

## RANKINGS

## Economists

# MFR'S SHAPIRO LEADS THE PACK

*The economist predicted the U.S. would withstand increasing interest rates and rising energy prices through June.*

By Joe Richter

◀ WHEN JOSHUA SHAPIRO spotted U.S. corporate profits heading toward a 12.6 percent increase in 2004 after a 16.4 percent surge in 2003, he predicted a faster pickup in hiring than many of his fellow economists. And with the U.S. economy en route to 4.2 percent annual growth in 2004, the quickest pace since the 4.5 percent rate in 1999, Shapiro bet correctly that the Federal Reserve would embark on a path of sustained interest rate increases.

Shapiro, chief U.S. economist at financial consulting firm Maria Fiorini Ramirez Inc. in New York, was the most accurate forecaster for the year ended in June, according to predictions made in a June 8, 2004, Bloomberg News survey of 43 economists. He was one of six who had perfect accuracy on the federal funds rate and was among the five most-accurate predictors of unemployment. He tied for second best at projecting the consumer price index, a measure of inflation. The economists, polled monthly by Bloomberg, came from investment banks, money management firms, universities and forecasting companies in the U.S., Europe and Asia.

Shapiro says he takes an eclectic approach to forecasting that doesn't rely heavily on economic models. He likes to use timely indicators—such as weekly jobless claims figures and mortgage applications—rather than reports that can lag by a month or two. Real-time

## Top overall forecasters Accuracy rating\*

1	<b>Joshua Shapiro</b> , Maria Fiorini Ramirez	<b>94.1%</b>
2	<b>Neal Soss</b> , Credit Suisse First Boston	<b>92.9</b>
3	<b>Christopher Rupkey</b> , Bank of Tokyo-Mitsubishi	<b>91.8</b>
4	<b>John Lonski</b> , Moody's Investors Service	<b>91.3</b>
5	<b>Robert Fry</b> , DuPont	<b>91.2</b>
6	<b>Jayanth Nazareth</b> , JPMorgan Chase	<b>91.1</b>
7	<b>Scott Brown</b> , Raymond James	<b>91.0</b>
8	<b>Stephen Gallagher</b> , Société Générale	<b>90.6</b>
	<b>Ralf Umlauf</b> , WestLB	<b>90.6</b>
10	<b>Dirk Chlench</b> , Hypothekenbank in Essen	<b>89.7</b>

\*Average margin of error for forecasts of U.S. GDP, inflation, federal funds rate and unemployment made for the four quarters ended in June 2005 subtracted from 100. Source: Bloomberg

data provide fresh feedback, helping him to see whether his forecasts are consistent with what's happening in the economy or whether they need to be changed.

"There's also a huge amount of judgment involved," says Shapiro, 46, a graduate of Tufts University in Medford, Massachusetts, who joined MFR in May 2001. "I've been forecasting for 25 years, and when you've been doing it for that long, you develop a sense of what's going on."

NEAL SOSS, 56, chief economist at Credit Suisse First Boston in New York, came in second overall in the Bloomberg poll. Rajeev Dhawan, 40, director of Georgia State University's Economic Forecasting Center in Atlanta, was best at predicting gross domestic product. John Silvia, 57, chief economist at



**Joshua Shapiro** expects the U.S. to add about the same number of jobs in 2006 as in 2005 as the hurricane impact is short-lived.

Wachovia Corp. in Charlotte, North Carolina, placed first in inflation estimates.

When Shapiro and the others began their assessments in 2004, the federal funds rate, now at 3.75 percent, stood at a 46-year low of 1 percent. Oil was about \$40 a barrel, and regular unleaded gasoline was just breaching \$2 a gallon. The forecasters had to wager whether interest rates and oil prices would march upward. And if both did climb, would the increases persuade companies and consumers to spend less, thus slowing the economy?

## Inflation

	Accuracy rating
1 <b>John Silvia</b> , Wachovia	94.6%
2 <b>Gary Schlossberg</b> , Wells Capital Management	94.3
<b>Joshua Shapiro</b> , Maria Fiorini Ramirez	94.3
4 <b>Neal Soss</b> , Credit Suisse First Boston	93.6
5 <b>Ken Mayland</b> , ClearView Economics	93.4

Source: Bloomberg

Shapiro says he looked at weekly jobless claims, which averaged about 50,000 less in the first months of 2004 than in all of the previous year. This suggested that demand was prompting companies to retain workers. He guessed that while energy prices and interest rates would rise, growth would continue because companies would buy new equipment and add jobs. "Growth was reasonably strong and cost cutting had been so aggressive that companies had to step up and start hiring," Shapiro says. "Profits were booming. When companies have cash, they tend to spend it."

Shapiro is betting hiring will hold up in 2006 because companies that had whittled down workforces during the early part of the decade are finding they need more employees. Productivity growth, which allowed companies to produce more with fewer workers in recent years, has peaked, he

## GDP

	Accuracy rating
1 <b>Rajeev Dhawan</b> , Georgia State University	94.1%
2 <b>James Knightley</b> , ING Financial Markets	93.7
3 <b>Hugh Johnson</b> , Johnson Illington Advisors	93.5
<b>Steven Ricchiuto</b> , ABN Amro	93.5
5 <b>Jayanth Nazareth</b> , JPMorgan Chase	91.9

Source: Bloomberg

says. That means U.S. corporations will be less able to rely on gains in efficiency than they had in recent years.

Shapiro predicts the U.S. will add about 200,000 jobs a month on average in 2006, about the same as the monthly average of 203,000 through August 2005. The effects on employment of

hurricanes Katrina and Rita, which struck the U.S. Gulf Coast in August and September, will be short-lived, he says.

At the same time, the storms may keep energy prices high because of damage

to drilling rigs and pipelines. Shapiro is concerned that gasoline costs and a rise in natural gas prices during the winter heating season may erode gains in workers' income and limit consumer spending. After the hurricanes, Shapiro reduced his 2006 forecast for GDP to 3.1 percent from his 3.6 percent forecast in August. He expects the economy to expand 3.5 percent in 2005. "Energy prices are looking stubborn," he says.

Georgia State's Dhawan was among the few economists who correctly forecast a slowdown in the final three months of 2004. While last year's 4.2

percent annual GDP growth was the best in five years, the pace slumped to 3.3 percent in October through December from 4 percent in the previous three months as imports surged and the trade deficit swelled. Dhawan predicted

fourth-quarter GDP growth at 2.9 percent, well below the 4 percent median estimate in the Bloomberg survey.

The economy expanded at 3.8 percent in the first quarter of 2005 and 3.3 percent in the second quarter, close to Dhawan's forecasts of 3.6 percent and 3.1 percent. The median estimate in the Bloomberg survey was 3.7 percent for each quarter.

Dhawan says that destruction from the hurricanes and higher gas prices may curb growth during the first half of 2006. The scheduled departure of Alan Greenspan as Fed chairman at the end of January may be another limiting factor, he says.

DHAWAN SAYS THAT synthesizing and sifting through expanding reams of information—such as the impact of Greenspan's exit—are increasingly important for economists. He learned the technique early on: When he was a youngster, he and his father read and compared three different newspapers each day in New Delhi—the *Times of India*, the *Indian Express* and the local Hindi-language paper, *Jansatta*. "One of the biggest challenges is trying to avoid a pack mentality," says Dhawan, who before joining Georgia State spent four years as director of econometric forecasting at University of California, Los Angeles, where he earned his doctorate.

Wachovia's Silvia says that soaring worldwide demand for oil and gasoline is another reason energy prices won't decline much next year. The former chief economist of the U.S. Senate Banking Committee says he's concerned that

## Federal funds rate

	Accuracy rating
1 <b>Scott Brown</b> , Raymond James	100%
<b>Patrick Franke</b> , Commerzbank	100
<b>John Lonski</b> , Moody's Investors Service	100
<b>Jayanth Nazareth</b> , JPMorgan Chase	100
<b>Joshua Shapiro</b> , Maria Fiorini Ramirez	100
<b>Stephen Stanley</b> , RBS Greenwich Capital Markets	100

Source: Bloomberg

gasoline, which rose to more than \$3 a gallon for the first time in September, will siphon cash from consumers' wallets and erode spending on clothes, cars and appliances.

SILVIA EXPECTS THE economy to expand 3.1 percent in 2006, a decrease from the 3.5 percent he sees in 2005. Dhawan pre-

dicts growth of 3 percent in 2006. Estimates in an October survey by Bloomberg ranged from 2.6 percent to 4.2 percent, with a median of 3.3 percent.

While the economy cools, inflation will pick up, Silvia says.

The CPI, the government's broadest gauge of costs for goods and services, will rise 3.3 percent in 2006 from 3.1

percent in 2005, he says. That compares with a median projected gain for 2006 of 2.7 percent in a Bloomberg survey conducted from Aug. 31 to Sept. 8.

Signs of increases are already in the pipeline. DuPont Co., the third-largest U.S. chemical maker, said on Sept. 12 it would raise prices for all of its products to recoup record costs for energy and raw materials. "Ultimately, it will be higher prices for the consumer," said Charles Holliday, chief executive officer of the Wilmington, Delaware-based company.

With energy costs showing few signs of abating, the gloomy impact of rising prices and slowing growth that the U.S. economy skirted in 2005 may show up in next year's numbers. ▶

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## Unemployment

Accuracy rating

1 Kurt Karl, Swiss Reinsurance	99%
Ken Mayland, ClearView Economics	99
Gary Schlossberg, Wells Capital Management	99
Joshua Shapiro, Maria Fiorini Ramirez	99
Gary Thayer, A.G. Edwards	99

Source: Bloomberg

## How We Crunched the Numbers

Type OUTL <Go> to find data from Bloomberg News's monthly and quarterly surveys of economists. To identify the best overall economists, we focused on estimates for four key U.S. economic indicators: the consumer price index, the federal funds target rate, gross domestic product and the unemployment rate. We compiled estimates made by the economists on June 8, 2004, for four forecasting periods: the last two quarters of 2004 and the first two quarters of this year. We included only economists who made at least three forecasts. We excluded people who were not working as economists as of early October.

To determine the economists' accuracy rating for each indicator, we calculated the margin of error for every forecast. We totaled them and divided by the number of forecasts to calculate their average margins of error, which we then subtracted from 100. To get overall scores, we added the average margins of error for all four indicators, giving GDP

a double weighting because it's more difficult to forecast. Then we divided by five and subtracted the result from 100.

The overall winner, Joshua Shapiro of Maria Fiorini Ramirez, had the highest accuracy rating. On average, his forecasts deviated least from the actual figures.

LAURIE MEISLER

Bloomberg News		ECONOMIC SURVEYS	
<b>UNITED STATES</b>			
1) Monthly Survey	4) Federal Funds	7) Gross Domestic Product	
2) 3 Months Ahead	5) 2-Year Notes	8) Unemployment	
3) 12 Months Ahead	6) 10-Year Note	9) Consumer Prices	
<b>EUROPE</b>			
10) Quarterly Survey	13) Central Bank Rates	16) Gross Domestic Product	
11) 10-Year Govt Bonds	14) Consumer Prices	17) Currency/FX Rates	
12) 3-Month Int. Rates	15) Unemployment	18) Public Debt-GDP Ratios	
<b>ASIA/PACIFIC</b>			
19) Quarterly Survey	22) Consumer Prices	25) Gross Domestic Product	
20) Annual Forecast	23) Unemployment	26) Trade Balance	
21) 10-Year Govt Bonds	24) Industrial Production	27) Yen-Dollar Rate	
<b>EMERGING</b>			
28) Quarterly Survey	31) 3-Month Bills	34) Gross Domestic Product	
29) 3 Months Ahead	32) 2-Year Bonds	35) Unemployment	
30) Official Rates	33) 10-Year Bonds	36) Consumer Prices	