



SEARCH

SFGate Web Search by YAHOO! | Advanced Search

Sign In | Register

Technology Markets Small Business Chron 200 Real Estate

Experts try to forecast the economy's direction

Tom Abate, Chronicle Staff Writer
Saturday, December 13, 2008

PRINT E-MAIL SHARE COMMENTS (14)

FONT SIZE



(12-12) 16:53 PST -- Economics has been called the dismal science. These days it certainly lives up to the dismal part, but when it comes to the science, the discipline seems hard pressed to forecast the future or even analyze the past.

GET QUOTE

Symbol Lookup

MORE BUSINESS

Siemens agrees to pay \$1.3B in bribery settlement 12.15.08

Family: Shoe thrower hates both US, Iran role 12.15.08

Google says it still stands by Net neutrality 12.15.08

After all, it took nearly a year for economists to decide that a recession had started last December.

Even those trying to improve the predictive power of economics make light of their track record.

"I regularly hear the accusation that economic **forecasting** is no better than weather **forecasting**, but this does a disservice to weather forecasters," joked Jon Faust, a former Federal Reserve Board economist who is now a professor of at Johns Hopkins University.

"When one does economic **forecasting**, you have to realize your forecast is going to be wrong," said Harvard economist James Stock.

"That said, **forecasting** is an important challenge. You can't just throw up your hands and quit," he said.

Stock and his Princeton University collaborator, Mark Watson, have helped lay the theoretical foundation for a new generation of computer models that try to forecast where the economy is going by getting a clearer picture of where it stands today.

One of the most prominent of these new **forecasting** systems is published on a monthly basis by the Chicago Federal Reserve. It is called the Chicago Fed National Activity Index.

Scott Brave, the Chicago Fed economist who is developing the system, said the index captures 85 economic indicators, including inflation, unemployment, manufacturing output, retail sales and housing activity. Its computer model boils down all 85 variables into one number that takes the temperature of the economy, in a manner of speaking.

Zero is the baseline temperature. Brave said a reading of zero indicates an economy growing at just the right balance between inflation and recession.

If the synthesis of all 85 variables spits out a positive number, that suggests the economy is heating up and could be headed for inflation. Conversely, a string of negative readings would suggest that the economy is cooling down and heading toward recession.

Brave said a three-month average of the index seems to give the best reading by smoothing out any month-to-month variations between hot and cold.

Right now this three-month average is well below zero, as would be expected during a recession. In fact, the average dipped into the danger zone in December 2007 - which happens to be when the panel of economists, charged with dating recessions by looking backward at the data, decided that this downturn began.

But Brave is careful not to describe the index as a predictive tool. "It's a useful summary



MOST COMMENTED MOST READ MOST E-MAILED

1. Top evangelical resigns after backing gay unions
2. Bush's Iraq-Afghan farewell tour marred by dissent
3. Iraqis demand release of shoe-hurling journalist
4. Emirates Airlines' flying to S.F. raises issues
5. White males rule Sunday news shows
6. Lessons from that Tenderloin camera Web site
7. S.F. feels the pain of real estate meltdown

TopJobs

HEALTHCARE

Competitive Pay & Benefits!
[Health Plan of San Joaquin](#)

OPEN HOUSE

World Leader in Managed Services!
[Wackenhut Services Incorporated](#)

ENGINEER

\$103,620-\$129,396 Annually
[Sacramento Municipal Utilities District](#)

FINANCE

Competitive Salary & Excellent Bene's
[Doctor's Medical Center of Modesto](#)

FINANCE

Seek Experienced Professional...
[San Francisco Housing Authority](#)

[About Top Jobs](#)
[View All Top Jobs](#)
[Search more Jobs](#)

POWERED BY --

measure of a lot of data," he said.

Amy Resnick, editor in chief of Bond Buyer, publishes the index in her daily financial newspaper but doesn't swear by it.

"We publish a lot of data," she said, putting her decision to add the Chicago Fed's index of indexes in the "more is better category."

Economist Eric Swanson with the Federal Reserve in San Francisco is developing a similar computerized model.

Unlike the Chicago Fed index, which is published monthly, Swanson said his model is used as an internal tool when the bank's forecasters try to figure out the economy's direction.

"Part of the reason we started using this model as a benchmark is that it is so impartial," Swanson said. "People may have their views about whether the economy is strong or weak, but the model has no emotions."

Stock, the Harvard theorist, said one reason economic **forecasting** is harder than weather **forecasting** is that people can and do change the rules.

"You're trying to predict a system with people in it who keep doing things that make the problem more complicated," he said.

Charles Macal, a computer-modeling scientist at Argonne National Laboratory in Illinois, is working on that next level of challenge - trying to predict the behavior of large groups of people inside economic systems.

His computerized model tries to take into account how factors like age, gender, income, education and employment affect economic behavior.

"One way to think about it is: What do we have to specify about the state of the individuals that is relevant to what they buy and sell," Macal said.

The work, which is still in its embryonic stages, is being carried out on a computer cluster that Macal has nicknamed Cassandra. It's a reference to the character from Greek mythology who was blessed with the ability to see the future - but cursed by not being able to convince people she was right.

"That's the modeler's lament," Macal said.

E-mail Tom Abate at tabate@sfchronicle.com.

This article appeared on page C - 1 of the San Francisco Chronicle

 PRINT  E-MAIL  SHARE

(14) [View Comments »](#)

Share your thoughts on this story.

Add Your Comment

You must be signed in to add a comment. [Sign In](#) | [Register](#)

Submit

HOMES



S.F. feels the pain of real estate meltdown

San Francisco's real estate industry might be happier to bid farewell to this year if next year offered the hope of anything better...

[Some back off buying, waiting for rates to fall](#)
[Not worth it to fight picky home buyers](#)
[Home & Garden: Vote on BayList!](#)

[Search Homes »](#)

CARS



Travels with Valentino

Every once in a while, life in the world of writing about cars tosses up an unexpected bonus. A couple of years ago, I went...

[The prize of one man's collection](#)
[Battery company launches plug-in hybrid car](#)
 [Video: BMW Art Car by Andy Warhol](#)

[Search Cars »](#)

JOBBS



Unemployed finding work for others

It seemed like an eternity - nine months spent applying for more than 30 jobs a week, cruising job fairs and searching the Web...

[Somebody has to respond](#)
[Health jobs appeal to young Californians](#)
[Electrolux cuts 3,000 jobs worldwide](#)

[Search Jobs »](#)

ADVERTISERS

Most Recommended Comments



[starsbars](#) 12/13/2008 4:40:09 AM

Tom, it's an exercise in futility trying to find qualified people who can "read the tea leaves" of the economy. Everybody's got their own opinion and two-bits worth of knowledge about what's really going on. The truth is, when you literally disembowel your economy financially there's no paper trail left to follow, just the rotting entrails of stupendous greed and diabolical deception to sift through. Wall Street, in collusion with the federal government, hijacked our economy through deregulation and turned it into a massive debt spewing ATM machine with no off button. The country's flat-ass broke, but we act like a return to the "good old days" is just around the corner. We as individual Americans need to make a 360 degree shift in our thinking and start investing in ourselves and our country. Discipline yourself to save money instead of

all the wastful binging at the consumer hog trough. Be responsible as citizens and stop putting your faith in the hands of the bozos who screwed us!

Recommend: (14) (1)

[Report Abuse]



ptuffli 12/12/2008 9:23:35 PM

Most economists are smart enough to shut their mouths when they know it's trouble out there. Who pays their checks? Conflict of interest always has and always will get you lies. That's how it works. You want to get someone to behave, threaten their livelihood. Just ask Bush. He knows how it works.

Recommend: (8) (2)

[Report Abuse]



jojo999 12/13/2008 4:15:04 AM

Like the human body and the climate, the financial economy is a living, breathing, ever changing eco-system. We don't know enough about how these systems work to make accurate predictions or muck around with them.

Recommend: (6) (4)

[Report Abuse]

[View Comments \(14\)](#)

INSIDE SFGATE



Life Of Adventure Ends Tragically
Boat crash claims Walnut Creek couple, 92 and 90.



Santa Loves Fluffy
Broke shoppers may skimp on people but for their dogs, they spend away.



'My Church Is Twitter'
Finding My Religion interviews a spiritual Mac geek atheist.



[Subscribe to The Chronicle](#)

[Home](#) [News](#) [Sports](#) [Business](#) [Entertainment](#) [Food](#) [Living](#) [Travel](#) [Columns](#) [Classifieds](#) [Jobs](#) [Homes](#) [Cars](#) [Site Index](#) [\[return to top\]](#)

Advertising Services: [Place a Classified](#) [Advertise in Print](#) [Advertise Online](#) [Media Kit](#) [Today's Print Ads](#) [Public Notices](#)

Reader Services: [Home Delivery](#) [Subscribers](#) [Today's Paper](#) [Mobile](#) [RSS Feeds](#) [Newsletters](#) [Feedback](#) [Buy Photos](#) [FAQ](#) [Corrections](#)

Company Info: [Contact Us](#) [Hearst Corp.](#) [Privacy Policy](#) [Terms and Conditions](#) [Work for Us](#) [Chronicle in Education](#) [Events & Promotions](#) [Submissions](#)

© 2008 Hearst Communications Inc.

