Taking Account...

A look at cyclical economic indicators for the United States

The recent global financial crisis highlighted the need for statistical agencies around the world to provide up-to-date economic indicators that can help analysts identify critical trends in the economy. While the U.S. national income and product accounts, produced by the Bureau of Economic Analysis (BEA), provide an accurate picture of the economy, analysts have also discussed the need for additional indicators that would help analysts and policymakers identify unsustainable economic and financial trends.

In a recent paper prepared for the Third International Seminar on Early Warning and Business Cycle Indicators in Moscow in November 2010, BEA economist Carol E. Moylan discussed this need in the context of currently available cyclical indicators. The paper also discussed some statistics recently proposed by BEA that would provide better tools for assessing the sustainability of economic trends.

To continue to provide statistics that can provide a deep cyclical view of the economy, more work is needed in several areas, such as the continuing integration of economic accounts produced by various agencies. BEA has moved to better integrate its macroeconomic statistics with the accounts of other entities, particularly with financial statistics produced by the Federal Reserve Board. In 2006, BEA and the Federal Reserve Board released the first annual statistics on a set of integrated macroeconomic accounts that related production, income and spending, capital formation, financial transactions, and asset revaluations to changes in net worth between balance sheets for the major sectors of the economy.

In 2010, BEA and the Federal Reserve Board began releasing these statistics quarterly. Also, BEA has expanded the presentation of saving and investment to show quarterly saving, investment, net lending, and net borrowing by sector to better align these estimates with the new quarterly integrated macroeconomic accounts. BEA has also begun releasing quarterly statistics on net investment by broad type of asset. Net investment, which had previously been available annually, is an important indicator that gauges the degree to which businesses are replacing their fixed assets.

These statistics complement an array of cyclical indicators from U.S. agencies and private organizations. Leading indicators—such as average weekly hours of manufacturing workers, real residential fixed investment, average weekly claims for unemployment insurance, and others—provide turning points that occur ahead of the entire economy. Turning points in coincident indicators, such as gross domestic product (GDP), tend to coincide with the aggregate economy. Turning points in lagging indicators, such as the average duration of unemployment (weeks) and the ratio of real manufacturing and trade inventories to sales—occur after turns in the overall economy.

These traditional indicators performed reasonably well in the most recent recession. But while the leading indicators pointed to a slowdown, they could not predict the magnitude of the slowdown.

Moylan's paper noted that current measures could be used to provide additional metrics about the sustainability of trends, for example, in the housing and financial sectors. An April 2010 article in the Survey of Current Business, "GDP and Beyond: Measuring Economic Progress and Sustainability," discusses ways to combine current statistics to construct indicators to address (1) the distribution of growth in income across households, sectors, and regions and (2) the sustainability of trends in saving, investment, asset prices, and other key variables.

The article details how currently available data can be used to construct alternate estimates of income that come closer to what most households are experiencing and provide insightful indicators of, among other things, the differential impact of GDP growth across states, the sustainability of U.S. GDP growth, the adequacy of saving and investment, and emerging risks to the economy.