Investments 210

How Economic Indicators Affect Your Portfolio and Your Budget

Center for Public Investment Management

Audience Survey

- Economists
- Budget Preparers
- Investment Portfolio Managers
- Investment portfolio size
- Investment instruments
- Employer

Course Objectives

- Learn about relevant economic indicators
- Learn how to interpret them
- Learn why you should care
- Improve your portfolio performance
- Improve your budgeting process
- Create your personal indicators (index)
- Case study

Economics: The Dismal Science

"And should there be a sudden loss of consciousness during this meeting, oxygen masks will drop from the ceiling."

GDP Formula

$$Y = C + I + G + X$$

- C Consumer Spending 68%
- I Investment Spending 19%
- G Government Spending 17%
- X Net Exports (4)%
- Y TOTAL GDP 100%

Leading Economic Indicators

- Average workweek
- Unemployment claims
- New consumer goods orders

Leading Indicators (cont'd)

- Consumer confidence
- Factory orders
- Vendor performance

Leading Indicators (cont'd)

- Building permits of residential housing
- Producer Price Index (PPI)
- Money Supply (M-2)
- Interest rate spread

Coincident Indicators

- Employment
- Personal income
- Industrial production
- Manufacturing and trade sales

Lagging Indicators

- Average duration of unemployment
- Inventories to sales
- Labor Cost Index
- Prime Rate
- Commercial and industrial loans
- Consumer installment credit
- Consumer Price Index

The Poor Economic Forecaster

Create Your Personal Index

Consumer Spending:

- Unemployment claims (Leading)
- Average work week (Leading)
- Consumer confidence (Leading)
- Retail sales (Coincident)
- CPI (Lagging)

Create Your Personal Index (cont'd)

Investment Activity:

- Factory orders (Leading)
- Vendor performance (Leading)
- Housing permits (Leading)
- Housing starts (Coincident)
- Industrial production (Coincident)

Create Your Personal Index (cont'd)

Government Activity:

- Federal budget surplus/deficit (Lagging)
- State unemployment rate (Lagging)
- Special programs

Create Your Personal Index (cont'd)

Net Exports:

- Balance of trade (Lagging)
- Imports (Lagging)
- Exports (Lagging)

Create Your Personal Index (cont'd)

Other:

- Interest rate spread (Leading)
- Federal funds rate (Coincident)
- Producers Price Index (Coincident)
- Commercial and industrial loans (Lagging)

Case Study, pg. 1

How Economic Indicators affect your Portfolio & your Budget -- Case Study

- Once upon a time in the State of Ohio and the County of Snohomish there was the charter city of Ubobadoo with a population of approximately 40,000 people. It was (and still is!) a Council Manager form of government.
- The city departments provide various services including public safety, public service, street maintenance, electricity, parks and recreation, engineering and general administrative services. The city is responsible for the construction, maintenance and repairs associated with all public infrastructure that includes electric, water, sewer and storm sewer lines. The county provides sewer treatment services pursuant to long-term contracts.

Case Study, pg. 2

- The city continues to show growth of employers, employees, office buildings, houses and population. Tax abatements have been used to spur economic development and to attract new business.
- The city has over 400 lane miles and significant money ($2.0 million) was invested in street maintenance last year. A grant for $3.0 million was received from the State of Ohio to expand a major artery within the city.

Case Study, pg. 3

- The city enjoys a Aa1 bond rating by Moody's which is due to the city's financial flexibility, increased tax base diversification spurred by new business development and prudent management and financial practices. The city prepares its financial statements following GASB Statement No. 34 and the city obtains an independent audit of its records. It also received a Certificate of Achievement for Excellence in Financial Reporting for the most recent year.
- The 1.25% income tax is the largest source of revenue for the city. Employee withholding taxes contributed 71% of the revenue received in 2008, with business earnings contributing 8% and individuals contributing 21%. Residents are permitted, as a credit against their city income tax liability, up to a maximum of .95% of the 1.25% income tax of the amount paid as municipal income tax on the same income in another municipal corporation.

Case Study, pg. 4

- The financial results presented in the following tables are reflective of the financial activities of the most recent year.

Task:

- Identify the key revenue and expense items for your entity.
- Select local, state and national economic indicators that will help determine the projected change of these key items in the upcoming budget for this city.

Case Study
Operating Statement

Operating Statement 2008		
Revenues		
Program Revenues:		
Charges for Services		$ 29,716,978
Operation Grants, Contributions and Interest		$ 3,914,938
Capital Grants, Contributions and Interest		$ 2,089,024
Total Program Revenue		$ 35,720,939
General Revenues:		
Property and Other Taxes		$ 9,122,822
Income Taxes		$ 15,214,753
Grants and Entitlements		$ 4,400,863
Unrestricted Contributions		$ 231,830
Investment Earnings		$ 1,369,454
Payment in Lieu of Taxes		$ 186,737
Other		$ 125,399
Total General Revenues		$ 30,651,858
Total Revenues		**$ 66,372,797**

Case Study
Operating Statement, cont'd

Operating Statement 2008, cont'd		
Program Expenses:		
Security Persons and Property		$ 15,182,523
Public Health		$ 45,184
Leisure Time Activities		$ 5,434,226
Community Development		$ 1,788,728
Basic Utility Services		$ 250,295
Transportation		$ 1,443,584
Operating Statement 2008, cont'd		
General Government		$ 7,600,611
Interest and Fiscal Charges		$ 1,139,388
Water		$ 2,171,073
Sewer		$ 4,027,898
Electric		$ 16,997,045
Refuse		$ 1,436,021
Swimming Pool		$ 374,257
Total Expenses		**$ 57,890,834**
Increase in Net Assets		**$ 8,481,962**

Case Study Financials – Net Assets

	Net Assets		
	Governmental Activities 2008	Business-Type Activities 2008	Total 2008
Assets			
Current and Other Assets	$ 59,653,415	$ 33,901,489	$ 93,554,904
Nondepreciable Capital Assets	$ 20,555,162	$ 2,997,703	$ 23,552,865
Depreciable Capital Assets, Net	$ 36,507,374	$ 60,642,562	$ 97,149,936
Total Assets	$ 116,715,951	$ 97,541,753	$ 214,257,705
Liabilities			
Current and Other Liabilities	$ 121,845,566	$ 2,569,859	$ 124,415,425
Long-term Liabilities:			
Due within One Year	$ 2,811,323	$ 827,670	$ 3,638,993
Due in more than One Year	$ 27,090,430	$ 7,979,368	$ 35,069,798
Total Liabilities	$ 151,747,319	$ 11,376,896	$ 163,124,216
Net Assets			
Invested in Capital Assets,			
Net of related Debt	$ 33,918,738	$ 55,481,374	$ 89,400,113
Restricted for:			
Debt Service	$ -	$ -	$ -
Capital Outlay	$ 7,155,365	$ -	$ 7,155,365
Other Purposes	$ 12,787,392	$ -	$ 12,787,392
Unrestricted	$ 20,768,186	$ 30,683,483	$ 51,451,669
Total Net Assets	$ 74,629,682	$ 86,164,857	$ 160,794,539

Major Revenue Items

- _____
- Estate tax
- _____
- Real estate tax
- Investment income
- _____
- State support

Major Expenses

- _____
- Benefits
- Materials
- _____

Capital Expenditures

- _____
- Sidewalks
- _____
- Sewer plant and lines
- Water plant and lines
- _____

Local Economic Indicators

- Telephone hookups
- _____
- Water hookups
- _____
- Housing permits
- _____
- Real Estate Assessed Valuation

Local Economic Indicators (cont'd)

- _____
- Unemployment
- Home sales by county
- Student enrollment
- _____
- Ohio Consumer Confidence

Sources of Economic Information

Websites

- http://research.stlouisfed.org/index.html -- Federal Reserve Bank of St. Louis -- excellent site for historical economic data.
- www.nabe.com -- National Association for Business Economics (NABE)
- "Economic Links" contains a wealth of economic data, with links to most of the sites on this sheet
- www.bls.gov -- Bureau of Labor Statistics, U.S. Dept of Labor
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- www.bea.doc.gov -- Bureau of Economic Analysis - U.S. Dept of Commerce, Budget Data
- www.census.gov -- Census Bureau – U.S. Dept of Commerce
- www.ustreas.gov -- U.S. Dept of Treasury
- www.federalreserve.gov -- Federal Reserve Board (FRB)

Sources of Economic Information

- www.isr.umich.edu/src/ -- Survey Research Center, University of Michigan Consumer Sentiment Index
- www.conference-board.org/economics/helpwanted.cfm -- The Conference Board Help Wanted Advertising Index
- www.oecd.org -- Organization for Economic Cooperation and Development (OECD)
- www.nber.org -- National Bureau of Economic Research (NBER)
- www.federalreserve.gov/fomc/beigebook/2004/ -- Federal Reserve Beige Book
- www.gpoaccess.gov -- The Government Printing office is a wealth of raw economic data.
- www.obm.ohio.gov/businesscommunitypage/financial/cafr.asp -- The Ohio Office of Budget and Management Community Page listing all CAFR's from 1995-2008.
- www.lmi.state.oh.us -- The Ohio Labor Market Information. Your source for reports and data about employment levels, unemployment rates, wages and earnings, employment projections, jobs, training resources and careers.

Top 4 Takeaways

- National, state and local indicators will help you prepare a dynamic budget
- Economic indicators will help you increase investment portfolio income
- Indicators will help you anticipate revenue and expense changes (either up or down)
- **REMEMBER:**
  It is the TREND, not the NUMBER!

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I. www.conference-board.org/economics/helpwanted.cfm -- The Conference Board Help Wanted Advertising Index

J. www.oecd.org -- Organization for Economic Cooperation and Development (OECD)

K. www.nber.org -- National Bureau of Economic Research (NBER)

L. www.federalreserve.gov/fomc/beigebook/2004/ -- Federal Reserve Beige Book

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