Mitchell's Musings 2-16-15: Expectant Economists

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I typed into Google the words "economists expect" and found many, many references. Here is the headline from a typical news article:

"*Consumer confidence improves in December but lower than economists expected*."[1]

I am reasonably certain that if I checked in with the economics department here at UCLA, I would be hard pressed to find an economist who had any expectations about consumer confidence last December or would even have had any deep knowledge about what that index purported to measure. The same Google search produced articles about what economists expected concerning Canadian manufacturing sales, Chinese economic growth, declines in the value of the euro, changes in the value of the Swiss franc, the number of new claims for unemployment benefits, etc.

Now I don't doubt that there are some economists out there who worry about consumer confidence or the Swiss franc. But I am also sure that 99% of economists don't and that they wouldn't have anything worthwhile to say about those topics. So what we have here is what used to be called rotary file journalism (back in the day when journalists had rotary files). Some purported expert is found who has – or claims to have – something insightful to say about a subject and then is repeatedly called for quotes and opinions whenever that subject arises. That's fine if the person who is quoted is identified in some way. Readers can look at the opinion holder's background and decide whether they are interested in his/her opinion or not. However, a generalized "economists say" suggests that there is some kind of universal economists' viewpoint or at least that the article is reporting on a balanced sampling of opinion from some large group of knowledgeable economists.

Now I don't doubt that there are folks out there who are hoping for some clue about what consumer confidence will be, maybe because it is believed to affect Wall Street. But the issue of what some nonrandom group of economists may or may not expect about an economic index is especially problematic when it comes to indicators that are routinely revised after an initial public release.

The problem is particularly acute when the indicator is published frequently, e.g., the monthly reports on employment and unemployment or the weekly reports on new claims for unemployment insurance. It is further intensified when the figures of concern are seasonally adjusted, so that both the underlying

[1] http://www.breakingnews.com/item/2014/12/30/consumer-confidence-improves-in-december-but-lower/

data and the seasonal adjustments made to those data may be revised. Does anyone check back, month by month or week by week, with those expectant economists about what they would have said or would have expected about the revisions, if the revised figures had been known originally?

In the January 2015 media release on the employment situation of the U.S. Bureau of Labor Statistics (BLS), we find the table below:

Table A. Revisions in total nonfarm employment, January-December 2014, seasonally adjusted
(Numbers in thousands)

Year and month	Level			Over-the-month change		
	As previously published	As revised	Difference	As previously published	As revised	Difference
2014						
January	137,539	137,642	103	144	166	22
February	137,761	137,830	69	222	188	-34
March	137,964	138,055	91	203	225	22
April	138,268	138,385	117	304	330	26
May	138,497	138,621	124	229	236	7
June	138,764	138,907	143	267	286	19
July	139,007	139,156	149	243	249	6
August	139,210	139,369	159	203	213	10
September	139,481	139,619	138	271	250	-21
October	139,742	139,840	98	261	221	-40
November	140,095	140,263	168	353	423	70
December (p)	140,347	140,592	245	252	329	77

p = preliminary

It turns out, according to the BLS table, that *all* of the monthly total payroll employment numbers in 2014 were underestimates of what is now reported as their true values. However, some of the *changes* in monthly employment were negative and some were positive and it is the change about which the economists were expecting. Were the expectant economists more or less accurate in their original expectations relative to the latest version of the official figures? No one asks; indeed, no one is especially interested in what they would have said, had they known. No one seems to care that much of what the economists were opining about was noise in preliminary official data. And note that there will be yet more revisions to the data reported on the BLS table in the future.

Although the news world in which those economists did their expecting and opining is within the sphere of journalism, at the end of the day there would be less pressure for such journalism if there was less frequent, but perhaps more accurate, release of statistical information by official agencies. Journalists, when all is said and done, are responding to the time tables of the releasing agency. Previous Mitchell's Musings have asked whether there would be gains on net if, say, the employment data above were released quarterly rather than monthly.

We get by, after all, with quarterly GDP estimates. If nothing else, less frequent reporting would smooth out some of the noise, especially if what is at issue is the *change* in what is being measured. But less frequency of release – through a reallocation of dollars involved in producing the data in the survey - might also be a path to a more detailed report based on a larger sample. More information and less noise might be achieved through such a reallocation.

Shouldn't that possibility be explored? That is a question for which economists (should) expect an answer.