Users and uses of short-term economic indicators

Short-term economic indicators provide a snapshot of current economic activity over a recent period. Most of these are in the form of indices that estimate changes to the output level of an industry based on surveys of businesses in that industry. The level of the index represents the output estimated to have occurred in a given time period based on survey responses. These indices provide an important indicator of how the UK economy is performing, and as such are used in many ways by various individuals and organisations.

Examples of short-term economic indicators include the Index of Production (IoP), Output in the Construction Industry, the Index of Services (IoS), and the Retail Sales Index — all of which measure output in one industry, or a grouping of industries in the case of the IoP and IoS. ONS produce these outputs on a monthly basis. These short term indicators all contribute to the output approach to measuring GDP.

A survey of users of short-term indicators has demonstrated a variety of uses of these data. A frequent use is as the basis of forecasting future trends – for instance, using the monthly Retail Sales Index data as the basis of forecasting quarterly consumer spending or GDP growth, or using the Preliminary Estimate of GDP to inform long-range GDP forecasts. In particular, construction data are regularly cited as a barometer of future demand to inform business decisions, including within sub-sectors of the industry; these data are also used by university staff for teaching and training purposes.

Short-term economic data are also used within central government, initially through briefing of ministers and senior staff of developments, then utilising the data as a basis of economic policy planning. For instance, new orders data are used to anticipate likely future demand for skills in the construction industry, in both volume and type, and hence to inform policy decisions on training in the industry. The data are also used for retrospective comparison with other data, such as those relating to employment.

Furthermore, the Bank of England’s Monetary Policy Committee (MPC), which set interest rates in the UK, are continually briefed on economic data prior to their monthly meetings; Bank of England staff continually brief the MPC as data are released. Although the MPC is briefed to control inflation, short-term indicators of output are still used to gauge whether the economy has sufficient spare capacity to allow for non-inflationary growth.