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Market Facts

Weekly Leading Indicators Linked Closely To Stock Prices

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Economists may be famously disagreeable with each other on policy prescriptions and data interpretation, but despite those inevitable quibbles about the veracity of data – and how we enjoy three-hour diversions into birth/death estimates in the monthly employment situation report and the like – the profession usually agrees on what the data say.

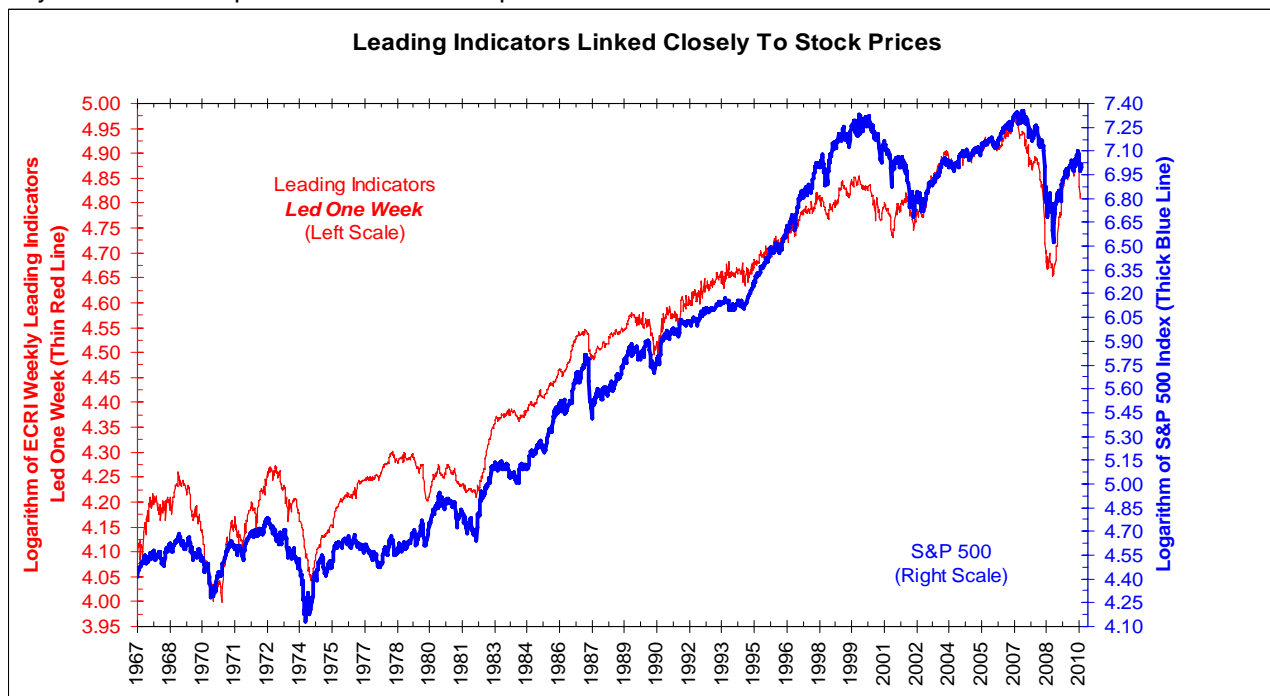
When the Conference Board reported strong monthly leading economic indicators and the Economic Cycle Research Institute reported a sharp downturn in its weekly leading indicators index (thin red line), our curiosity was piqued.

We did what any econometrician would do when faced with a proprietary index such as ECRI's: Inspect the weekly data and compare it to known components of

the Conference Board index in homage to the sort of reverse engineering made famous by certain exporters.

If we map the logarithm of the ECRI index led one week against the logarithm of the S&P 500 (thick blue line), the mystery starts to disappear, does it not? We could start to add in other known components of the Conference Board index, but with an initial r^2 of 0.97 and an increasing convergence over time visible in the relationship, why bother?

High-frequency macroeconomic data based on market indicators tends to collapse into a trend-following model of those indicators. And as the Nobel Laureate Paul Samuelson quipped, "the stock market has forecast nine out of the past five recessions."



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