

RESOURCES

IN THE 1920S, HEMLINES WERE THOUGHT TO PREDICT THE ECONOMY

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Family & Lifestyle

Throughout history, select economists have used creative forecasting methods to predict booms and busts. Take a look at some of these for-amusement-only indices.

Hemlines, high heels and lipstick aren't typically what you think about when it comes to economic forecasting. But "indices" based on each exist. That's right, there are certainly some interesting (and fun?) ways economists make market connections and attempt to predict a boom or a bust. (Warning: These should be used for amusement only.)

We can take these fashion-based forecasts with a grain of glitter, er, salt. But these so-called indices can be entertaining to explore.

THE HEMLINE INDEX, EXPLAINED

In 1926, economist George Taylor stated that he could predict the economy based on hemlines. He said when they went short, it meant the economy was in good shape. And if hemlines trended longer, the markets would be headed for a slide.

The funny thing is the hemline theory was “proven.” But it actually works opposite from what Taylor thought. In 2010, economists did quantitative data analysis on monthly hemline data from 1921 to 2009 and found that hemlines shift following the economy – by about three to four years. In other words, poor economic times meant hemlines would creep closer to the floor within a few years. And prosperity meant miniskirts would start showing up within that same time frame.

It’s quirky and entertaining – but there are lots of problems with using this as a source of truth. Manufacturing isn’t as big a proportion of the U.S. economy as 100 years ago and designers don’t typically set hemlines anymore. Further, no one cares how short – or long – your hemline is. Wear what you want and feel good doing it.

OTHER INDICES

If you’re not buying the hemline index (we’re not so sure either), try these on for size – for a topic at your next brunch, perhaps, but not to guide your investments. That’s what an advisor is for.

Lipstick index: In the recession following 9/11, lipstick sales increased. Women sought an affordable luxury, instead of splurging on expensive clothing and accessories. The lipstick index fell apart during the pandemic, though – because masks.

High heel index: According to research from IBM about a decade ago, an economic downturn meant higher heels. As the height shrinks, so does the possibility for a recession. Kitten heels and ballet flats mean an upswing is on the way.

REAL TRENDS

Amusement aside, if you’re looking for economic indicators to lend insight into the health of the market, consider indices based on real disposable personal income, producer prices, consumer prices and confidence and employment indicators. Better yet, your advisor can help guide your next move based on your personal financial situation and goals.

NEXT STEPS

If you’re curious about where the market is headed:

- Consider subscribing to financial news sites and sign up for automatic alerts
- Follow trusted financial social media handles for passive updates and ask your advisor for professional investment commentary and analysis
- Ask your advisor to lend insight based on your timeline and goals

Sources: medium.com; forbes.com; huffpost.com; investopedia.com

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