intrade

The Intrade Growth, Unemployment and S&P 500 Depression Index

Intrade
Unit A1, Hume House
Hume Centre, Hume Avenue
Park West Industrial Park
Dublin 12, IRELAND

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1. INTRODUCTION

The Intrade Growth, Unemployment and S&P Depression Index (GUSD Index) is designed to measure the general condition of the United States' economy, and allow comparison between quarters to determine if conditions are improving or worsening.

The lower the value of the Index, the worse the economy is performing. An increase in the value of the Index between quarters indicates an improvement in conditions, while a decrease in value indicates things have gotten worse.

There are three components that comprise the Index:

1. The percentage change in Gross Domestic Product (GDP) between quarters
2. The change in the unemployment rate between quarters
3. The percentage change in the S&P 500 stock Index between quarters

Full details on each component and how they are calculated are provided below in Section 2.

The Index will be calculated and published on a quarterly basis; on the day the information required for the GDP component is made available.

The value of the Index for quarter four (Q4) of 2008 is -7.06. Full details on how this was calculated can be found in Section 3.

Intrade would like to extend special thanks to Don Luskin for his input and advice on the development of this Index.

2. CALCULATION OF THE INDEX COMPONENTS

2.1 Gross Domestic Product:

The Gross Domestic Product (GDP) component of the Index is the *advance estimate of the quarter's percentage change in real GDP, at a seasonally adjusted annual rate.*

This information is released by the Bureau of Economic Analysis (BEA) as per the release schedule published on the BEA website.

Any revisions made to the advance GDP estimate will not result in a recalculation of the Index. The preliminary and final estimates will not be considered.

2.2 Unemployment:

We measure the increase or decrease in the unemployment rate from one quarter to another. This is calculated using the following formula:

$$\left(\text{unemployment}_2 \quad \textit{minus} \quad \text{unemployment}_1 \right)$$

Unemployment(2):	The unemployment rate for last month of the quarter previous to the quarter referenced in the GDP component of the Index.
Unemployment(1):	The unemployment rate for last month of the quarter referenced in the GDP component of the Index.
Data source:	The monthly unemployment rates published by the US Department of Labor.

2.3 S&P 500:

We measure the percentage change in the value of the S&P 500 stock index from one quarter to another. This is calculated using the following formula (rounded to two decimal places):

$$\frac{\left(\left(\frac{S\&P\ 500_1}{S\&P\ 500_2}\right) - 1\right) \times 100}{10}$$

S&P 500(1): The S&P 500 close on the final trading day of the quarter previous to the quarter referenced in the GDP component of the Index.

S&P 500(2): The S&P 500 close on the final trading day of the quarter referenced in the GDP component of the Index

Data source: The daily S&P 500 closing values, as published on the Standard and Poor's website.

Note: Due to the volatility of the S&P 500 in relation to GDP and unemployment we will divide the percentage change between quarters by a factor of 10. This is reflected in the formula above.

2.4 Final Calculation of the Index:

The products from the calculation of the above three components are added together to calculate the final value of the Index:

GDP component
+ Unemployment component
+ S&P 500 component
= FINAL INDEX VALUE

The lower the value of the Index, the worse the economy is performing. An increase in the value of the Index between quarters indicates an improvement in conditions, while a decrease in value indicates things have gotten worse.

3. EXAMPLE: CALCULATION OF INDEX FOR Q4 2008

3.1 Gross Domestic Product:

The advance estimate of the quarter's percentage change in real GDP, at a seasonally adjusted annual rate, for Q4 of 2008 was -3.8%.

This figure was published by the BEA at 8:30am ET on 30th January 2009 and is available in the advance estimate news release of the Bureau of Economic Analysis, Table 1.

3.2 Unemployment:

- The unemployment rate for September 2008 (the last month of Q3) was 6.2%
- The unemployment rate for December 2008 (the last month of Q4) was 7.2%
  (These figures are available on the US Department of Labor website)

Calculation is as follows:

$$\left(6.2 \quad \textit{minus} \quad 7.2 \right)$$

equals: -1.00

3.3 S&P 500:

- The S&P 500 closed at 903.25 on 31st December 2008 (the last trading day of Q4)
- The S&P 500 closed at 1,166.36 on 30th September 2008 (the last trading day of Q3)

Calculation is as follows:

$$\frac{\left(\left(\frac{903.25}{1,166.36} \right) -1 \right) \times 100}{10}$$

equals: -2.26

(These figures are available at Standard and Poor's website)

3.4 Final Calculation of the Index:

The products of the component calculations are added together to calculate the Index for Q4 2008:

INDEX: Q4 2008	
Gross Domestic Product	-3.80
Unemployment	-1.00
S&P 500	-2.26
INDEX VALUE	**-7.06**

The lower the value of the Index, the worse the economy is performing. An increase in the value of the Index between quarters indicates an improvement in conditions, while a decrease in value indicates things have gotten worse.

4. CALCULATION OF INDEX IN 2009

The table below details when the Index will be published for the first three quarter of 2009, plus information on the data that will be used to calculate the individual components of the Index.

Please refer to the explanations in Section 2 on how each component will be calculated for descriptions of the data sources used.

INDEX CALCULATION DATES: 2009

Quarter	Index Publication	GDP*	Unemployment (1)	Unemployment (2)	S&P 500(1)	S&P 500(2)
Q1 2009	April 29th 2009	April 29th 2009	Unemployment rate for March 2009	Unemployment rate for Dec 2008	Closing value on 31st Dec 2008	Closing value on 31st March 2009
Q2 2009	July 31st 2009	July 31st 2009	Unemployment rate for June 2009	Unemployment rate for March 2009	Closing value on 31st March 2009	Closing value on 30th June 2009
Q3 2009	Oct 29th 2009	Oct 29th 2009	Unemployment rate for Sept 2009	Unemployment rate for June 2009	Closing value on 30th June 2009	Closing value on 30th Sept 2009

* This is the scheduled date the advance estimate of the quarter's percentage change in real GDP, at a seasonally adjusted annual rate, will be published by the BEA

Because the Index and the Index components are calculated using external data sources, any delay in the public release of data will result in a delay in the Index being calculated and published.