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The Hemline Index

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By Robert McDowall

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There is a well known saying that "The shorter the skirt, the stronger the economy". Women tend to cover their legs when the economy slumps! While the origin of the hemline index is unknown, it was first noted by Wharton Business School Professor George Taylor in 1926 at a time when hemlines rose with flapper dresses during the so-called Roaring '20s. The Great Depression subsequently set in and hemlines fell to the floor once again.

The hemline index has prompted a number of observations. Women couldn't afford their silk stockings during tough times and chose to cover their bare legs instead. Alternatively, when times were prosperous designers could afford more fabric and began making longer skirts. When the economy inevitably fell again, tailors cut back on their budgets and sketched shorter designs.

Over the decades, the economic premise of the theory gained credence in the media. By charting the rise and fall of hemlines with most of the main stock market indices you just might convince yourself the theory does have credence. After World War II in the 1950s, hemlines rose as the economies prospered in the Western Hemisphere. The national and international economies expansion continued uninterrupted into the 1960s, when the mini-skirt made their colourful entry into fashion. Toward the end of the 1960's economic malaise took over, the malaise was accompanied by floor-length hippy skirts. Then Arab oil embargo and the acceleration of inflation in 1973 brought into fashion the long maxi skirts at a time when stock market values slumped. This fashion continued with minor adaptations into the 1980s. Some suggest we still see evidence of the Hemline Index working today with such minor fashions as short baby-doll dress in 2006 when the housing market peaked but then collapsed in 2007 into the long and flowing maxi dress, coinciding with the crumbling of the economy.

The fashion industry and design has changed substantially over the past 30-40 years and most certainly since the theory first gained vogue in the 1920's with the likes of the flapper dress. Now it is very difficult to identify the time, place and events, which give birth to a new trend. Fashion designers formulate their creations for the catwalks and fashion shows well in advance of the time you can buy the cheaper simulations in high street chains and boutiques for off the rack. Many of the designs paraded at catwalk and fashion shows fall by the wayside because the y don't inspire for practical wear. Those creations that do become a form of inspirations for more practical purposes don't transform into fashions we see in the high street or shopping malls for several seasons.

Most importantly the fashion industry, while still maintaining individuality in its creative form is a global industry in its manufacturing and distribution processes. The industry provides shoppers with more choice than ever. There is more diversity in hemlines to the extent that every fashion season brings popular hemlines of varying length. Fashion designers do not move in the same direction but focus on a more segmented market. There is amazing diversity in fashion.

Fashion duration has increased in velocity. The trends in fashion tend to have shorter lifespan than economic cycles.

Of course a relationship or correlation does remain between consumer behavior and the economy. Consumer confidence as reflected in the scale and focus of spending fuels the economy more than any other single component and in the western hemisphere probably comprises over 50% of most national GDPs. The key driver on spending is largely consumer confidence in financial market security, though governments and central banks do try to manipulate the timing of the confidence for their own Political motives and to manage the risks and exposures of the national economy.

In conclusion the theory is both fun and colourful. While the theory may seem compelling, I am not confident investors will make an easy profit from profiting from it because there is little evidence that it really is a leading indicator. At best the trends in hemlines tend to occur at precisely the same time the economy is experiencing its periodic adjustments not before they occur.

This article is part of Robert McDowall's series on Folklore & Finance.

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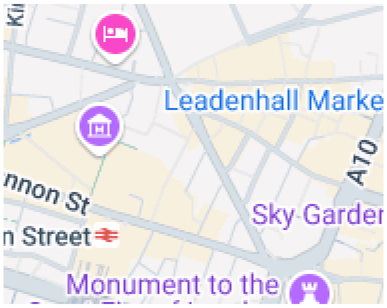

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