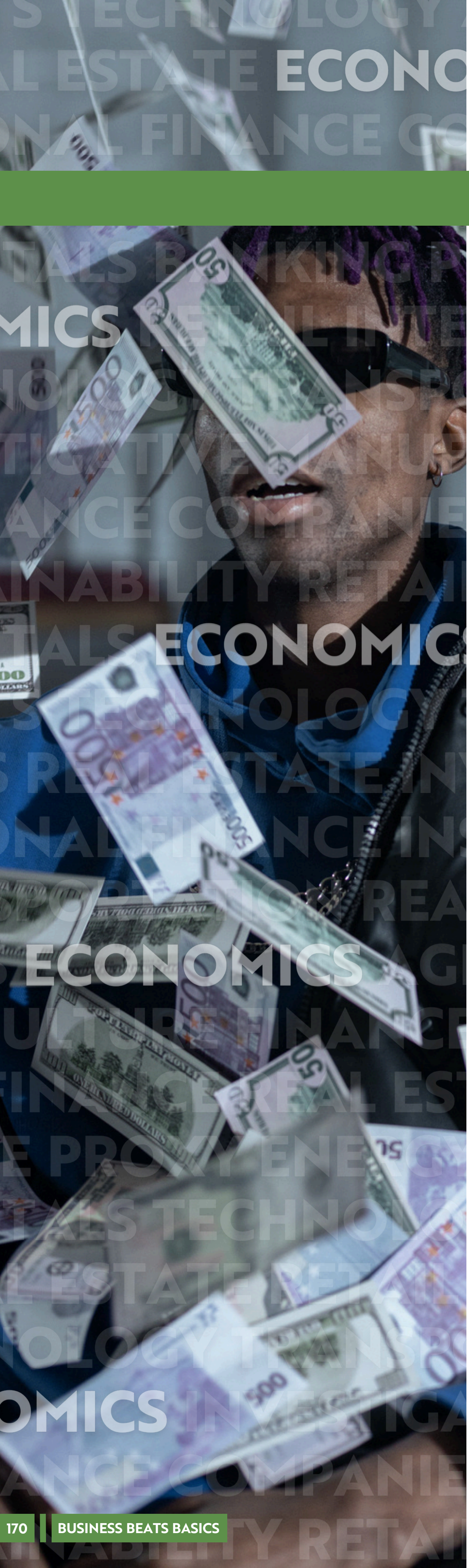
CHAPTER 16
ECONOMICS

BUSINESS BEATS BASICS



ECONOMICS

INTRODUCTION

You can think of an economy as the sum of all the economic decisions made every day by households and businesses: what goods and services to buy (and which not to buy) and what goods and services to produce (and how much). And the key measurement of the size of an economy, gross domestic product (GDP), measures just that: it's the total value of all goods and services produced within a country's borders in a given period of time (typically a three-month period).

But there are many other measurements of economic performance that can help make sense of what's going on in an economy: what's happening with prices, employment, retail sales, industrial production, home sales, and so on.

Making sense of all these indicators, how they change, and what they mean for the general public are some of the most challenging tasks for a business journalist.

Furthermore, since we rely on our government to manage the economy for us, ensuring (hopefully) steady economic growth, low unemployment, and stable prices, economic indicators give citizens a report card on their elected officials.

Economic indicators can also be a treasure trove of story ideas, since the headline number is only the start. Most indicators contain detailed breakdowns by geography and other criteria. Comparing indicators can also spark ideas for feature stories.

This chapter is for the novice business journalist working at a local media outlet. Your editor may be expecting you to know something about economic data and to report interesting stories that give a local flavor to the big economics stories. This chapter tells you how to do that. No prior knowledge of economics is assumed.

Reporters who don't have formal economics training can still do a great job covering the economics beat. By avoiding the dense technicalities of advanced economics and statistics, they can report and interpret the data for a lay audience.

WHERE TO BEGIN

The story of a country's economy is told by the economic indicators that statisticians collect and publish. There are a host of economic indicators produced by federal and state governments and by other agencies. The focus of this chapter will be on understanding the main economic indicators and finding stories from the numbers.

Though this should be obvious as a reporter, don't rely solely on media releases and headline economic data to get your information. Monitor the statistical and governmental websites available to find and read accompanying reports, briefing papers, and announcements. These can be gold mines of additional information and insight. Many of these resources are listed toward the end of this chapter in the "resources" section.

You should also cultivate relationships with the statisticians themselves. They are often happy to chat about the data, going into more detail about the figures. What stories do they think the data are telling? How good are the data? Should the government be collecting other data? This may need to be off the record, but it's still valuable background information that can guide your own thinking and point you in the right direction.

Developing your technical expertise on a business beat is helpful, but can be exceptionally helpful if you're covering economics. In doing so, you won't be driven solely by the media releases and what the experts have to say. If you keep track of your local numbers as they are released and play around with the figures, you will be able to compare the most recent data with those of last year or over the past five years. This allows you to look for trends and see what you can find before speaking to the experts. That way, you can avoid producing simple, repetitive stories where you report the data plus a little expert comment. Some classes/workshops in using Excel spreadsheets or statistical packages can go a long way in your reporting and will make your job easier – and likely more enjoyable.

MAKE IT LOCAL

Often, stories about national economic indicators will be prepared by wire services or top journalists on the big dailies or networks. So, as a local reporter, how can you use the data?

Well, for one thing, the national data often includes regional data. That means you could, for instance, obtain the wage data for your city and use this as the basis for a news or feature story. Are salaries increasing in your region? Is there a shortage of workers? Which employers have jobs to offer?

A lot of the national data is also prepared by state governments at the state level. For example, the Consumer Price Index (CPI) data is available by state as are inflation rates. One story you can write is how your state inflation rate compares to those in other states and why differences may exist.

The Federal Reserve Board – which governs the central bank of the United States, commonly referred to as the "Fed" – regularly publishes an excellent book reviewing economic conditions across the country known as the "Beige Book," aptly called for the color of its cover (though now available online in PDF form). The book provides an up-to-date qualitative account of what's happening in each of the Fed's 12 districts. You can use it as a springboard to talk to local business associations, lenders, and so on, while also commenting on market conditions. How do the conditions in your local market compare to those in other districts?

When new data is published, whether national or local, it is good practice to seek comment from local experts and interest groups on their reaction to the numbers. These people can include economists, consumer groups, business leaders, politicians, unions, etc. Make sure to spread your net widely. When the cost of living rises and hits the news, talk to different classes of consumers to find out how they're affected by these changes. What specific goods have gone up in price? How are people coping?

You also have the option of writing preview stories in anticipation of the release of new data. You can seek comment from local experts on their expectations for the CPI, Gross Domestic Product (GDP), or any other report coming out. Do they expect the figures to increase/decrease? Why? How accurate have their predictions been in the past?

You can also run matcher stories. That's when you take a story about national data and find the local angle. For instance, if national

consumer confidence figures are released, you could contact local businesses. How is demand for their products holding up? You could also do person-on-the-street interviews. For example, what do shoppers at local malls feel about their financial situation?

Likewise, with interest-rate data, you could speak to local lenders and borrowers. Who is borrowing? Why? Are lenders changing their marketing strategies or bringing out new financial products in light of changing market conditions?

When writing about employment figures, a good local angle would be to check the job ads in town. Which businesses are hiring? Which aren't? What businesses are shutting their doors? State employment offices can also be a good source for this information or people to talk to.

Though it may not seem obvious at first, data on international trade can have strong local angles. You can ask if local businesses are finding overseas markets for their products or if they are losing out on sales to imported goods.

Deeper insights into the data will always lead to stronger local stories. For example, an economic research house issues a media release on a national trend among older people to stay in part-time work, rather than retire. You could contact some local businesses and/or older persons' associations to find some local examples.

BOOKS TO READ

SuperFreakonomics: Global Cooling, Patriotic Prostitutes, and Why Suicide Bombers Should Buy Life Insurance
by Steven Levitt and Stephen Dubner
(2009)

Show Me the Money: Writing Business and Economics Stories for Mass Communication
by Chris Roush
(2010)

The New York Times Reader: Business and Economics
by Mark Tatge
(2011)

CHALLENGES AND PITFALLS

Personal finance reporting covers such a broad range of subjects that the challenges are many and varied. Economics reporters can trip themselves up if they make elementary errors, undermining their credibility in the eyes of both their sources and their audience. Here are some of the common errors to avoid.

FAILING TO GIVE TIME PERIODS

Make clear the time period(s) you are discussing. You cannot simply report that imports have increased 10 percent. Has the increase been over the past year? The past five years? You need to report all the relevant facts, such as: "From January to March 2024, imports, measured in nominal values, increased 10 percent."

SAYING INFLATION IS MEASURED BY THE CPI

It isn't. Inflation is measured by percentage changes in the Consumer Price Index (CPI) over a specific period. Similarly, economic growth is not measured by GDP – it is measured by changes in real GDP over a specified time period.

NOT SPECIFYING IF FIGURES ARE NOMINAL OR REAL

"Nominal" means the figures are expressed without adjustment for inflation. "Real" means the figures have been adjusted for inflation. Let's say you are covering the latest release of real Gross Domestic Product (GDP) data, which shows that real GDP rose 0.1 percent over the quarter. Your report needs to make it clear that you are talking about real GDP; if you just refer to GDP, readers will not know whether the economy actually has grown or whether the rise was due to rising prices.

CONFUSING THE FOLLOWING:

DEFICIT WITH DEBT

The deficit is when the government is spending more than it receives in revenue, over a particular time period (such as a year). That is different from government debt, which is how much the government owes. When the government runs a deficit, this adds to its debt as the government must borrow money to meet the shortfall. To reduce debt, the government must start generating money it can use to pay off debt, referred to as "running a surplus."

PUBLIC AND PRIVATE DEBT

Governments run up debt, but so does the private sector when companies and individuals borrow money. Just because the nation's total debt is rising, don't assume it is the government's fault (commonly referred to as 'the national debt') – it could be that the private sector is borrowing more. Start by understanding what constitutes public debt and what constitutes private debt.

PERCENT, PERCENTAGE POINT, AND BASIS POINT

A percentage point is the unit of measurement for the arithmetic difference between percentages. For example, an increase from 50 percent to 60 percent is an increase of 10 percentage points. But it is also an increase of 20 percent [(60-50)/50=20%]. Basis points are used to measure more granular changes: one basis point is one one-hundredth of a percentage point.

TERMS TO KNOW

For more definitions of economic and financial terms, try "The Financial Writer's Stylebook" by Chris Roush and Bill Cloud or Investopedia.org. While Investopedia might look like a crowd-sourced wiki, it's written by professional journalists and is supported by ad revenue.

Balance of payments

A financial statement of a country's economic transactions with the rest of the world, recording income and the amount of money spent.

Basis point

1/100th of 1 percent. Often used to describe changes in interest rates. For example, if an existing interest rate of 10 percent is increased by 1 basis point, the new interest rate would be 10.01 percent.

Consumer Price Index (CPI)

An important economic indicator calculated by the Bureau of Labor Statistics. This is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Formula:

$$CPI_t = \frac{C_t}{C_0} \times 100$$

CPI_t = consumer price index in current period
C_t = cost of market basket in current period
C_0 = cost of market basket in base period

Exchange rate

The ratio between two different currencies.

Federal funds rate

The interest rate banks and similar organizations charge each other for overnight loans. The Federal Reserve will buy and sell securities to ensure the actual Federal Funds Rate is in line with its target Federal Funds Rate.

Fiscal policy

The government's use of its taxation and spending activities to influence the economy. Lawmakers and the executive branch are responsible for this in the U.S.

Gross Domestic Product (GDP)

The total value of final goods and services produced within a country's borders during a certain period.

Index

A number showing the size of some variable relative to a given starting point, or base.

Monetary policy

The government's use of interest rates or availability of credit to influence the economy. The Federal Reserve is responsible for this in the U.S.

Nominal

A value measured without adjusting for inflation.

Quantitative easing

The Federal Reserve prints money and uses the money to purchase longer-term government bonds held by the banking sector, to increase the money supply. Typically, the Fed will do this only when interest rates are very low and therefore the usual technique of reducing interest rates to impact the economy would be ineffective.

Real

A value adjusted for inflation (also known as measuring in constant dollars).

Reserves

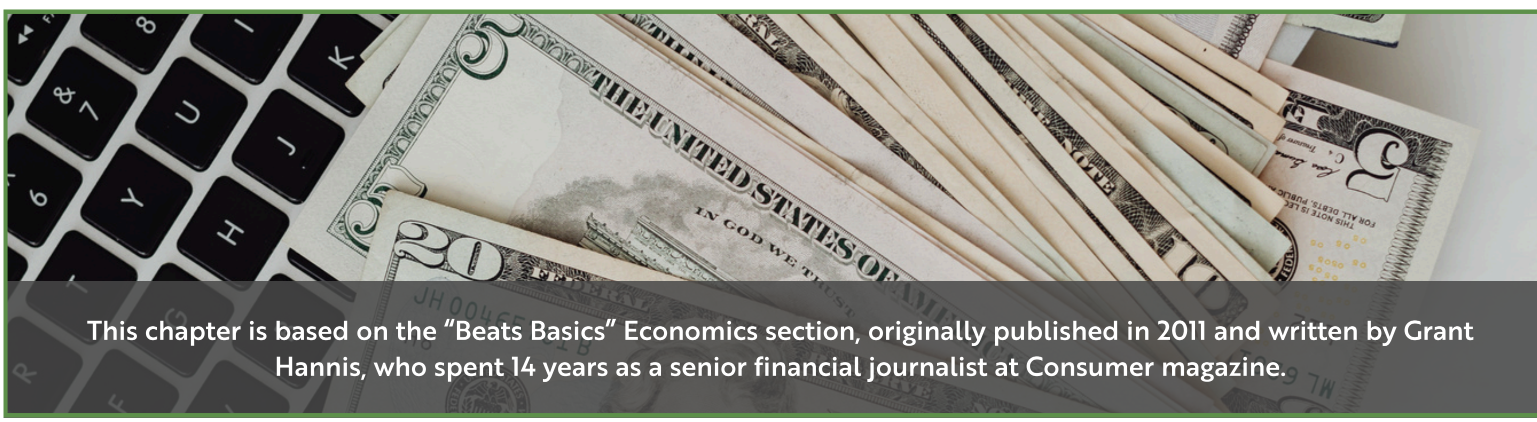
Money the banks hold as cash in their vaults or as deposits with the Fed.

Seasonal adjustment

Adjusting economic data to remove regular seasonal factors (such as harvests or holiday shopping), to reveal the underlying behavior of the data.

Unemployment rate

The number of unemployed as a percentage of the labor force (the sum of the employed and unemployed). Unemployed means a worker who does not have a job but is actively looking for one and therefore does not include groups of people such as students or retirees.



This chapter is based on the "Beats Basics" Economics section, originally published in 2011 and written by Grant Hannis, who spent 14 years as a senior financial journalist at Consumer magazine.