

When the federal government releases its annual budget it provides an economic outlook that includes forecasts and key indicators of the state of the economy. But we should be critical of some of these numbers. Many either don't tell the entire story or provide more of an indication of where we have been rather than where we are heading.

The unemployment rate is a [key figure in the federal budget](#) , but it doesn't capture the full extent of slack in the labour force. The rate of growth of Gross domestic product (GDP) is [another important figure](#) , but it also doesn't really say much about the state of the economy.

Here are some things behind these broad indicators that you would need to get a fuller picture of the economy.

The labour force

According to the Australian Bureau of Statistics, the unemployment rate is currently [5.9%](#) . This [means](#) that 5.9% of people in the labour force did not work for more than one hour in the week the survey was conducted.

The labour force consists of those older than 15 who actively looked for work in the four weeks prior to the survey, were available to work during the survey week, or were waiting to start a new job and could have worked sooner if the job had been available.

The last budget [forecast](#) that the unemployment rate would remain steady over the next four years.

There is a problem with this very tight definition of unemployment. It excludes part-time workers who would like more hours of work. This group are called [underemployed](#) workers. The underemployment rate is currently [8.8%](#)

of the labour force. Underemployment isn't an indicator highlighted in the budget documents.

Altogether, 14.7% (the 5.9% unemployed plus the 8.8% underemployed) of the labour force is underutilised. This is arguably a more accurate picture of the labour market than the unemployment rate.

What makes this distinction even more important is that the trends are diverging. Since 2014 the underemployment rate has been trending up while the unemployment rate has been trending down. This difference is in part explained by the [rise in the share of part-time workers](#) working fewer hours than they would have liked, which pushes unemployment down but underemployment up.

On top of this, the unemployment rate tells us where the economy has been more accurately than where it is going – it is a lagging indicator. In Australia, changes in employment growth lag changes in output of goods and services [by six to nine months](#) .

So by itself at least, the unemployment rate also doesn't tell us much about the state of the labour market or where it is heading.

Economic growth

Australia is [currently growing at 2%](#) per annum and this is forecast to increase to 3% by the end of this year.

But as with the unemployment rate, there are [shortcoming in GDP growth as a measure of economic progress](#) and the importance of growth to our national living standards is overplayed. The prices of our commodity exports have a bigger impact on fluctuations in our living standards than growth in GDP.

The prices of our commodity exports [doubled](#) during the mining boom from early 2000's to 2010, driving up the nation's income, boosting the stock market and government's revenue. Commodity prices have since [fallen](#)

[substantially](#)

These fluctuations swamp any effect of changes in growth on our living standards – and the fluctuations are entirely out of our hands.

We need to look behind the growth number at the drivers of GDP to get a better picture of the state of the economy, as well as where it is headed.

Consumption activity is one such driver and has a range of indicators. One of them is retail turnover, which [has recently been flat](#) in real terms (adjusted for inflation). Retail turnover is another measure not found in the budget documents, but shows revenue from a survey of large and small businesses and gives an idea of the demand in the economy.

Another good indicator is sales of new motor vehicles, [which have also been flat](#) recently.

[Consumer confidence](#) is also a good indicator of consumption. This attempts to measure optimism (or pessimism) about the state of the economy. Depending on which indicator you consult, consumer confidence has either [declined](#) or [increased](#) slightly over the past few months.

As consumer confidence relates to consumption, business confidence is a good leading indicator of investment in the economy. This is often [driven by](#) expectations about future profitability, which is in turn driven by expectations of demand by households, firms and foreign buyers.

There are a few business confidence indicators to choose from, and they have been [steady](#) in recent months, indicating that investment will be flat in the coming three to six months.

Finally, export expenditure is driven by both growth in our major trading partners and Australia's competitiveness, the latter being determined by our costs of production and the Australian dollar. Growth of our trading partners has [picked up](#) in recent months, particularly in China, and is around 4% on average.

Budget explainer: if you want to know about the economy, look past the budget forecasts

Written by The Conversation

Flat investment and government expenditure means that the predicted 3% GDP growth would have to come from consumption and export expenditure. Consumption currently is flat and exports tend to be volatile and uncertain. So take this number with a grain of salt.

In the end, if you are looking for a picture of the economy, the data in the federal budget is not much help. The data behind the forecasts of broad macroeconomic variables such as economic growth and unemployment are too aggregated to be of much use as indicators of future interest rates, household living standards or prospects for employment and growth in particular industry sectors.

When the budget is released, place the forecasts in the context of the other indicators we have about the economy.

Ross Guest has previously received funding from the ARC but has no current ARC projects.

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