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# U.S. Economy

## Lilith Academy Workbook

### **Introduction to the U.S. Economy**

This Lilith Academy workbook is designed to provide you with an overview of the sectors that form the United States' economy. With topics such as the expanding information technology sector and inconsistency of the consumer discretionary sector, each section will improve your understanding of why our nation's market endures a constant fluctuation of success.

### **The Eleven Economic Sectors**

Eleven sectors are used to differentiate between the various types of companies within the U.S. economy. Each of these sectors work hand-in-hand to provide goods and services to consumers. The success of the sectors depends on the status of the general economy as well as trends in consumer spending.

Here are the eleven economic sectors:

**1 – Information Technology (IT):** The IT sector comprises companies that produce software, hardware, and digital services.

The IT sector has experienced rapid growth over the past few decades due to the digital revolution and the invention of the internet. Currently, companies that focus on

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cloud computing, cybersecurity, artificial intelligence (AI), and machine learning are driving growth in this sector.

With corporation giants such as Microsoft, Apple, and Google, the digital services produced by this sector have permeated nearly every aspect of Americans' lives. People encounter the IT sector while online shopping, social networking, remote working, and communicating via telehealth. The sector has also developed new career opportunities, making IT literacy an increasingly valuable skill.

**2 – Communication Services:** The communication services sector includes companies that provide diversified telecommunications services, media, and entertainment.

Major companies in this sector include AT&T, Verizon, Netflix, and Disney. The communication services sector is characterized by rapid innovation and disruption, with new communication technologies (such as 5G) and new business models (like live-streaming services) emerging on a regular basis. Companies in this industry must keep up with the current IT and communication trends in order to be a top competitor.

**3 – Consumer Discretionary:** Businesses in the consumer discretionary sector focus on producing non-essential goods and services such as automobiles, apparel, and entertainment.

Businesses in the consumer discretionary sector tend to be more sensitive to economic cycles. When consumer confidence is high and disposable income is plentiful, these companies thrive. When consumers are forced by drops in the economy to only pay for the bare minimum essentials, businesses in this sector struggle to entice consumers to purchase non-essentials. Companies in the consumer discretionary sector include retailers like Amazon and Home Depot, restaurant chains like McDonald's and KFC, and entertainment companies like Disney.

**4 – Consumer Staples:** The consumer staples sector provides people with their essential goods and services, which people will buy regardless of economic conditions.

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This sector includes companies that produce food, beverages, household and personal products, and tobacco. Procter & Gamble, Coca-Cola, and Walmart are examples of these essential businesses. The consumer staples sector tends to be less sensitive to economic cycles than the consumer discretionary sector because the demand for these products remains relatively constant regardless of the state of the economy.

**5 – Industrial:** The industrial sector encompasses companies that manufacture and/or ship goods for other companies.

Companies within the industrial sector are involved in aerospace and defense, construction and engineering, industrial conglomerates, machinery, and transportation. This sector is deeply intertwined with the state of the U.S. economy. When the economy grows, the demand for industrial businesses tends to increase as companies invest in new infrastructure and equipment.

**6 – Materials:** The companies within the materials sector are responsible for manufacturing chemicals, construction materials, glass, paper, and other materials that are supplied for the production of other goods.

The materials sector is closely related to global economic trends, because these companies supply materials for construction, manufacturing, and other industries. Companies such as DuPont, Dow, and International Paper are part of this sector.

**7 – Energy:** The energy sector is involved in the exploration, extraction, refining, and marketing of oil and gas for energy-related services. The sector also includes companies that produce and distribute renewable energy.

Companies such as ExxonMobil, Chevron, and NextEra Energy are a part of this sector. The energy sector plays a crucial role in powering homes, transportation, and industries. Energy companies are currently experiencing a significant push to transition to clean energy due to the global problem of climate change. While this transition can open up opportunities for a better future, happier consumers, and new job positions, it also poses

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a threat to the company's current employees and wealth if the company lacks the necessary flexibility to change.

**8 – Utilities:** The utilities sector comprises companies that provide electricity, natural gas, water, and other utility services.

This sector is heavily regulated and tends to offer stable returns. People and businesses constantly need utility services, so the companies within this sector are often successful regardless of the status of the economy. However, these companies are also subject to policy changes and technological advancements such as consumers shift towards wanting renewable energy and smart grid technology. These changes can prove disastrous for utility companies that do not have easily adaptable business structures.

**9 – Financials:** The financial sector consists of companies that provide financial services to businesses and individuals.

Banks, insurance agencies, real estate firms, brokerages, and asset managers are some examples of companies in the financial sector. This sector plays a pivotal role in facilitating economic activity, such as enabling businesses to invest and individuals to purchase mortgages. Interest rate fluctuations, new banking regulations, and other changes in the financial sector can affect the entire economy. For instance, the 2008 financial crisis in the U.S. began with the subprime mortgage meltdown, and the crisis subsequently spread to the global economy.

**10 – Health Care:** The companies within the health care sector focus on the production of medicinal goods and health care services.

Pharmaceutical companies, biotech firms, hospitals, and nursing homes are some of the leading types of companies in the health care sector. Together, their work serves as a significant part of the U.S. economy. The health care sector represents approximately 18% of the nation's gross domestic product (GDP) as of 2021. In addition to boosting the economy, developments in this essential sector – such as advancements in medical

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technology, new drugs, and health care policies – can have profound impacts on individuals' lives and society at large.

**11 – Real Estate:** The real estate sector includes companies that handle real estate development, property management, and real estate investment trusts (REITs).

The real estate sector's performance can be an indicator of the U.S.'s economic health. Increases in construction activity, for example, often precedes broader economic growth. Real estate also offers opportunities for individual investment through direct property ownership or REITs.

## **Summary**

Consumers in the U.S. depend on these eleven economic sectors to provide them with both necessary and unnecessary yet desired goods and services. Two businesses in two different sectors will not fare the same during economic boosts and declines. The success of each sector also depends upon the current trends for consumer spending. For example, new technological advances may encourage a boost in the consumer's interest in technological goods, yet during a recession, consumers will invest more in the consumer staples sector than in the information technology sector.

People who invest in the market will review the current success of each sector to predict the future success or failure of each sector. By determining which sector is on the rise, investors can determine which stock will provide them with the most return.

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## **U.S. Economy Quiz**

### **Multiple Choice**

1. Which of the following sectors includes companies like Microsoft, Apple, and Google?
  - a. Health Care
  - b. Information Technology (IT)
  - c. Financials
  - d. Consumer Discretionary
2. What percentage of the nation's gross domestic product (GDP) is represented by the health care sector as of 2021?
  - a. 10%
  - b. 18%
  - c. 25%
  - d. 30%
3. The 2008 financial crisis began in which sector?
  - a. Industrial
  - b. Energy
  - c. Financial
  - d. Real Estate
4. Which sector is characterized by rapid innovation and includes companies like AT&T and Netflix?
  - a. Communication Services
  - b. Consumer Staples
  - c. Utilities
  - d. Materials

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5. The industrial sector is deeply interconnected with what?
  - a. The state of the overall economy
  - b. The production of renewable energy
  - c. The exploration of oil and gas
  - d. The development of real estate
  
6. Which sector includes companies that produce food, beverages, and tobacco?
  - a. Consumer Discretionary
  - b. Consumer Staples
  - c. Health Care
  - d. Utilities
  
7. What is a significant characteristic of the utilities sector?
  - a. Rapid growth
  - b. Sensitivity to economic cycles
  - c. Heavy regulations
  - d. High consumer confidence
  
8. Which sector can be an indicator of economic health and includes real estate development and REITs?
  - a. Real Estate
  - b. Industrials
  - c. Materials
  - d. Energy
  
9. The materials sector includes companies that manufacture/provide what?
  - a. Software and digital services
  - b. Medicine and health care services
  - c. Chemicals, construction materials, glass, and paper
  - d. Automobiles, apparel, and entertainment

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10. Which sector is less sensitive to economic cycles and includes companies like Procter & Gamble and Coca-Cola?
- a. Consumer Discretionary
  - b. Consumer Staples
  - c. Energy
  - d. Communication Services
11. Which sector faces both significant challenges and opportunities due to the transition to clean energy?
- a. Utilities
  - b. Energy
  - c. Real Estate
  - d. Industrials

### **True/False**

12. T/F: The consumer discretionary sector consists of companies that produce essential goods and services.
13. T/F: The energy sector only includes companies involved in the exploration and marketing of oil and gas.
14. T/F: The IT sector's growth is driven by cloud computing, cybersecurity, artificial intelligence, and machine learning.
15. T/F: In addition to playing a pivotal role in facilitating economic activity, the financial sector consists of banks, insurance companies, real estate firms, brokerages, and asset managers.



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## **Answers to U.S. Economy Quiz**

1. B) Information Technology (IT)
2. B) 18%
3. C) Financial
4. A) Communication Services
5. A) The state of the overall economy
6. B) Consumer Staples
7. C) Heavy regulations
8. A) Real Estate
9. C) Chemicals, construction materials, glass, and paper
10. B) Consumer Staples
11. B) Energy
12. False
13. False
14. True
15. True