

Tuesday's 2-Minute Tip



The long and short of hemlines and other economic indicators

Skirts are **getting longer**, which, according to the **Hemline Index**, means the economy is declining. The Hemline Index is a long-held theory dating back to 1926 that skirts decrease in length when the economy is booming and grow longer in times of downturn to match the somberness of the period. Think of flapper dresses during the Roaring '20s and the birth of the miniskirt in the 1960s, compared to the floor-length dresses of The Great Depression.

While the Hemline Index may not be an economic indicator taken seriously by financial analysts, there are data points and measurements that economists do use to predict and keep track of the state of the country's economy. With actual **warning signs of a recession** in sight, let's talk about economic indicators.

Economic indicators, what's that?

An **economic indicator** is a measurement used to judge the overall health of the economy. These measurements are used to understand and interpret the current state of the economy, as well as to predict future economic activity and investment opportunities. There are three main types of indicators: leading, coincident, and lagging.

Leading indicators are named as such because they are believed to move or change before the economy does, and can alert analysts to upcoming trend changes. This can include consumer spending, building permits, new business startups, and stock prices.

Coincident indicators tend to change at roughly the same time as economic changes. These may include income levels, industrial production, and manufacturing and trade sales.

Lagging indicators confirm longer-term trends, rather than predict them, as they are a sign that a change has already taken place. This can **include** the unemployment rate, interest rates, currency strength, and inflation.

Better together than alone

It is important to note that no single indicator can accurately predict future changes in the economy, which is why many economists use a combination of indicators to predict the economy's next moves.

The Conference Board, a global **nonprofit think tank** and business membership organization, publishes regular reports on various economic data across several continents. Its **Leading Economic Index** for the U.S. combines ten independent leading indicators to "summarize and reveal common turning points in the economy in a clearer and more convincing manner than any individual component." They also have a **coincident index** comprised of four indicators and a **lagging index** comprised of seven indicators.

The Federal Reserve Bank of Philadelphia produces regional economic data and releases monthly **coincident** indexes for all 50 states. The bank used to release leading indexes for all the states, but suspended the releases in April 2020 due to the pandemic's impact on unemployment numbers, which **made their analysis inappropriate** for predicting the economy's next move.

Other, not-so-serious, indicators

Just for fun, here are some other non-serious economic indicators that may point to a recession or boom in the economy:

- **Lipstick index:** When a recession is looming, sales for "affordable luxury" items, such as lipstick, increase.
- **Underwear Index:** Theorized by former Federal Reserve Chairman Alan Greenspan, that men will replace their old underwear in economic good times and hold off during economic decline.
- **The First Date Indicator:** During prosperous times, people tend to meet potential partners through in-person activities where they may not be necessarily looking for a date, but in economic decline, they will turn to online dating sites seeking connection and comfort.
- **Recession hair:** When money gets tight, people forgo regular haircuts, letting their hair grow long and shaggy. It may also lead to dyed blondes letting their natural hair grow in, creating what TikTok users are now calling "recession blonde."

While not infallible, **some** of the indicators **have held up** in the more recent dips and peaks in the economy.

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By Alessandra De Zubeldia

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