Coincident Indicators

by Sophia Tutorial

WHAT'S COVERED

This tutorial will cover coincident indicators, discussing how economists use data to study the economy and exploring an example of a coincident index.

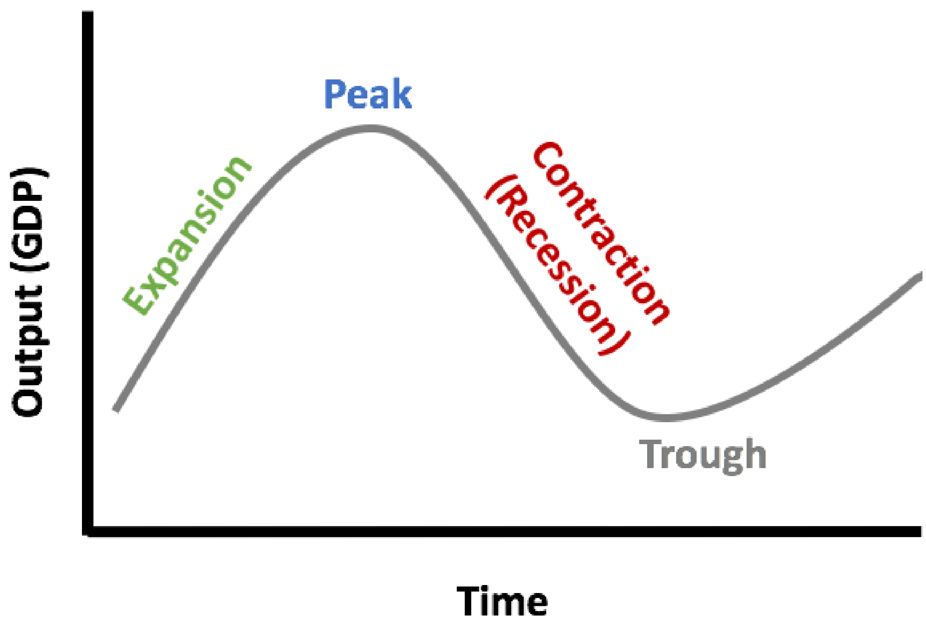
Our discussion breaks down as follows:

1. Business Cycle
2. Coincident Indicators
3. Consumer Confidence

1. Business Cycle

Here is a business cycle. The rate of growth in the economy, which is measured by GDP or output, is on the y-axis, and time is on the x-axis.

You can see that it is normal for the economy to go through periods of growth and contraction.



We measure growth by our economy's gross domestic product or our output.

While it rises, we are in a period of expansion, then we peak and enter a period of contraction.

Most people are concerned about things such as the unemployment rate and inflation.

Economists use many different kinds of data to help them do the following:

- Predict where the economy is headed
- Explain what has just occurred in the economy
- Look at what is currently happening in the economy

In this tutorial, we will focus on what is happening right now.

2. Coincident Indicators

Economists study economic indicators, which give them an overall view of the economy at any given point in time.

The three different categories of indicators are:

- Leading
- Lagging
- Coincident

Today we will focus on coincident indicators.

A **coincident index** are indicators that provide a view of the current state of the economy.

These indicators change *with* the economy, not before and not after. They give us an idea as to where the economy is on a business cycle.

Are we in a period of economic growth right now? Are we in a period of economic contraction right now?

TERM TO KNOW

Coincident Index
Indicators that provide a view of the current state of economy

3. Consumer Confidence

The most common coincident indicator is consumer confidence.

Consumer confidence is not actually measured by the government. It is measured each month by The Conference Board, which is an independent economic research organization.

They survey 5,000 households each month, because clearly, they cannot figure out every single person's confidence in the entire country at any given time.

If you were surveyed, you would be asked your opinions or attitudes on the current economy and where the economy is headed.

It doesn't matter that you are not an economist; they want to know how the average person feels about the economy. More importantly, they want to know how your attitude or opinion on the economy is going to impact your spending and saving intentions.

> EXAMPLE For instance, are you going to be spending a lot of money this month, this year, etc.? Or, will you be saving money?

Consumer confidence actually tells us a lot about the economy. If consumers are confident, they continue to make purchases--and this refers to purchases beyond what is absolutely necessary like rent, homeowner's insurance, grocery shopping, etc.

Instead, consumers make additional purchases.

> EXAMPLE For example, they plan a summer vacation or continue to dine out at restaurants.

These kinds of purchases and consumer demand keeps firms profitable, which is good for consumers.

Firms keep producing and retaining their employees, and people with jobs have money to continue spending in other businesses.

Those businesses can continue producing and retaining employees, so as you can see, it is very cyclical--hence the name of a business cycle.

If people have the money to continue spending, the economy tends to continue improving.

BIG IDEA

If consumers respond that they are confident, it is an indication that we are currently, right now, in an period of economic growth.

Conversely, if consumers are responding that they are even slightly fearful of the future economy, they tend to save any extra money.

They choose not to go on that summer vacation and they will eat in more often than dining out.

This drop-off in spending impacts firms. Firms scale back on production and lay off employees to maintain their profitability.

It follows, then, that people without jobs do not have the money to continue spending and the economy tends to get worse.

So, how can this be studied in microeconomics? Remember that microeconomics studies individual firms and individual consumers.

Therefore, a microeconomist would study individuals' expectations about the economy--their confidence or their fear.

A microeconomist might also consider the impact of this confidence for specific firms or industries.

SUMMARY

We began today's lesson by reviewing the **business cycle** and discussing how economists use data to study the economy overall and individual markets. We learned that **coincident indicators** show us where our economy is currently. We also learned that the **consumer confidence** index is an example of a coincidence indicator.

Source: Adapted from Sophia instructor Kate Eskra.

TERMS TO KNOW

Coincident Index
Indicators that provide a view of the current state of economy.

