

TOP FORECASTERS

of the

U.S. ECONOMY

← WRIGHTSON ICAP'S **LOU CRANDALL** SAYS THERE'S LITTLE WASHINGTON CAN DO TO SPEED UP A SLOW RECOVERY. HIS CALLS MAKE HIM THE MOST ACCURATE PREDICTOR FOR 2010. →

BY *Timothy R. Homan* ▶ PHOTOGRAPHS BY *Ethan Hill*

BEST OVERALL

FORECASTER, FIRM

		ACCURACY SCORE*
1	LOU CRANDALL, <i>Wrightson ICAP</i>	86.4
2	DEAN MAKI, <i>Barclays Capital</i>	84.9
3	BILL JORDAN, <i>Ried Thunberg ICAP</i>	83.7
4	JOHN HERRMANN, <i>State Street Global Markets</i>	82.9
5	JAN HATZIUS, <i>Goldman Sachs</i>	81.5
6	GREGORIO DE FELICE, <i>Intesa Sanpaolo</i>	80.3
7	HEINRICH BAYER/THILO HEIDRICH/FABIENNE RIEFER, <i>Deutsche Postbank</i>	79.3
8	MARIE-PIERRE RIPERT/NATHALIE DEZEURE, <i>Natixis</i>	79.0
9	NARIMAN BEHAVESH, <i>IHS</i>	78.8
10	DAVID SLOAN, <i>4CAST</i>	78.2

*Average margin of error in forecasts for 13 indicators, subtracted from 100. For monthly indicators, estimates were compiled over two years; for GDP, 12 quarters of forecasts were collected. Ranking is as of Sept. 30. Source: Bloomberg

STERS



ECONOMIC RECOVERY IS UNDER WAY, CRANDALL SAYS, 'BUT IT IS FROM SUCH DISMAL LEVELS' THAT IT'S HARD TO SEE.

Crandall started at Wrightson 28 years ago.

IN 1980, THE U.S. ECONOMY

was in the middle of a severe downturn, and jobs weren't easy to find. So Lou Crandall, after earning a bachelor's degree with a focus on economics from Cornell University, scattered resumes far and wide. One went to an employment agency looking for bilingual workers. Crandall had spent five years of his boyhood in Italy, where his father taught in an American school, and was fluent in Italian.

As it happened, the head of the employment agency was married to an economist at the Federal Reserve Bank of New York, and he was looking for a research assistant. "A resume with a lot of economics courses and a little bit of computer science was exactly what her husband was looking for," Crandall says.

Crandall got the job and spent 18 months at the New York Fed. Then he moved to Wrightson, a New York-based economic advisory firm that's now Wrightson ICAP LLC, a unit of London-based ICAP Plc, the world's largest broker of trades between banks.

Twenty-eight years later, Crandall is still at Wrightson, where he has built a reputation as one of the top forecasters of the U.S. economy. Crandall is No. 1 among forecasters for the two-year period ended on Sept. 30, according to data compiled by Bloomberg. He ranks second for his projections of movements in the consumer price index and fourth in predicting sales of existing homes. Dean Maki, chief U.S. economist at Barclays Capital, the investment bank of London-based Barclays Plc, is No. 2 overall and No. 1 in predicting movements in the U.S. CPI. The most accurate forecaster of U.S. gross domestic product, over three years, is Patrick Franke, who works from Frankfurt for Landesbank Hessen-Thueringen Girozentrale, or Helaba, a German savings bank.

Crandall gained his top ranking by accurately predicting, month by month, U.S. progress toward weathering the recession and returning to growth. He doesn't think the administration of President Barack Obama, or a new Republican-controlled House of Representatives, can speed up the

process. "The recovery is going to continue to be painfully slow, but there is not much that the government can do about that," Crandall says. "Some progress is being made, but it is from such dismal levels that we have not yet re-established a sense that things are moving in the right direction."

The Bloomberg ranking of 64 economic forecasters covers the two years starting on Oct. 1, 2008, except for the GDP ranking, which starts Oct. 1, 2007. The two-year period was almost evenly divided between recession and recovery, according to the Cambridge, Massachusetts-based National Bureau of Economic Research. The ranking measures the accuracy of economic forecasts in 13 categories, including GDP, unemployment, consumer and producer price indexes, home sales, industrial production and personal spending. (See "How We Crunched the Numbers," page 100.)

Crandall specializes in U.S. government finance: monetary policy, Treasury Department financing trends and government-issued economic data. He says he concentrates on the near term rather than on what is going to happen a year from now. "We try to provide a GPS for the economy," he says, speaking from his dimly lit office at Wrightson ICAP's Jersey City, New Jersey, headquarters. The building is also the U.S. headquarters of ICAP.

Crandall's prognostications are published in *The Money Market Observer*, a daily online newsletter distributed to about 1,500 Wrightson ICAP clients, which include economists, central bank officials, portfolio managers and traders worldwide. Crandall, who commutes to Jersey City from his home in Brooklyn, is the editor.

Crandall works closely on his forecasts with Bill Jordan, an economist at Ried Thunberg ICAP, a fixed-income research firm that's also owned by the London broker. Jordan is ranked No. 3 among the overall forecasters. "Every now and then we have a different forecast," Jordan,

EUROPEANS DON'T EXPECT A QUICK U.S. RECOVERY. 'THEY VIEW THE AMERICANS AS HAPPY-GO-LUCKY PEOPLE,' FRANKE SAYS.

→ GDP

FORECASTER, FIRM	ACCURACY SCORE*
1 PATRICK FRANKE, <i>Helaba</i>	80.0
2 ETHAN HARRIS, <i>Bank of America Merrill Lynch</i>	78.9
3 RUSSELL PRICE, <i>Ameriprise Financial</i>	78.3
4 DAVID RESLER, <i>Nomura Securities</i>	77.5
5 WARD McCARTHY, <i>Jefferies</i>	76.7

*Average error for the 12 quarters ended on Sept. 30, subtracted from 100. Source: Bloomberg



Maki works out of Barclays Capital's New York offices.

CONSUMER PRICES

FORECASTER, FIRM

1	DEAN MAKI, <i>Barclays Capital</i>
2	LOU CRANDALL, <i>Wrightson ICAP</i>
	MICHAEL FEROLI, <i>JPMorgan Chase</i>
	DAVID RESLER, <i>Nomura Securities</i>
5	PATRICK FRANKE, <i>Helaba</i>

ACCURACY SCORE*

93.8
92.1
92.1
92.1
91.8

THE FED 'COULD GET MORE INFLATION THAN IT DESIRES' FROM ITS PROGRAM OF BUYING UP TREASURY BONDS, BARCLAYS'S MAKI SAYS.

*Average error for the 24 months ended on Sept. 30, subtracted from 100.
Source: Bloomberg

61, says. "We agree to disagree."

Crandall and Jordan compare notes on the latest economic data almost daily. Yet they haven't seen each other since 2007 because Jordan works from his home in Stamford, Connecticut.

Crandall and Helaba's Franke both see a slow recovery for the U.S. They don't, however, predict a new recession. A key indicator for Crandall is the Architecture Billings Index, a statistics trove created by the American Institute of Architects

that tracks U.S. commercial construction. In mid-November, the index was telling him that there should be an upswing in 2011, he says.

Helaba's Franke, 42, says data on nonmanufacturing companies from the Institute for Supply Management and government figures on nonfarm payrolls help shape his view that the U.S. economy will expand at a 2 percent annual rate over the next few years. "Now, it's kind of in a soft spot," he says. "But the ingredients for a

relapse into recession are just not in place.”

The U.S. economy will expand 2.5 percent in 2011 and 3.1 percent the following year, according to the median estimate of economists surveyed by Bloomberg from Nov. 3 to Nov. 9.

Franke says so much information is available on U.S. economic trends that an economist doesn't have to live there to produce credible forecasts. “I don't really think it makes a big difference nowadays whether you're in the country that you're analyzing,” he says. He earned a master's degree in economics from Boston College and worked for a year in the Boston office of Decision Economics Inc., the New York-based research firm run by Allen Sinai, before returning to Germany. He now travels to the U.S. only for vacations, he says.

Franke says he's more bullish on the U.S. economy than many European forecasters. “There are some people in Europe who have a very negative view of the growth possibilities of the U.S.,” he says. “People here tend to be more pessimistic, and they view the Americans as kind of irresponsible, happy-go-lucky people.”

The top forecasters agree that the speed of U.S. recovery hinges on the pace of consumer spending, which accounts for about 70 percent of the economy. David Greenlaw, chief U.S. fixed-income economist at Morgan Stanley in New York and the top-ranked forecaster for personal spending, expects purchases to increase in 2011 based on modest job growth and a flattening of the rising personal savings rate.

“The consumer has been a key part of the turnaround that we've seen since the middle of

last year,” Greenlaw, 51, says. That turnaround has been very gradual. “You're edging up from a depressed level,” he says.

At the pace employers in the U.S. are hiring, it will take years to replace the 8.4 million jobs lost as a result of the recession that began in December 2007. In October, they added 151,000 workers to their payrolls, the first gain since May, while the jobless rate held at 9.6 percent.

“THE REAL PROBLEM is a lack of hiring,” says Scott Brown, chief economist at Raymond James & Associates Inc. in St. Petersburg, Florida, and the top forecaster for unemployment, according to Bloomberg data. “Firms aren't encouraged about the overall economic outlook.” A key to faster growth is small business. “We look to small firms to account for a lot of the job growth,” Brown says. And that complicates life for the forecasters. “There really isn't a whole lot of information on small businesses,” says Brown, who has a doctorate in economics from the University of California, San Diego.

As of October, unemployment in the U.S. had been stuck above 9 percent for 18 months. Brown says there's an ongoing debate among economists and policy makers as to whether joblessness is cyclical—the result of weak demand in a slow-growth economy—or structural, a result of permanent changes in the U.S. labor market due to the flight of jobs overseas and other factors. “It's probably a little bit of both—but more cyclical in the near term,” Brown says. “In terms of the long-term picture, the number of workers you can expect to enter the system is probably

PERSONAL SPENDING

FORECASTER, FIRM	ACCURACY SCORE*
1 DAVID GREENLAW, <i>Morgan Stanley</i>	91.4
2 PATRICK FRANKE, <i>Helaba</i>	90.5
3 NARIMAN BEHAVESH, <i>IHS</i>	90.0
4 HEINRICH BAYER/THILO HEIDRICH/ FABIENNE RIEFER, <i>Deutsche Postbank</i>	88.9
5 SCOTT BROWN, <i>Raymond James</i>	88.3
DEAN MAKI, <i>Barclays Capital</i>	88.3
BERND WEIDENSTEINER, <i>Commerzbank</i>	88.3

*Average error for the 24 months ended on Sept. 30, subtracted from 100.
Source: Bloomberg

A TURNAROUND IN SPENDING IS A KEY PART OF RECOVERY. 'YOU'RE EDGING UP FROM A DEPRESSED LEVEL,' GREENLAW SAYS.

UNEMPLOYMENT

FORECASTER, FIRM	ACCURACY SCORE*
1 SCOTT BROWN, <i>Raymond James</i>	90.0
2 DAVID GREENLAW, <i>Morgan Stanley</i>	88.3
JOHN SILVIA, <i>Wells Fargo Securities</i>	88.3
4 PETER POSSING ANDERSEN/ SIGNE ROED-FREDERIKSEN, <i>Danske Bank</i>	88.1
PETER D'ANTONIO, <i>Citigroup</i>	88.1

'WE LOOK TO SMALL FIRMS FOR A LOT OF THE JOB GROWTH,' BROWN SAYS, YET ACCURATE STATISTICS ARE HARD TO FIND.

*Average error for the 24 months ended on Sept. 30, subtracted from 100.
Source: Bloomberg

not going to be growing as rapidly as it did over the last couple of decades.”

In early November, the Federal Reserve, led by Chairman Ben S. Bernanke, tried to speed up the recovery by announcing it would buy an additional \$600 billion in Treasury securities. The aim is to increase the supply of money available for borrowing, trigger new spending and spark economic growth.

Barclays Capital's Maki says another Fed goal is

to push up inflation, which climbed at a 0.8 percent annual pace in the third quarter, falling short of the Fed's target long-term range of 1.7 to 2 percent. “One of the risks of the Fed actively promoting inflation is that it could get more inflation than it desires,” says Maki, who in addition to being second in Bloomberg's overall rankings is No. 1 in forecasting movements in the consumer price and producer price indexes. “The fact that food and energy prices have so far been relatively moderate is favorable for the pace of real growth.”

Like Crandall, Maki says his interest in economics was piqued during college. “I found that it was a way of thinking about the world that was different than anything I'd been exposed to before,” says Maki, 45, who received a B.A. in economics from St. Olaf College in his home state of Minnesota before earning a Ph.D. at Stanford University. The Rye, New York, resident worked as a Fed economist from 1995 to 2000, specializing in household finance.

Maki says he often finds himself studying prices at the grocery store and the mall, though he doesn't let it influence his economic models. “Stores in the New York City suburbs may not be a strong enough indicator of the national trend to be really useful in forecasting,” he says.

Maki says if there is a danger of a spike in inflation, he doesn't expect it to happen for a year or two.

For his part, Crandall says: “I expect moderate growth and somewhat faster employment growth in 2011. But we should finally have restored a sense that progress is being made.” And he can still make that forecast in either English or Italian.

HOW WE CRUNCHED THE NUMBERS

TO IDENTIFY THE TOP forecasters of the U.S. economy, we focused on estimates submitted to Bloomberg News for 13 key indicators: the consumer price index, durable goods, existing home sales, gross domestic product, housing starts, industrial production, the Institute for Supply Management manufacturing index, new home sales, nonfarm payrolls, personal spending, the producer price index, retail sales and unemployment.

For the 12 monthly indicators, we compiled estimates made at the end of each month from September 2008 to August 2010 for the following month's report. For GDP, the only one of the 13 indicators that's reported quarterly, we looked at forecasts for 12 quarters, beginning in September 2007, also from the month before the actual number was released. (We used original and unadjusted GDP figures.) To measure each forecaster's accuracy, we averaged the differences between the forecasts he or she made and the actual reported numbers.

To qualify for the rankings, a forecaster had to have made at least 15 out of the 24 monthly estimates. For GDP, each forecaster had to have made a minimum of nine forecasts in the 12 quarters measured. At least 50 forecasters qualified for each of the 13 rankings. Individuals not currently associated with a firm were excluded.

To identify the top overall forecasters, we averaged the rankings of people who appeared on at least nine lists. The top forecaster, Lou Crandall of Wrightson ICAP, had an accuracy score of 86.4 percent. On average, his forecasts deviated least from the actual figures.

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