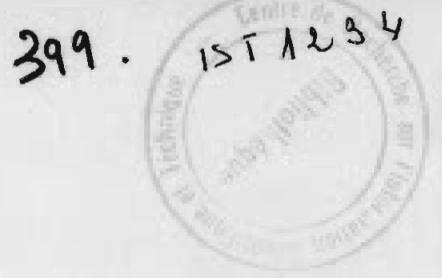


**Keys for
Business Forecasting**

by
Elizabeth W. Angle

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INTRODUCTION

Business forecasts are top news and receive increasingly broad coverage in the daily press. Yet because of the growing technical complexity of the statistical devices used in predicting the future course of the economy, forecasts are often couched in terms which puzzle many readers. This booklet is directed at improving public understanding of the nature and significance of the statistical ingredients that go into professional analysis of business prospects. It describes, in terms as nontechnical as possible, certain key statistical series and techniques that provide much of the basis for professional forecasts. The materials covered, are relevant not only to forecasts but also to appraisals of current and past economic conditions. The booklet was prepared primarily for the guidance of beginning students of business and economics and for the businessman with little time or need for mastering the details of economic time series.

The booklet is not intended as a summary either of business forecasting methods or of the scores of statistical series used by the professional analyst. Rather it concentrates on a handful of broad statistical measures which have gained widespread recognition as key business indicators. It undertakes to relate, in layman's terms, the behavior of these indicators to changes in the level of business. In addition, it includes a description of statistical techniques for distinguishing normal seasonal changes from changes associated with cyclical movements and with underlying growth trends. Because of the growing interest in the indicator approach to business cycle analysis developed by the National Bureau of Economic Research, one section of the booklet is devoted to a discussion of the terminology employed in this approach.

Both theoretical and practical knowledge are needed by the discriminating forecaster. In appraising the business outlook, the forecaster analyzes the current and past performance of eco-

nomic series in the light of his knowledge of the basic economic concepts behind the figures and of the nature and causes of fluctuations in individual series as well as in aggregate economic activity. Moreover, he takes account of the limitations of the available data and of the uses to which the data are appropriate. The cautious forecaster is not a slavish adherent to any one method or approach but rather undertakes to use all the tools at hand.

Successful forecasting requires familiarity with a much broader range of statistical data and source materials than can be discussed here. To supplement the discussion of the booklet proper, a bibliographical note has been appended covering primary source materials for current and historical data and for technical explanations of basic concepts and estimating procedures. It is hoped that the reader will be motivated to more detailed and advanced study. The reader is further warned that the definitions, concepts, estimating procedures, and published detail of statistical series are subject to change. For example, the report of the National Commission on Employment and Unemployment Statistics, issued in September 1979, included 88 recommendations for changes in these series. Also the U. S. Office of Federal Statistical Policy and Standards in the summer of 1979 asked for public comment on a recommended change in the standard reference base period for general purpose index numbers from the existing base of 1967 to the year 1977.

The first edition of the booklet reproduced a series of brief articles which had been published in this Bank's *Economic Review* (formerly *Monthly Review*) between 1962 and 1964. A separate section on monetary and financial variables was added in the third edition. In this fifth edition, as in previous editions, the text and charts for each article and the section on reference sources have been updated, where applicable.