

Abstract

There is a consensus in the literature, that the stock market can predict the Gross domestic product on quarterly base or the industrial production, which is good proxy for GDP, on monthly basis and that the causal relationship between stock market and GDP should work both ways. However, using Vector autoregression model on US data since 1950, model shows that the stock market can not only predict the Industrial production on monthly basis, but also ISM non-manufacturing index, which is a good proxy for services in the economy. Furthermore I have managed to prove, that the unemployment can be predicted by past realizations of the stock market and managed to explain almost one third of all variations in change in unemployment using S&P500 and oil prices during last 20 years. The Granger causality test concluded that stock market does cause the unemployment but not vice versa, at least during last 20 years.