



Business English

Economic Indicators

**Teachers: Faiza Derbal (coordinator), Fatma Belaid,
Béchir Bouaicha, Nadia Bouchioua**

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Unit 2: Economic Indicators

Objectives:

- Introduce specific descriptive language to talk about cycles and trends
- Read to identify lines of argumentation
- Practice with Adjective-adverb/verb-noun derivation and with alternative ways of expressing comparison
- listening for specific details and lines of argument about cycles and trends

Skills: reading/listening/writing

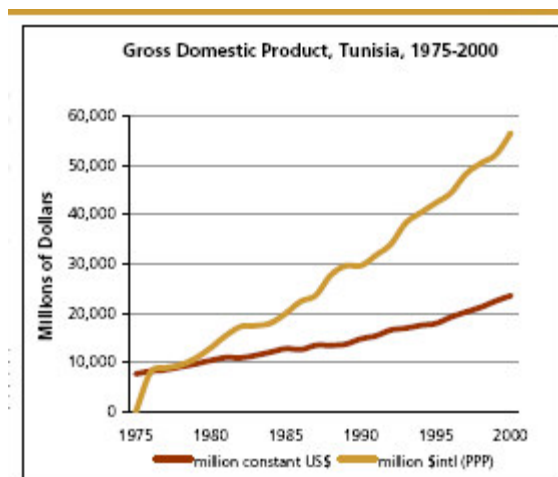
I. PRE-READING

A/ Look at the following cartoon on business cycles and answer the questions which follow:



1. This cartoon shows that:
 - a) economic problems affect each other in a vicious circle
 - b) economic problems develop regardless of other factors
 - c) economic problems do not follow a predictable pattern
2. What would happen if one the events described in the cartoon changed radically?
 - a) the cycle would still be the same
 - b) the cycle would be probably reversed
 - c) the cycle would not be predictable

B/ Look at the following chart and answer the questions which follow



1. Which indicator is illustrated here?
 - a) GDP
 - b) GNP
 - c) GDP per capita
2. This indicator shows:
 - a) an upward trend
 - b) a downward trend
 - c) a fluctuating trend
3. From this line graph, it can be implied that economic activity in Tunisia between 1975 and 2000:
 - a) shrank
 - b) expanded
 - c) remained constant

II. READING

Read the text and do the tasks which follow.

What are Economic Indicators?

From [Mike Moffatt](#), former About.com Guide

An economic indicator is simply any economic statistic, such as the unemployment rate, GDP, or the inflation rate, which indicate how well the economy is doing and how well the economy is going to do in the future... Investors use all the information at their disposal to make decisions. If a set of economic indicators suggest that the economy is going to do better or worse in the future than they had previously expected, they may decide to change their investing strategy.

To understand economic indicators, we must understand the ways in which economic indicators differ. There are three major attributes each economic indicator has:

1. Relation to the [Business Cycle](#) / Economy

Economic Indicators can have one of three different relationships to the economy:

1. **Procylic:** A procyclic (or procyclical) economic indicator is one that moves in the same direction as the economy. So if the economy is doing well, this number is usually increasing, whereas if we're in a recession this indicator is decreasing. The Gross Domestic Product (GDP) is an example of a procyclic economic indicator.
2. **Countercyclic:** A countercyclic (or countercyclical) economic indicator is one that moves in the opposite direction as the economy. The unemployment rate gets larger as the economy gets worse so it is a countercyclic economic indicator.
3. **Acyclic:** An acyclic economic indicator is one that has no relation to the health of the economy and is generally of little use. The number of home runs the Montreal Expos hit in a year generally has no relationship to the health of the economy, so we could say it is an acyclic economic indicator.

2. Frequency of the Data

In most countries GDP figures are released quarterly (every three months) while the unemployment rate is released monthly. Some economic indicators, such as the Dow Jones Index, are available immediately and change every minute.

3. Timing

Economic Indicators can be leading, lagging, or coincident which indicates the timing of their changes relative to how the economy as a whole changes.

1. **Leading:** Leading economic indicators are indicators which change before the economy changes. Stock market returns are a leading indicator, as the stock market usually begins to decline before the economy declines and they improve before the economy begins to pull out of a recession. Leading economic indicators are the most

important type for investors as they help predict what the economy will be like in the future.

2. **Lagged:** A lagged economic indicator is one that does not change direction until a few quarters after the economy does. The unemployment rate is a lagged economic indicator as unemployment tends to increase for 2 or 3 quarters after the economy starts to improve.
3. **Coincident:** A coincident economic indicator is one that simply moves at the same time the economy does. The Gross Domestic Product is a coincident indicator.

In The USA, economic indicators are grouped under seven broad categories:

1. Total Output, Income, and Spending
2. Employment, Unemployment, and Wages
3. Production and Business Activity
4. Prices
5. Money, Credit, and Security Markets
6. Federal Finance
7. International Statistics

Each of the statistics in these categories helps create a picture of the performance of the economy and how the economy is likely to do in the future.

Total Output, Income, and Spending

These tend to be the most broad measures of economic performance and include such statistics as the Gross Domestic Product (GDP) [quarterly], Real GDP [quarterly], Implicit Price Deflator for GDP [quarterly], Business Output [quarterly], National Income [quarterly], Consumption Expenditure [quarterly], Corporate Profits[quarterly], Real Gross Private Domestic Investment[quarterly]

The Gross Domestic Product is used to measure economic activity and thus is both procyclical and a coincident economic indicator. The Implicit Price Deflator is a measure of inflation. Inflation is procyclical as it tends to rise during booms and falls during periods of economic weakness. Measures of inflation are also coincident indicators. Consumption and consumer spending are also procyclical and coincident.

Employment, Unemployment, and Wages

These statistics cover how strong the labor market is and they include: The Unemployment Rate [monthly], Level of Civilian Employment[monthly], Average Weekly Hours, Hourly Earnings, and Weekly Earnings[monthly], Labor Productivity [quarterly].

The unemployment rate is a lagged, countercyclical statistic. The level of civilian employment measures how many people are working so it is procyclic. Unlike the unemployment rate it is a coincident economic indicator.

Production and Business Activity

These statistics cover how much businesses are producing and the level of new construction in the economy: Industrial Production and Capacity Utilization [monthly], New Construction [monthly], New Private Housing and Vacancy Rates [monthly], Business Sales and Inventories [monthly], Manufacturers' Shipments, Inventories, and Orders [monthly].

Changes in business inventories is an important leading economic indicator as they indicate changes in consumer demand. New construction including new home construction is another procyclical

leading indicator which is watched closely by investors. A slowdown in the housing market during a boom often indicates that a recession is coming, whereas a rise in the new housing market during a recession usually means that there are better times ahead.

Prices

This category includes both the prices consumers pay as well as the prices businesses pay for raw materials and include :Producer Prices [monthly], Consumer Prices [monthly], Prices Received And Paid By Farmers [monthly]

These measures are all measures of changes in the price level and thus measure inflation. Inflation is procyclical and a coincident economic indicator.

Money, Credit, and Security Markets

These statistics measure the amount of money in the economy as well as interest rates and include: Money Stock (M1, M2, and M3) [monthly], Bank Credit at All Commercial Banks [monthly], Consumer Credit [monthly] , Interest Rates and Bond Yields [weekly and monthly], Stock Prices and Yields [weekly and monthly]

Nominal interest rates are influenced by inflation, so like inflation they tend to be procyclical and a coincident economic indicator. Stock market returns are also procyclical but they are a leading indicator of economic performance.

Federal Finance

These are measures of government spending and government deficits and debts: Federal Receipts (Revenue)[yearly], Federal Outlays (Expenses) [yearly], Federal Debt [yearly].

Governments generally try to stimulate the economy during recessions and to do so they increase spending without raising taxes. This causes both government spending and government debt to rise during a recession, so they are countercyclical economic indicators. They tend to be coincident to the business cycle.

International Trade

These are measures of how much the country is exporting and how much they are importing: Industrial Production and Consumer Prices of Major Industrial Countries, U.S. International Trade In Goods and Services, U.S. International Transactions

When times are good people tend to spend more money on both domestic and imported goods. The level of exports tends not to change much during the business cycle. So the balance of trade (or net exports) is countercyclical as imports outweigh exports during boom periods. Measures of international trade tend to be coincident economic indicators.

While we cannot predict the future perfectly, economic indicators help us understand where we are and where we are going...

Source: http://economics.about.com/cs/businesscycles/a/economic_ind.htm

A/ Fill in the table with information from the text:

Type of the indicator's relationship to the business cycle	Explanation	Example
	An indicator that may go up or down depending on whether we are in a recession or not	
Countercyclic		
		Number of home runs in an exposition in a city

B/ State whether the following are True or False.

- a) Investors are reliant on economic indicators when making decisions
- b) Unlike other indicators, stock market indices are released more frequently
- c) When economic indicators echo exactly and to the minute changes occurring in the economy, they are said to be lagged.
- d) The level of exports is not affected much by the business cycle.

C/ Choose the best option

1. Leading economic indicators

- a) Depict things changing ahead of any changes in the economy
- b) Pave the way to changes to come
- c) Are the main indicators

2. GDP is used to measure

- a) productivity
- b) domestic economic activity
- c) Foreign Direct Investment

3. The unemployment rate in the USA is published

- a) on a monthly basis
- b) on a quarterly basis
- c) fortnightly

4. A lagged countercyclical statistic is an indicator

- a) that immediately reacts to changes in the opposite direction of the economy
- b) that changes upward prior to any change in the economy
- c) that takes 6 to 9 months before changing in the opposite direction as the economy

**5. If we want to have an idea about trends in consumer demand, it is worthwhile to
Examine:**

- a) Business sales and inventories
- b) New construction
- c) Producer prices

**D/ Under which category of indicators, would one most likely find statistics
on:**

a. The performance of the economy as a whole

- a) Total Output, Income, and Spending
- b) Employment, Unemployment, and Wages
- c) Production and Business Activity
- d) Prices
- e) Money, Credit, and Security Markets
- f) Federal Finance
- g) International Statistics

b. The inflation rate

- a) Total Output, Income, and Spending
- b) Employment, Unemployment, and Wages
- c) Production and Business Activity
- d) Prices
- e) Money, Credit, and Security Markets
- f) Federal Finance
- g) International Statistics

c. The unemployment rate

- a) Total Output, Income, and Spending
- b) Employment, Unemployment, and Wages
- c) Production and Business Activity
- d) Prices
- e) Money, Credit, and Security Markets

- f) Federal Finance
- g) International Statistics

d. National income

- a) Total Output, Income, and Spending
- b) Employment, Unemployment, and Wages
- c) Production and Business Activity
- d) Prices
- e) Money, Credit, and Security Markets
- f) Federal Finance
- g) International Statistics

e. The performance of shares in stock markets

- a) Total Output, Income, and Spending
- b) Employment, Unemployment, and Wages
- c) Production and Business Activity
- d) Prices
- e) Money, Credit, and Security Markets
- f) Federal Finance
- g) International Statistics

f. Imports and exports

- a) Total Output, Income, and Spending
- b) Employment, Unemployment, and Wages
- c) Production and Business Activity
- d) Prices
- e) Money, Credit, and Security Markets
- f) Federal Finance
- g) International Statistics

E/ Choose the option closest in meaning to the underlined words:

- a) In most countries, GDP figures are released quarterly
 - a) numbers
 - b) graphs
 - c) estimates
- b) Stock market **returns** are a leading indicator
 - a) yield
 - b) trading profit
 - c) indices
- c) The economy begins to **pull out** of a recession
 - a) plunge into
 - b) get on top of
 - c) cope with
- d) How the economy is **likely to** do in the future..
 - a) How the economy likes to do in the future

- b) How the economy will probably do in the future
- c) How the economy is set to do in the future
- e) prices business pay for **raw materials...**
 - a) finished products
 - b) primary commodities used to manufacture goods
 - c) capital goods

III. POST-READING

Vocabulary

1. Look at the following sentences taken from the passage and identify the language of trends used

- Inflation is procyclical as it tends to during andduring
- If the economy is doing well, this number is usually whereas if we're in a, this indicator is

2. Fill in the table

Verbs	Nouns
	Increase
Rise	
Grow	
	Decrease
Fall	
Decline	
	Drop
Fluctuate	

3. Put the following verbs in the corresponding columns in the chart

Rise –level off- slump – boom – remain constant – flatten out – hold steady –escalate – drop – reach a peak – peak – collapse –climb back – plunge – soar – decline – rocket –fluctuate – crash – go up – go down – decrease - grow – bottom out – recover – fall – pick up- increase

Rise (upward) ↗	Fall (downward) ↘	No movement →	Change of direction ↻

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4. Rewrite the following sentences as indicated:

a. Prices rose sharply in the last quarter

- Prices experienced a _____ in the last quarter

b. Profits fell considerably due to the financial crisis

- There was a _____ in our profits due to the financial crisis.

c. There has been a substantial growth in the economy over the last few months.

-The economy _____ over the last few years

d. Sales went down dramatically last year.

- Our sales experienced a _____ last year.

e. The volume of exports declined suddenly in the third quarter

- The volume of exports underwent a _____ in the third quarter.

Grammar**A/ Look at the following sentence from the text:**

The unemployment rate gets larger as the economy gets worse. This sentence can be re-written using parallel comparison:

⇒ The worse the economy gets, the larger the unemployment rate is.

Rewrite the following sentences as indicated:

a) As demand increases, so will prices

- The higher demand _____

b) If we cut down on staff, we will reduce our operating expenses.

- c) If we take swift measures, the situation will improve.
 - The sooner we _____
- d) If the exchange rate of the Euro goes up, our imports will cost more.
 - The higher _____
- e) If productivity declines, profits will too.
 - The lower _____

Pronunciation

Indicate how the stress changes from nouns to adjectives ending with the suffixes /ic/ and /ical/. For these adjectives, the stress is placed on the syllable immediately before these suffixes.

Noun	Adjective ending with ic	Adjective ending with ical
Cycle	Cyclic	Cyclical
Economy	Economic	Economical
Analysis	Analytic	Analytical
Theory	Theoretic	Theoretical
Philosophy	Philosophic	Philosophical
History	Historic	historical

Listening

<http://www1.voanews.com/a-23-2009-12-31-voa4-84659292.html>

A/ Match the terms with their definitions

Stock market	State of having no more money to remain in business
S & P 500 index	A loan borrowed to finance the purchase or the building of a house for instance.
Relief program	Index used by Nasdaq
bankruptcy	Market where shares and securities are traded
unemployment	Set of measures through which assistance is provided
mortgage	Joblessness

B/ 2008 is best remembered in the USA for being....

- a) the year during which the subprime crisis and the ensuing credit crunch occurred
- b) the year that saw the biggest number of scientific breakthroughs made
- c) the year during which the USA reached unprecedented records of growth

C/ 2009 is remembered in the USA for being....

- the year during which the world was at the brink of recession
- the year during which the world plunged into deep recession
- the year during which the world pulled out of recession

D/ Banks were able to repay money to their customers through:

- their own assets
- borrowing from the federal Reserve
- Using the congress-approved 700 billion dollars rescue program

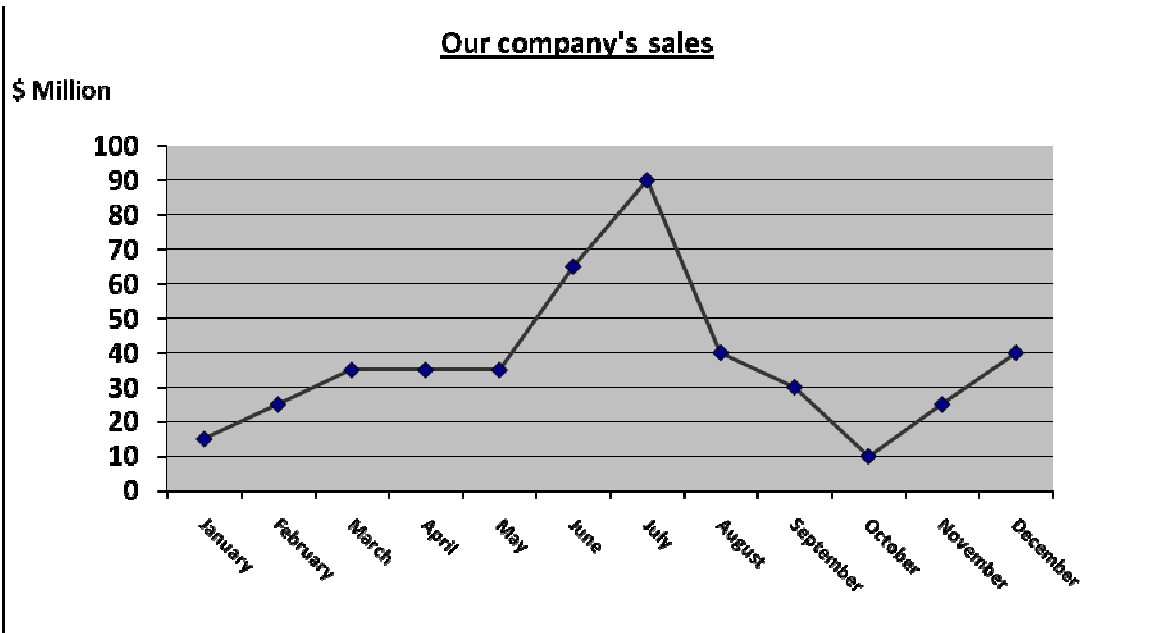
E/ Despite the depression, the American car industry managed to increase its sales in summer thanks to:

- restructuring itself
- loans from banks
- a governmental program encouraging trading old cars for new fuel-saving models.

F/ Prospects for the car industry in the USA:

- look grim
- look better
- are unpredictable

Writing: Look at the following line graph and then write a short paragraph focusing on the main trends it describes.



Begin: On the whole, our company's profits showed a ___ trend for the past year. At the beginning of the year.....