Sophia

Understanding Indicators

by Sophia Tutorial

WHAT'S COVERED

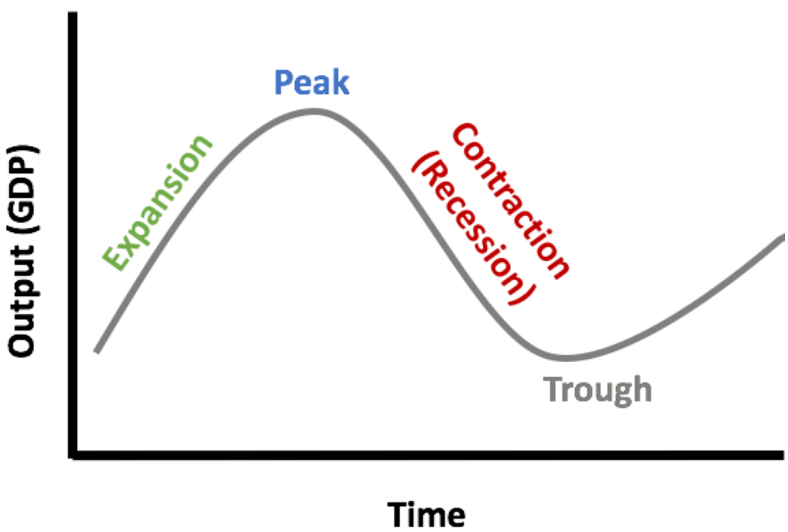
This tutorial will cover the topic of understanding indicators, exploring how economists use data to study the economy, as well as discussing different economic indicators such as leading, lagging, and coincident.

Our discussion breaks down as follows:

1. Economic Indicators
2. Leading Indicators
3. Lagging Indicators
4. Coincident Index
5. Why So Many Indicators?

1. Economic Indicators

In review, this is a business cycle, which shows that it is normal for the economy to go through periods of growth and contraction.



At any given time, most people are concerned about economic factors like the unemployment rate and inflation.

Economists, though, use many different kinds of data to help them do three different things:

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

These are the three different kinds of economic indicators, and economists study them to give them an overall view of the economy:

- Leading
- Lagging
- Coincident

Economic indicators provide a snapshot of the economy at any given point in time, so this is why they are studied in macroeconomics--because macroeconomics is all about the overall economy and how healthy it is.

2. Leading Indicators

Leading indicators are trends, patterns, or situations that assist in forecasting the economy. They are looking at where the economy is headed.

Examples of leading indicators include:

- Unemployment insurance claims
- Building permits
- Stock or equity market performance.

All three of these tend to indicate where the economy might be headed, which is why they are leading indicators.

TERM TO KNOW

Leading Indicators
Trends, patterns, or situations that assist in forecasting the economy

3. Lagging Indicators

Lagging indicators, on the other hand, are trends, patterns, or situations that provide a clear indication of where the economy has been. Basically, they are after the fact.

Examples of lagging indicators include:

- Unemployment rate
- Consumer price index

- Consumer credit

All of these things show us, after the fact, where our economy might have been, so they tend to lag what is currently happening in the economy.

TERM TO KNOW

Lagging Indicators
Trends, patterns, or situations that provide a clear indication of where the economy has been

4. Coincident Index

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

A good example of a coincident indicator is consumer confidence, which is the subject of a different tutorial. It refers to the fact that how consumers feel about the economy tends to be a statistic that indicates how they feel about what is going on right now--which is why it is coincident.

TERM TO KNOW

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

5. Why So Many Indicators?

There are many different indicators which help us to assess the state of the economy. It is helpful to have multiple indicators because:

- Our economy is very complex.
- No one indicator is perfect at thoroughly explaining what is going on.

Therefore, this is why it is helpful to have so many.

SUMMARY

Today we briefly discussed how economists use data to study the overall economy. We learned that there are three different categories of **economic indicators**: **leading indicators**, **lagging indicators**, and **coincident index**. Lastly, we learned that there are **so many indicators** because our economy is complex and no one indicator can completely explain what is happening in the economy.

Source: Adapted from Sophia instructor Kate Eskra.

TERMS TO KNOW

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

Lagging Indicators
Trends, patterns, or situations that provide a clear indication of where the economy has been.

Leading Indicators
Trends, patterns, or situations that assist in forecasting the economy.