Top economic indicators for investors to know

Understand these indicators to improve your investment results

- GDP, PMI and policy rate are some of the macroeconomic data points that are closely monitored by the financial industry
- Know these indicators could help investors understand the changes in a country's economy better, hence plan for their investments
- Our Nowcast methodology is a "big data" systematic approach that measures where we are in the economy cycle

Gross Domestic Product

Gross domestic product ("GDP") measures the monetary value of final goods and services produced in an economy in a given period of time. GDP is important due to the information it provides on an economy's performance. An expansion of a country's GDP is an indication of a growing economy, while a contraction in GDP signals an economic downturn.

When the GDP in an economy is growing strong, employment is likely to increase and companies are likely to make more profit, providing support to stock prices. A comparison on GDP growth rates across different countries also gives us an idea of the relative outlook of their economic expansion. Given its vast breadth, GDP is among the most quoted indicators by the financial markets.

Purchasing Managers' Indexes

The purchasing managers' index ("PMI") surveys are used to gauge the activity in manufacturing and services. They are used by many countries worldwide to monitor the macroeconomic trend. Generally speaking, a reading above 50 indicates a sign of expansion and a reading under 50 represents a contraction.

Being a soft data (i.e. survey based data, as opposed to hard data which refers to tangible activity), the index is a measure of sentiment. Many investors see the monthly calculated PMI as a leading indicator for economic growth or contraction as companies usually stop purchasing raw materials immediately when the demand dries up, much before the time when other reports on retail sales or consumer spending indicate any problems in an economy.

Central bank policy rates

Interest rate is one of the most important policy aspects of central banks which creates monetary policy and exerts significant control over a country's economy. The most widely monitored interest rate in the world is the Fed Funds rate in the United States, which is set by the Federal Open Market Committee, a committee within the Federal Reserve.

Interest rates are closely watched by investors because of their profound implications on the financial markets and the economies and they can indicate the economy's direction. They also influence the cost of borrowing and the return on savings, and are an important component of the return of many investments.

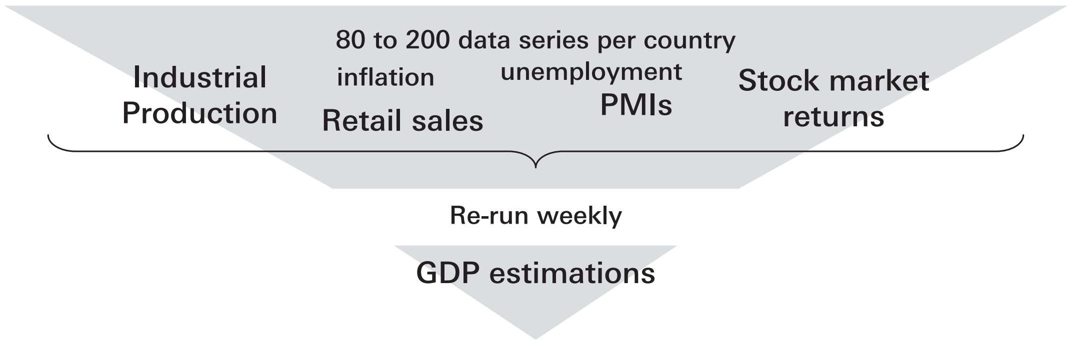
HSBC
Global Asset
Management

Nowcasting the economy

Everyone would like to get their hands on the fortune-telling crystal ball, but experience have repeatedly confirmed that forecasting the economy is difficult. We believe that while we may not see the future, investors need to have a good understanding of where we are today.

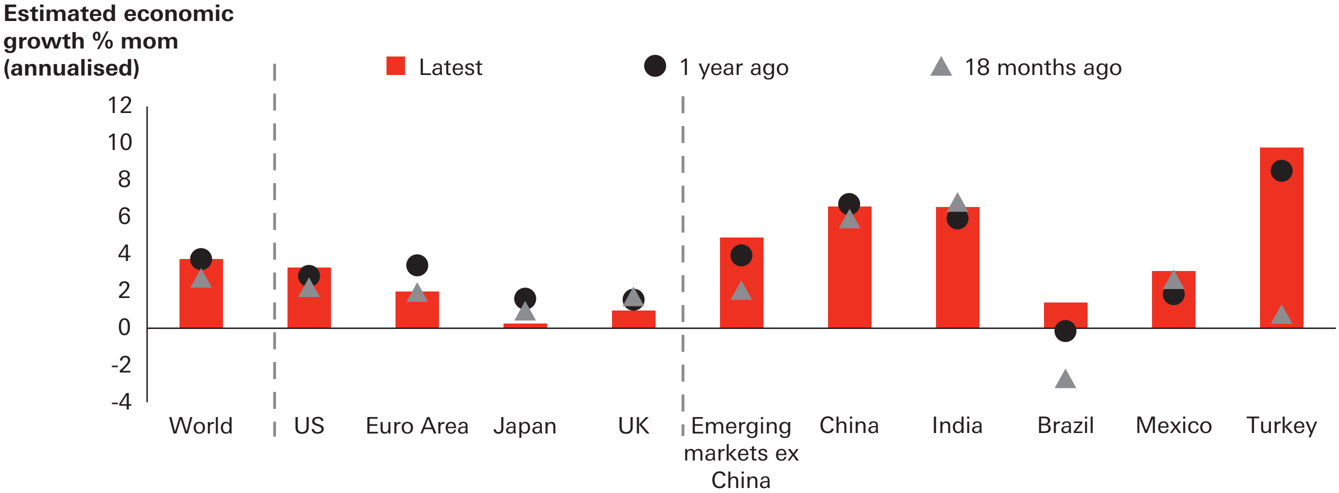
Our Nowcast methodology is a "big data" systematic approach that measures where we are in the economic cycle. We draw information from a whole range of economic data series – as many as 80 to 200 per country. We run our Nowcast model every week to provide an updated measure of economic activities. It identifies the relevant economic signal amid the excitement, randomness and noise of the macroeconomic news flow, so investors can use it as a "ready-reckoner" for where we are in the business cycle today.

Figure 1: How our Nowcast works



Source: HSBC Global Asset Management, April 2018

Figure 2: Nowcast - underlying economic activity across developed and emerging markets



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