

v
JOHN GRANT

A Handbook of Economic Indicators

Second Edition

UNIVERSITY OF TORONTO PRESS
Toronto Buffalo London *d*

Contents

Acknowledgments xi

Abbreviations xiii

Introduction 3

The Central Theme: The Circular Flow 4

Wealth versus Income 4

Expectations 5

The Central Bank 5

Fiscal Policy and Management of Public Debt 5

International Economic Relationships 6

Short-Term versus Long-Term Issues 6

The Role of Economic Indicators in Forecasting 6

1 The Circular Flow 9

Aggregation 10

Expectations 11

The System of National Accounts 12

How Income Is Disposed Of 17

The Price Level 17

Why Do Economists Emphasize 'Real' Quantities? 19

Some Relevant Economic Indicators 20

2 The Household Sector 21

Households' Sources and Uses of Funds 21

Intermediation by Financial Markets 25

Consumption and Its Role in the Circular Flow 25

The Multiplier 30

Making Sense of the Real World	31
The Role of Wealth	31
The Components of Consumer Spending	31
Imports	33
Housing Investment	33
Useful Economic Indicators	34

3 The Enterprise Sector 35

Relationship between Desired Stock and Investment Rate	38
Investment as a Component of Aggregate Demand	38
Investment and Real Interest Rates	39
Change in Investment and Aggregate Demand	40
Why Must Investment be Equal to Saving?	42
Recent Investment in the Canadian Economy	43
Residential Construction	43
Non-residential Construction	44
Machinery and Equipment	45
Inventory Investment	46
Key Economic Indicators	47

4 The Government Sector 48

The Rapid Growth of Government in the Economy	48
How Governments Enter the Circular Flow	49
Recent Federal and Provincial Trends	56

5 The Bank of Canada and the Deposit-Taking Institutions 57

Managing the Economy	57
The Bank of Canada and the Federal Government	57
The Bank of Canada's Balance Sheet	58
The Balance Sheets of the Commercial Deposit-Taking Institutions	58
What Is Money?	60
The Nightly Clearing	61
Managing the Overnight Interest Rate	62
Expectations and the Structure of Interest Rates	64
The Demand for Money	65
The Supply of Money	67

6 Canada's International Relationships 68

Balance of Payments	68
Exchange Rates and Foreign Trade	70

Factors Influencing Aggregate Real Exports and Imports	73
Economic Indicators to Watch	74
7 Monetary Policy	76
The Importance of Inflation Expectations	77
How Is the Price Level Determined?	78
On What Does Potential Output Depend?	78
How the Bank of Canada Influences the Rate of Inflation	81
Complications in Monetary Management	84
Is Managing Inflation the Same as Managing the Price Level?	84
The Federal Reserve System and the Relationship between Canadian and American Interest Rates	85
interpreting Economic Indicators in the Presence of the Central Bank	85
8 The Labour Market	87
The Key Issue: Stability of the Real Wage	87
The Canadian Evidence: Relative Real-Wage Stability	89
Real Wage Growth Reflects Long-Run Productivity Trends	91
Shares of the Income Pie	91
How NDI Behaves over the Business Cycle	92
Why Is the Real Wage So Unresponsive to Changing Demand Conditions?	94
Economic Indicators to Watch	95
9 Fiscal Policy and Management of Public Debt	96
National Finances and the Public Debt	97
The Federal Deficit or Surplus	99
The Public Debt	99
Sources of Relevant Information	102
10 Using the Indicators	103
Obtaining Information on the Economy	107
11 The Canadian Indicators	108
WEEKLY INDICATORS	109
Bank of Canada Weekly Financial Statistics	109
MONTHLY INDICATORS	109
Average Hourly Earnings (AHE)	109
Building Permits	111
Car Sales	112

viii Contents

Consumer Price Index (CPI)	113
Durable Goods Orders	115
Employment and Unemployment	116
Federal Government Fiscal Position	118
Help-Wanted Index	119
Housing Starts	120
Index of Leading Indicators	121
Industrial Product Price Index (IPPI)	122
Industrial Production	124
Merchandise Trade'	125
Monetary Conditions Index (MCI)	127
Money and Credit Aggregates	128
Raw Materials Price Index (RMPI)	129
Real GDP at Factor Cost	130 , ;
Retail Trade	131
Wage Settlements	133
QUARTERLY INDICATORS	135
Balance of Payments	135
Business Conditions Survey	135
Canada's International Investment Position	136
Capacity Utilization Rate	137
Corporate Profits in the NIEA	138
Earnings on the TSE 300 Index	139
National Balance Sheet Accounts (NBSA)	140
National Economic and Financial Accounts (NEFA)	140
I: Financial Flow Accounts (FFA)	140
II: National Income and Expenditure Accounts (NIEA)	141
Quarterly Financial Statistics for Enterprises	141
ANNUAL INDICATORS	142
Environmental Indicators	142

12 The U.S. Indicators 143

WEEKLY INDICATORS	143
Initial State Unemployment Insurance Claims	143
MONTHLY INDICATORS	144
Capacity Utilization (Industry Operating Rate)	144
Car Sales	145
Consumer Confidence Index	145
Consumer Credit	146
Consumer Price Index (CPI)	146

Durable Goods Orders	149
Employment and Unemployment:	150
I: The Establishment Survey	151
II: The Household Survey	152
Factory Orders	153
Federal Government Budget Balance	154
Help-Wanted Index	155
Housing Starts	156
Index of Industrial Production	157
Index of Leading Indicators	157
International Trade	159
Money Supply	160
Personal Income	163
Producer Price Index ,(PPI)	164
Purchasing Managers'Survey	165
Retail Sales	166
QUARTERLY INDICATORS	168
Employment Cost Index (ECI)	168
National Income and Product Accounts (NIPA)	169