Economic Indicators

Some economic variables have turning points that are consistently related to the turning points of the business cycle.

One calls the variable an *economic indicator*.

Types of Economic Indicators

- Leading indicator
- Coincident indicator
- Lagging indicator

Leading Indicator

A leading indicator is very useful for forecasting.

Coincident Indicator

A coincident indicator shows that a turning point has been reached.

Lagging Indicator

A lagging indicator confirms that a turning point has occurred.

Business Cycles Are Alike

The idea that all business cycles are alike underpins the concept of an economic indicator.

Evaluation of Economic Indicators

- Timing: Long lead? Consistent lead?
- Conformity: False signals?
- Smoothness: Smooth or erratic? Are the turning points obvious?
- Currency: Are the data available promptly?
- Statistical adequacy: Reliability of the data.
- Economic significance: Is the series obviously important?
- Revisions: Does the series get revised later?

The Composite Index of Leading Indicators

The composite index of leading indicators is an index compiled from ten good economic indicators.

Although some of the ten indicators might seem arbitrary, they have forecasted well historically.

The change in the composite index is seen as especially significant if most of its components change in the same direction.

History of the Leading Indicators

Mitchell and Burns [1] developed the idea of economic indicators.

For many years the U. S. Department of Commerce compiled and published the economic indicators.

Recently the composite index of leading indicators has been handled by a private organization, The Conference Board, and the data series is now proprietary.

References

[1] Wesley Mitchell and Arthur Burns. *Statistical Indicators of Cyclical Revivals*. National Bureau of Economic Research, New York, 1938.