

MoneySpeak

It's your loss if you don't know the language

BY MARC MYERS

EACH WEEK brings a new batch of economic data: Interest rates are up, the consumer price index is down, etc. We know the news affects the stock market, but most of us aren't sure why.

These economic indicators are statistical snapshots that either report business and consumer spending patterns or predict if we'll spend more or less in the coming months.

Why should Wall Street care what we do on Main Street? "Consumer spending makes up two-thirds of the U.S. economy," says Jeremy Siegel, finance professor at the Wharton School and author of *Stocks for the Long Run*. "How we spend our dollars has a big impact on corporate profits."

We asked Professor Siegel to select the ten most influential indicators and explain how and why they affect the market. Sure, it's a fool's game to use this data to time individual investments, but you don't want to skip the business pages entirely. Tear out the following chart (or download it at rd.com/charts) and refer to it next time the news turns to numbers.



Leading Indicator	What Is It?	Good News Market Response	Bad News Market Response	Data Released	More Information
Consumer confidence data	Reflects how consumers feel about their personal economic situation and expectations for the future	If confidence rises, consumers are more optimistic and likely to spend, especially on big-ticket items. This translates into higher corporate profits.	▲	When confidence falls, consumers are more likely to scrimp than spend, sending stocks down in anticipation of lower profits.	▼	Middle and end of each month	www.conference-board.org ; www.sca.isr.umich.edu
Consumer price index	Tells whether the prices of everyday goods and services are rising or falling	When the CPI falls slightly or remains unchanged, consumers will likely be willing to spend more on nonessentials such as entertainment and travel, a positive sign for stocks.	▲	If the index goes up by 0.3% to 0.4% for 3 straight months, consumers will likely spend less. A rising index also foreshadows inflation, causing the Fed to raise short-term interest rates.	▼	Middle of each month	bls.gov
Crude oil prices	Shows whether consumers and industries will have to pay more or less for fuel	A drop in prices at the pump puts more money in consumers' pockets. Though stocks generally rise, oil stocks fall as lower prices depress profits.	▲	When crude increases (or exceeds \$35 a barrel) fears about inflation and cash-strapped consumers depress stocks. Hard hit will be airlines and trucking.	▼	Fluctuates throughout the day	bloomberg.com/energy/
Dollar's value	Dictates the price of imported and exported goods, from hair spray and wine to cars and clothing	As the dollar's value declines, U.S. products become cheaper abroad, sending stocks of large multinational companies up in anticipation of higher profits.	▲	As the dollar rises in value against foreign currencies, travelers abroad do well but U.S. goods suffer as their prices soar, sending stocks of multinationals down.	▼	Fluctuates throughout the day	newyorkfed.org/markets/fxrates/noon.cfm
Employment report	Indicates the rate at which U.S. companies are hiring new employees	When it's reported that the unemployment rate is falling and that the previous month saw 200,000 or more new hires, consumers feel secure about their jobs and spend more.	▲	If the numbers show less than 100,000 new hires in the previous month and unemployment is rising, consumers become uncertain about their job security and cut spending, sending stocks down.	▼	First Friday of each month	www.dol.gov
Housing starts	Reflects the number of new homes being built	If housing starts rise at least 5%, it signals that a wide-ranging spending spree has begun. Building materials, furnishings and many other home-related goods are purchased.	▲	When housing starts begin to fall, it can be a sign that consumer confidence has ebbed. Many industries may begin to cut back in advance of slower consumer spending, sending stocks down.	▼	Middle of each month	commerce.gov
Producer price data	Shows whether companies are paying wholesalers more or less for the goods they will turn around and sell to consumers	When these numbers fall or remain flat, companies are paying the same or less for the things they sell, enabling them to hold down prices, sell more goods and boost profits.	▲	A jump in price data means companies must choose between absorbing the loss or passing higher prices along. Either way, profits will be lower, sending stocks down.	▼	A few days before the CPI is released	bls.gov
Purchasing managers data	Reflects the rate of spending by U.S. companies on equipment, employees and other operating must-haves	A rising rate signals businesses are investing more in growth, reflecting optimism in future profits. Expect shares of companies making basic goods to rise.	▲	When the rate drops, companies are spending less on growth, reflecting a cautious outlook. Diminished corporate confidence translates into lower profits.	▼	First and third business day of each month	ism.ws
Retail sales	Charts consumer spending at brick-and-mortar and online stores	An upturn indicates consumer confidence. Stocks of big retailers, price clubs and online stores will likely jump.	▲	A decline indicates consumers aren't upbeat about the economy. A persistent decline will depress retailers' stocks.	▼	Middle of each month	www.census.gov/mrts/ www/mrts.html
Short-term interest rates	Set by the Federal Reserve, these rates dictate what banks charge each other to borrow money	When the Fed cuts short-term rates, longer-term rates tend to fall. As they do, stocks become more attractive than bonds and debt becomes less expensive.	▲	If the Fed hikes short-term rates, longer-term rates often follow. Bonds become more attractive than stocks. Borrowing costs more, and spending declines.	▼	The Fed meets eight times a year to decide on short-term rates	federalreserve.gov