

Rules 7 and 8

The real average hourly earnings series . . . possesses neither the drama of unemployment nor the speculative mystery of the Fed's interest-rate decisions. . . . However . . . it is perhaps the most effective leading indicator of unit consumer spending, which represents more than two-thirds of all economic activity and drives much of the rest of the economy.

—Joseph Ellis, discussing his favorite leading indicator

ONE OF THE ECONOMY'S fundamental features is the circular relation between income and spending. We need to earn an income to fund spending, or at least the prospect of earnings should be apparent to lenders. If no one is spending, though, it's impossible to earn. Income and spending clearly rely on each other. Nonetheless, we should consider which is likely to lead and which is likely to follow. This is the economics version of the chicken and the egg—which comes first, income or spending?

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