






Underwear and the economy

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9:30 AM, E.T. | July 30, 2012
Economy

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The answer to how well the economy is doing probably isn't in your underwear drawer.

Former chairman of the U.S. Federal Reserve, Alan Greenspan, once opined that you could look at the sale of men's underwear to judge how healthy the economy is -- when people's wallets start to feel pinched they're less concerned with replacing their britches.

"Greenspan was famous for following many numbers," Avery Shenfeld, managing director and chief economist at CIBC, tells BNN with a laugh. "But he relied ultimately on a large Fed staff that would be tracking a large number of indicators."

There are a number of unusual economic indicators out there and almost as many ways to interpret them. The Lipstick Indicator posited by Leonard Lauder, chairman of the board at Estee Lauder, said the purchase of cosmetics tends to be inversely correlated to economic health. He believed that women substitute more-expensive purchases like clothes with cheaper products in times of economic stress.

"Nobody would look at that and base their investments on it," says Shenfeld. But there are a number of aggregate indicators that are useful tools for economists. "More serious research has found that the best approach is actually to create an index of a very large number of economic indicators." Called "Stock-Watson" indexes for the two economists who did the original research, they are an index of a very large number of economic indicators, aggregated using a particular statistical method.

Shenfeld is a fan of "The Chicago Fed National Activity Index," a "monthly index designed to gauge overall economic activity by utilizing a weighted average of 85 existing monthly indicators."

But you have to be careful. "Correlation does not mean causation," he says.

The Baltic Dry index measures current freight costs on various shipping routes and is often seen as a reliable measurement of global supply and demand. But it's not one hundred percent dependable according to Shenfeld. "[When the Baltic Dry Index Fell] it didn't mean less shipping, just less ships. We had built too many ships."

Ultimately, analysts need to rely on a variety of different measurements.

"Most serious economists want to use a broad basket of indexes," says Shenfeld. "The broader the better."