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The most overrated economic indicators

Posted by **JUSTIN FOX** Friday, January 22, 2010 at 11:15 am

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My **column this week** is about economic data, and the ways in which it can mislead (or at least send us into unnecessary tizzies). It was inspired by a stint of economic-indicator-watching during Christmas week. **A GDP report came out** that revised third quarter economic growth down to a 2.2% annual pace—from the 3.8% originally reported in October. And then a bunch of lesser data releases contradicted each other and didn't really shed much light at all. As Ian Shepherdson of High Frequency Economics **remarked in reference to an existing home sales release**: "this number tells us nothing at all about the future."

That got me thinking about what the most useless economic indicator might be. So I sent out an e-mail to a few numbers-watchers I know, phrasing the question slightly more politely. What was their "least favorite economic indicator?" I asked. "It's got to be a number that comes out regularly and gets a reasonable amount of attention from the media and from markets, but that you think isn't all that informative and/or reliable." Here are the responses I got:

Mark Zandi, Moody's Economy.com: *I cherish all economic indicators, although it is fair to say some indicators are more useful than others. It is also important to point out the indicators I value most vary according to where we are in the business cycle and what is driving the cycle. Having said this, the indicators that I generally pay less attention to include: FHFA house prices; weekly chain store sales; Challenger layoff announcements; and the producer price index. These indicators are either often misleading or the signal to noise ratio is very high and thus hard to interpret.*

Jan Hatzius, Goldman Sachs: *My entry is the index of leading indicators, because it consists entirely of already-released information and the Conference Board's forecasts, without adding new hard information. Another one is factory orders, which is largely a re-hash of the durable goods release.*

Bernard Baumohl, The Economic Outlook Group (and former TIME economics correspondent): *I would nominate the Index of Leading Economic Indicators by the Conference Board as one that most induces narcolepsy when it is released. This measure is merely a composite of other hi-frequency indicators that have already been published weeks earlier. So there's nothing inherently new in the LEI—and thus the least useful in my opinion.*

Andrew Busch, BMO Capital Markets: *I would say the ABC consumer confidence. It's a weekly number that doesn't seem to make much impact on the markets....ever.*

Harm Bandholz, UniCredit Markets and Investment Banking: *My least favorite economic indicator is by a wide margin the ADP employment index (hope that is prominent enough). The guys at ADP have repeatedly revised the calculation methodology so that their index has some ability to explain payroll changes ex ante. But the out of sample forecasting ability is just awful. I do not understand, why anybody should follow the index.*

Kurt Karl, Swiss Re: *The ADP report—too inaccurate and not early enough to be helpful.*

Robert Barbera, ITG: *The consumer sentiment index. It lags changes in spending momentum. First they increase their spending. Then they read that spending is up and the economy is better. Then they tell pollsters they feel better.*

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