors an inside view of national economic conditions which they use to help determine the relative strength of stock markets. For example, when the index is increasing, shares markets should also increase reflecting rising corporate earnings or profits. The purchasing manager index (PMI) is a similar indicator that is calculated for a range of countries in addition to the US. The Chinese PMI, for example, has recently received a lot of focus. It has weakened below 50 (signifying weakness) which has raised concerns over the outlook for the Chinese economy and with it global growth.

**Plan ahead to meet your lifestyle goals**

At times like this market movements can be hard to ignore, and all the related terminology overwhelmingly complex. However, seeking professional financial advice can give you clarity. Your financial adviser can help you build a diversified portfolio and establish a long term plan if you haven’t already done so, or adapt your existing plan to ensure it’s appropriate to weather market ups and downs. Having a long term financial plan in place can help you reach your savings and lifestyle goals.

Speak to your financial adviser today for more information.

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**Facts**

At the top of the list of data which has recently raised concerns sits China’s PMI figures. The world’s second largest economy is a manufacturing giant, and for good reason global investors closely monitor developments in this key indicator of industrial activity. China’s PMI as at 20 January 2016 was 48.2, having contracted further from a volatile month of August 2015, when it was 49.7.

It is universally agreed that any number below 50 signals a contraction. In addition, the JP Morgan Global Manufacturing PMI gauge shrank from 51 in July to 50.7 in August, reaching a two year low. It then marginally improved to 50.9 by December 2015; nonetheless indicating a slowdown that is no longer limited to just China.

**SOURCE:** JP MORGAN

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