

# ANALYSIS OF ECONOMIC INDICATORS

## INTRODUCTION

There is a common belief that economics is just plain common sense. This notion is based on their half understanding. Simultaneously, economics also got unfair treatment at the hands of media. Few understand that economists are offering insights and evidence into the organization and welfare of human society. The earlier perception about economics being a dismal science does not hold waters any more. Today few would question the importance of economic assessments of public policy and the role of economists in government, think tanks and corporate world. Unless non-economist appreciates the vital role of economic way of thinking, we will continue to see ill conceived and even policies which would have disastrous effects on the society. Economic way of thinking is both distinctive and essential for good public policy. J.M. Keynes emphasized economics as a technique of thinking for the public good. When economists err in theory, people suffer in practice

## KASBIT

KASBIT is a powerful driver of transforming knowledge into economic value. It seek to yield scientific knowledge, discover breakthrough ideas, foster innovations, seed new companies and create jobs and new streams of personal and corporate income by:

1. fostering equity and create level playing field through the dissemination of knowledge and ideas by way of student education, faculty interactions, collaboration with industry, community outreach activities and e-learning.
2. Innovation accelerator.
3. generate new and applied scientific knowledge to expand business and maintain their competitiveness

All Politicians' seem to claim that their party presided over the fastest economic growth, the biggest fall in unemployment or the lowest Inflation. Such claims are however not correct. An Interpretation of the economic indicators reflect the true picture of the economy which may show:

- a better understanding how an economy is performing.
- best return on investment.
- measure companies and their products.
- compare the level of growth of different countries.
- judge the government economic policies.
- make forecast.

The government cannot boost its flagging growth rate simply by revising its figures. Indeed it requires a revision in its policies. Composite indicators reflect the changes in economic habits and helps analyst in the understanding of the economy. The structure of unemployment helps to identify the problem areas.

Economic theory provides a few clues to the optimum ratio of public debt to GDP. Trends over time as given under the heading of Economic Survey (2000-2010) , Federal Bureau of Statistics (1947-2005) , Asian Development Bank (1990-2009) and World Bank from (1961- 2009) reflect a true measure of a government's credit worthiness then the absolute level of debt. A country within ever rising debt ratio is clearly heading for trouble. Falling prices can have damaging effects. Current account deficits indicate the extent to which domestic investment is financed by foreign savings. An increase in domestic savings would be no bad thing. Industrial and commercial indicators provide a guide to both the output and expenditure measures of GDP. These should be used in conjunction with cyclic indicators to assess overall economic activities.

Strong economic growth with high capacity use usually suggests inflationary pressures. However, if demand is expected to remain buoyant and interest rates are low, producers may invest in new plant and machinery. If the economy is expanding but there is low capacity use and no evidence of recent new investment, it may be that the economy is recovering from recession.

Changes in the level of official reserves suggest foreign exchange intervention and therefore pressures on the currency. A fall in the reserve suggests that there was intervention to offset currency weakness. A rise suggests to hold a currency down.

## **ANALYSIS**

The DATA presented here is sourced from various issues of Economic Survey of Pakistan, Annual Reports of State Bank of Pakistan, Asian Development Bank and World Bank. The span is spread over 10 years and more. The analysis covers major areas of the economy and reflects the basis of measurement, its significance, and focuses on the goals desired to be achieved. Researcher, Policy makers and people from the corporate world can make use of it with ease and with a seal of authority.

### **GDP: output**

**Measures:** GDP according to sector (agriculture, mining, manufacturing and service Industries).

**Significance:** Provide analysis of total output at a high level of detail.

**Presented as:** Quarterly and annuals reports.

**Focus on:** Real growth rates.

### **Real GDP**

**Measures:** Total economic activity in constant prices.

**Significance:** Most useful for tracking developments over time.

**Presented as:** Quarterly and annuals reports.

**Focus on:** Percentage changes, annual or over four quarters.

## **Nominal GDP**

**Measures:** Total economic activity in current prices.

**Significance:** Describes the total level of production. Use as a yardstick for measuring “economic achievement” or other indicators (such as the current-account balance as a percentage of GDP).

**Presented as:** Quarterly and annual totals - more rarely, monthly.

**Focus on:** Totals. Use factor cost when reviewing output or incomes, market prices if looking at expenditure patterns.

## **GDP: expenditure**

**Measures:** GDP according to category of spending (consumption, investment and net exports).

**Significance:** Provide detail analysis of total spending.

**Presented as:** Quarterly and annual totals.

**Focus on:** Real growth rates.

## **GDP per head**

**Measures:** Output per person; GDP divided by population size.

**Significance:** Used as an indicator of overall economic welfare.

**Presented as:** Quarterly and annual reports.

**Focus on:** Nominal totals; changes in real terms.

## **Personal income, disposable income**

**Measures:** Personal sector total income and income after tax.

**Significance:** Basis for consumption and savings.

**Presented as:** Monthly totals.

**Focus on:** Growth rates.

## **Consumer and personal expenditure, private consumption**

**Measures:** Spending by persons.

**Significance:** Key component of GDP.

**Presented as:** Money totals.

**Focus on:** Growth rates.

## **Personal and household savings; savings ratio**

**Measures:** Savings by households.

**Significance:** Key component of total national savings.

**Presented as:** Money totals and as a percentage of disposable income.

**Focus on:** Trends.

## **Population**

**Measures:** Total number of people in a country.

**Significance:** Yardstick for minimum GDP growth.

**Presented as:** Total number.

**Focus on:** Age structure and changes.

## **Labor or workforce**

**Measures:** Employees plus self employed plus the unemployed.  
**Significance:** Indicator of maximum potential output.  
**Presented as:** Total number.  
**Focus on:** Structure and changes.

## **Employment**

**Measures:** Total employment = employees in employment plus the self-employed.  
**Significance:** Indicator of current output potential.  
**Presented as:** Totals.  
**Focus on:** Structure and changes.

## **Unemployment**

**Measures:** Total = people out of work but ready and able to work. Rate = unemployment as a percentage of the labor force.  
**Significance:** Indicator of spare labor capacity (and wasted resources).  
**Presented as:** Total number, percentage.  
**Focus on:** Structure and changes.

## **Unit labor cost**

**Measures:** Labor costs per unit of output.  
**Significance:** Indicator of cost pressure and competitiveness.  
**Presented as:** Index form.  
**Focus on:** Percentage change over 12 months.

## **Wages, earnings and labor costs**

**Measures:** Labor costs and influences on consumer's incomes/  
**Significance:** Indicator of both cost and demand pressures.  
**Presented as:** Usually index form, some figures in cash terms.  
**Focus on:** Percentage change over 12 months.  
compensation per employee in the business sector rose by 4.3% a year during

## **Government revenues**

**Measures:** Government receipts mainly from taxes and duties.  
**Significance:** Affects aggregate demand; finances (partly) government spending.  
**Presented as:** Monthly and annual totals in current prices.  
**Focus on:** Total: trends.

## **National savings, Savings ratio**

**Measures:** Total savings in an economy.  
**Significance:** Major influence on investment and interest rates.  
**Presented as:** Totals; percentage of GDP.  
**Focus on:** Trends.

## **Fixed investment**

**Measures:** Spending on goods with a life of more than one year.  
**Significance:** Contribute directly to GDP, lays basis for future output.  
**Presented as:** Value, volume and index numbers.  
**Focus on:** Volume trends.

## **Investment**

**Measures:** Plans for capital spending, sometimes just in manufacturing.  
**Significance:** Investment adds to current and future GDP.  
**Presented as:** Value, volume totals or changes.  
**Focus on:** Trend: planned increases.

## **International investment position (IIP)**

**Measures:** Balance sheet levels of external assets and liabilities.  
**Significance:** Indicates cumulative cross-border activity.  
**Presented as:** Value at end-quarter or end-year.  
**Focus on:** Changes in totals and main components and holders.

## **Current-account balance**

**Measures:** Net current payments, the difference between national savings and investment.  
**Significance:** Identifies international payments which arithmetically must be matched by capital flows and changes in official reserves.  
**Presented as:** Money total.  
**Focus on:** Trends; size in relation to GDP.

## **Budget balance, deficit, surplus**

**Measures:** Net total of government spending less revenue in one month/year.  
**Significance:** Indicator of government's fiscal stance.  
**Presented as:** Monthly and annual totals in current prices.  
**Focus on:** Total; trends.

## **National debt; government or public debt**

**Measures:** Long run cumulative total of government spending less revenues.  
**Significance:** Inter-generational transfer, interest payments add to borrowing.  
**Presented as:** Annual totals in current prices.  
**Focus on:** Total, particularly as a percentage of GDP; trends.

## **Industrial and manufacturing production**

**Measures:** Value-added output of mines and manufacturing companies.  
**Significance:** Indicator of industrial activity.  
**Presented as:** Index numbers in volume terms.  
**Focus on:** Totals in volume trends.

## **Capacity use and utilization**

**Measures:** Extent to which plant and machinery is in use.  
**Significance:** Indicator of output and inflationary pressures.  
**Presented as:** Percentage of total capacity.  
**Focus on:** Absolute level and trends.

## **Stock (inventories)**

**Measures:** Stock held by producers and distributors.  
**Significance:** Indicator of demand pressures; potential sales.  
**Presented as:** Value, volume totals and changes.  
**Focus on:** Totals in relation to sales, changes.

## **Wholesale sales or turnover, orders and stocks**

**Measures:** Most common indicator measures sales by wholesalers.  
**Significance:** Indicator of demand.  
**Presented as:** Monthly index numbers.  
**Focus on:** Rates of change in volume of sales.  
**Yardstick:** More volatile than retail sales; look for changes of 3-4% a year.  
**Released:** Monthly, 1-2 months in arrears; revised.

## **Capital and financial accounts flows**

**Measures:** International capital flows.  
**Significance:** Major contributor to exchange-rate fluctuations. Outflows represent the acquisition of assets overseas.  
**Presented as:** Money totals.  
**Focus on:** Direct and portfolio investment.

## **Official reserves**

**Measures:** Gold and foreign currencies held by the government.  
**Significance:** Indicates a country's ultimate ability to pay for imports; signals pressures on the balance of payments.  
**Presented as:** Nominal value at end-month, often in dollars; watch for unrealistic value or revaluation of gold and currencies.  
**Focus on:** Totals and changes.

## **External debt, net foreign assets**

**Measures:** Net borrowing by the public and private sectors.  
**Significance:** Liability which can be repaid only from export earnings.  
**Presented as:** Money totals.  
**Focus on:** Total and debt services in relation to exports.

## **Nominal exchange rates**

**Measures:** Price of one currency in terms of another.  
**Significance:** Influences external trade, capital flows, and so on.  
**Presented as:** Units of one currency for one unit of another.  
**Focus on:** Trends.

## **Special drawing rights (SDR)**

**Measures:** The value of a basket of four major currencies  
**Significance:** Stable international currency and reserves asset.  
**Presented as:** Absolute value per unit of currency.  
**Focus on:** Market rate against any currency.

## **Effective exchange rates**

**Measures:** Average exchange rate against a basket of currencies.  
**Significance:** Shows overall exchange-rate movements.  
**Presented as:** Index numbers.  
**Focus on:** Trends.

## **Real exchange rates; competitiveness**

**Measures:** International competitiveness.  
**Significance:** Indicates of a country's ability to sell abroad and of net price (inflation and exchange rate ) pressures on the balance of payments.  
**Presented as:** Index numbers.  
**Focus on:** Trends.

## **Money supply, money stock, M0 ... M5, liquidity**

**Measures:** Notes, coins and various bank deposits.  
**Significance:** Indicator of level or transactions and, perhaps, inflation or output.  
**Presented as:** Money totals at a point in time, usually end-month; except averages of Wednesdays for Canada and daily averages for Japan and America.  
**Focus on:** Changes over time.

## **Bank lending, advances, credit, consumer credit**

**Measures:** Loans to persons, companies and the public sector.  
**Significance:** Indicator of monetary conditions.  
**Presented as:** Monthly totals.  
**Focus on:** Trends.

## **Central bank policy rates**

- Measures:** Interest rates at which central banks lend to banking systems.
- Significance:** Indicator of central banks' monetary policy; influences banks reserves, monetary growth and market interest rates.
- Presented as:** Annual percentage rate.
- Focus on:** Rate, trends.
- Yardstick:** See table 12.2.
- Released:** Changed daily, fixed weekly, or moved only at irregular intervals.

## **Interest rates; short term and money-market rates**

- Measures:** Interest charged on financial paper with maturity up to 12 months.
- Significance:** Indicator of monetary conditions, expenditure, creditworthiness.
- Presented as:** Annual percentage rates (see also discount rates above).
- Focus on:** 3-month interbank (or CD/treasury bill rate if no interbank rate).

## **Bond yields**

- Measures:** Interest return on fixed-interest securities.
- Significance:** Indicator of interest and inflation expectations, creditworthiness.
- Presented as:** Annual percentage rates.
- Focus on:** Long-dated government bonds.

## **Yield curves, gaps and ratios**

- Measures:** Difference between interest yields on different instruments.
- Significance:** Indicator of interest and inflation expectations.
- Presented as:** Annual percentage rates.
- Focus on:** Long-dated government bonds and other interest rates.

## **Real interest rates and yields**

- Measures:** Any interest rate or yield less the rate of inflation.
- Significance:** Determinant of investment behavior.
- Presented as:** Per cent per year.
- Focus on:** 3-month money, long-dated government bonds.

## **GDP deflator**

- Measures:** Overall national price changes.
- Significance:** Broadest indicator of inflation.
- Presented as:** Quarterly and annually index numbers.
- Focus on:** Percentage changes.

## **Share prices and yield**

- Measures:** Prices of company share capital.
- Significance:** Reflect economic expectations; useful as a leading indicator.
- Presented as:** Individual prices in money and indices of average prices.
- Focus on:** Broad market indices.

## **Gold price**

**Measures:** Market price of gold.  
**Significance:** Raw material and psychologically important store of wealth.  
**Presented as:** \$ per oz.  
**Focus on:** Trends.

## **Oil prices**

**Measures:** Market price of crude petroleum.  
**Significance:** Major energy source essential to every economy; also a chemical feedstock.  
**Presented as:** \$ per barrel.  
**Focus on:** Traded crude such as North Sea Brent or West Texas Intermediate.  
**Yardstick:** In 1990 the oil prices was around \$20 a barrel. In 1999 it dipped to around \$10 a

## **Commodity price indices**

**Measures:** Changes in groups of commodity prices.  
**Significance:** Advance warning of inflationary pressures.  
**Presented as:** Index numbers.  
**Focus on:** Trends.

## **Surveys of price expectations**

**Measures:** Manufacturer's perception of inflationary pressures.  
**Significance:** Excellent anecdotal warning of potential price changes.  
**Presented as:** Percentage balances (for e.g. percentage of those expecting to raise prices).  
**Focus on:** Trend in expectations.

## **Term of trade**

**Measures:** The ratio of export prices to import prices.  
**Significance:** Measures the volume of imports that can be bought with one unit of exports.  
**Presented as:** Index numbers.  
**Focus on:** Changes in the index.

## **Imports of goods and services**

**Measures:** Purchase from abroad.  
**Significance:** Imports add to well-being but may displace domestic production and drain financial resources.  
**Presented as:** Value and volume figures in money and index form.  
**Focus on:** Growth; total in relation to exports (see trade balance) and as a percentage of GDP.

## **Exports of goods and services**

**Measures:** Sales in other countries.  
**Significance:** Exports generate foreign currency and economic growth.  
**Presented as:** Value and volume figures in money and index numbers.  
**Focus on:** Growth; total in relation to imports (see trade balance) and as a percentage of GDP.

## **Trade balance, merchandise trade balance**

**Measures:** The net balance between exports and imports of goods.  
**Significance:** Shows a country's fundamental trading position.  
**Presented as:** Money values.  
**Focus on:** Total balance; balance in relation to the current account

## **Export and import prices; unit values**

**Measures:** Prices of traded goods.  
**Significance:** Helps identify cost pressures, potential exchange-rate problems and changes in competitiveness.  
**Presented as:** Index numbers.  
**Focus on:** Changes in unit values (see text)

## **Cyclical or leading indicators**

**Measures:** The economic cycle.  
**Significance:** Useful tool for short term predictions of economic activity.  
**Presented as:** Index numbers.  
**Focus on:** Trends.

## **OBJECTIVE**

The objective to present this analysis is to lead innovation, build interdisciplinary and international network and focus research on important public issues. KASBIT believe that justice, prosperity and democracy all require better understanding of complex social, cultural, economic and political processes based on empirical study. KASBIT would liaise with academic researchers, policy makers and related professionals and partner globally. KASBIT would be mobilizing knowledge to address complex problems and establish creditable research links. KASBIT would also be strengthening individual and Institutional capacities for learning and enhance research. This analysis is for public action.

## **GOALS**

- Advance the research initiatives at KASBIT by developing quality education and additional human and physical capital for corporate research.
- Enhance research capacity at KASBIT by studying and monitoring socio-economic changes in Pakistan and place its indicators in regional and international perspective.
- Collaborate with local, regional and international researchers and institutions for the advancement of research.
- Keep inform policy and decision makers about the prospects of sustainable development in Pakistan by producing sound empirical evidences.
- Establish KASBIT Knowledge Management Portal.

