

# *The Business Economist at Work: Argus Research Corporation*

*By Richard A. Yamarone*



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*While formal academic training as an economist is indispensable, it only partly prepares for work as a financial markets economist. My job as a Wall Street economist at Argus Research includes creating and maintaining a database of economic statistics as well as a number of macroeconomic models. From this database springs the firm's forecast of all the major economic indicators released each trading day, as well as a longer-term view of economic trends. I also generate extensive commentary on current and future economic conditions for the firm and its clients.*

**A**s with many professions, the practical functions performed daily by the financial markets economist have little to do with the theory taught in graduate school. And yet those daily functions, duties, and responsibilities can best be summed up in a phrase borrowed from an earlier stage of schooling: reading, writing, and a whole lot of arithmetic.

Our nation's universities rarely teach practical "real life" economics. Schools are so determined to impress upon economists-in-training the importance of Giffen Good paradoxes and the latest debate between Smithian free-market and Keynesian philosophies that these trees tend to obscure the forest of daily practice. While a firm foundation in theory is indispensable, the fledgling economist comes only partly prepared to Wall Street. In the absence of a mentor, new economists must navigate on their own some deep and treacherous waters: from gaining a complete understanding of the National Income and Product Accounts, to the calculation of major economic statistics such as CPI, to deciphering the cryptic Fed-speak that accompanies a shift in Federal Reserve policy.

One reason for the dearth of "real-world" economics courses is that each career path requires its own path-specific approach. No single title applies to those who ply their trade on the Street. Some of the more familiar roles played

by economists on Wall Street are macroforecaster, statistician, econometrician, and international economist. Perhaps the most widely accepted is financial markets economist.

### Job of a Wall Street Economist

The term “financial economist” is a bit of a misnomer; it conjures images of Fisher Black and Myron Scholes laboring over their option-pricing models. A better term for what I do might be Wall Street economist.

Some background in the ways of Wall Street is a must for this position. Practical work experience in at least two related but distinct areas is a requirement at Argus Research. First-hand experience trading in the stock or bond markets, for example, provides a useful backdrop when considering the forces that affect those markets. Individuals who have “ridden” a position overnight are best situated to write about those economic events that affect positions in foreign exchange, fixed income or equities. Looking at the economy from the perspective of a trader provides insights denied the pure academic.

Argus regards this “insider’s” viewpoint as a great generator of ideas for new and timely market-related commentary. Years ago, working as a trader of money-market instruments and interest-rate derivative securities, I saw first-hand how the credit markets responded to releases of the Federal Reserve’s Beige Book. As a trading floor economist for an Australian bank, I created a mock Beige Book that detailed the goings on in each of the Fed’s twelve districts—two weeks before the official book was released. I eventually performed the same function regarding the Fed’s Blue and Green Books. These books were reviewed during policy meetings, winning kudos from senior management.

Yet an economist can’t permit earlier experiences to obscure the needs of current clients. Products and commentary must always be considered with respect to the client’s needs. When writing for a daily trading audience, I focused more on yield spreads and Federal Reserve activity. Argus subscribers come to us for equity-related advice, and my focus is on more industry-specific matters, e.g., the effect of rising oil prices on transportation issues.

### Reading

The Argus approach to economic analysis parallels that of Fed Chairman Alan Greenspan—gather all relevant information on the economy, industry, financial markets and international developments, toss in a few academic “white papers,” and form an opinion on the direction of the economy, interest rates and monetary policy. Unfortunately, the major difference between the Fed chairman and the Argus economics team is that the Fed has an arsenal of research and economic professionals. Sometimes dozens of economists are employed in the creation of one economic measure.

It is most efficient to get the reading out of the way during the morning commute. Clearly if you drive to work this isn’t such a great idea. But listening to a financial news station on the radio, such as Bloomberg Business

Radio here in New York, could provide an alternative way of thinking about a problem or a solution.

Most of the topics that are chosen for the morning commentary are derived prior to 6:30 a.m., what I refer to as the information hour. By the first hour of work (6:00 a.m. to 7:00 a.m.) I have been able to digest the top ten economically rel-

evant stories from a dozen newspapers and daily closing commentaries from overseas sources. E-mail and early morning telephone conversations provide insight for the first and foremost question of the day: What will the top story be that affects the U.S. financial markets? The answer is usually provided by our sources in Australia, Tokyo, Singapore or London.

What to read? Obviously each economist has favorites. But I have found that the most market-moving commentary and most talked-about stories on trading floors have come from (in the order of market-moving history) *The Financial Times*, *The Washington Post*, *The Wall Street Journal* and *The New York Times*. Others papers read on a daily basis for content include *The South China Morning Post*, *The Chicago Sun Times* and *The Journal of Commerce*.

*The Journal of Commerce* provides the most comprehensive collection of daily commodity, industrial and economic data available in any newspaper. Arguably, this paper contains more in-depth coverage of commodity

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prices like metals, chemicals and energy than any other available publication. The commentary on trade and shipping issues is second to none. If you are starting up an economic database, it would be in your best interest to start with a subscription to the JOC.

*Barron's*, a newsweekly, is perhaps the most timely of all weeklies with respect to coverage of economic activity, markets and economic and financial data. It is a "must read" for any serious market pundit. It challenges daily publications on issues with respect to timeliness.

Magazines complete the package, providing economic data, relevant market and economic coverage and, in most instances, a unique global perspective. Must reads include: *The Economist*, the *Far East Economic Review*, *International Economy* and *Business Week*.

Daily and weekly reading is done for many reasons. First and foremost, information drives the financial markets, as markets need information on which to trade. And the primary source for that information can be found in the papers. A day without the release of any significant economic data is a dead day. Watch the markets for this phenomenon.

This is the key to providing a good economic service: Know your client's needs. Know what they need to know before the rest of the market—then provide it to them as soon as possible. Frequently, dealers come in on Friday mornings to see that the benchmark thirty-year Treasury bond has moved considerably. More times than not, the move can be traced to a story appearing on the *Business Week* website that was released at 6:00 p.m. on Thursday evening (a day before the magazine hits the newsstands). If you can provide this type of quick investigative research, word will get out, and prospective clients will flock to your sales department.

Reading the speeches of Federal Reserve and Treasury officials, regional "beige books" and the Humphrey-Hawkins testimony of Fed Chairman Alan Greenspan provide the foundation for the weekly Fed Watch column and help form the Argus opinion/forecast of the direction of future monetary policy.

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Before I conclude the reading section, I should provide my definition of "reading." With some dozen newspapers served up each day, reading each publication cover to cover would consume about eight hours of valuable time. What I really do is skim each paper (by headline), looking for only those articles that could and would influence the economy in a significant manner.

Usually, very little can be found in the Entertainment, Home and Metropolitan sections. The Nation, Politics and Business sections are generally the most beneficial sources for such information.

### **Writing**

Reading helps with writing. Timely and relevant topics for commentary can be taken from a brief comment heard on the radio or written in an overseas newspaper. The market-dictating economic story—found during the information hour described above—will lead-off the morning publication called the *Argus Market Watch*. This report always consists of a graphical depiction of the day's most relevant topic or trend, supported by a concise (150-word) presentation.

At Argus Research, the senior economist is responsible for writing the cover page of the *Weekly Staff Report*—a responsibility of the senior economist for more than sixty-five years. Traditionally, topics include anything and everything related to the economy and financial markets. Recent titles include: "Outlook Bleak for Agricultural Credit Conditions," "Uncle Sam Money Manager," and "*Agitata Da Due Venti*." These columns range anywhere from a minimum of 750 words to a maximum of 3,000 words.

Other written responsibilities in the *Weekly Staff Report* are columns entitled: "Fed Watch," "Economic Observations," "The Monthly Economic Calendar," and "U.S. Macro-economic Data." These generally take up only a handful of the thirty-two-page weekly report.

A biweekly publication entitled *Economy at a Glance* is a four-page report containing a series of charts and graphs supporting the associated commentary. The last page contains our forecasts of the forthcoming weeks' economic statistics in calendar form.

Monthly commentary includes the *Economic and*

*Interest Rate Viewpoint*, which is a written estimation of the U.S. macroeconomy and the interest-rate forecast, supported with charts and tables of germane statistics and indicators. This report discusses the Argus investment policy and its relationship to economic political and market developments.

Monthly commentary must also be written for the Argus Monthly Conference Call. Generally this contains one part forecasts, one part international outlook, one part fixed-income commentary and a final miscellaneous economic topic.

### **A Whole Lot of Arithmetic**

Saturday is Forecasting Day. All major macroeconomic variables are forecast with simple models (mostly multiple linear regressions) for the monthly economic statistics. Typically, they include: industrial production, housing starts, consumer spending and consumer prices. Many of these monthly indicators are used in the evaluation of the broader macroeconomic view. After the numbers are crunched, the commentary obtained by each of the Argus industry analysts is employed (relative to the indicator), and the final figures are subjectively tweaked with respect to the analyst's remarks and observations.

Approximately eight times a year, the Argus macroeconomic model is loaded up and estimated. The detailed results are presented initially to our subscribers, while the broader components are released to the press at least two weeks after our clients have had ample time to digest the figures.

In this calculation of GDP and its components, input from sources other than Argus analysts and their respective industry heads are utilized. For example, the Federal Reserve's Beige Book and minutes from recent FOMC meetings are immensely informative. In other cases, contact with state officials about labor market conditions and economic growth in their respective states provide insight to turning points in the direction of overall economic activity. Input from notes obtained by way of my readings are frequently used.

During early March, New York State experienced some major snow storms, so that Governor Pataki declared a state of emergency in seventeen counties. Having written this down in my notebook, I was able to shave off some activity in my forecast of some March data.

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Every day, the Argus Commodity Price Index is updated and charted. By personally inputting each of the data each morning, I have been able to notice the trends and influences that some of the commodities have experienced, both individually and cumulatively, as an indicator of overall commodity price activity.

Finally, the quarterly interest-rate forecasts are produced for fed funds, the three-month Treasury bill, the two-year, three-year, five-year and ten-year Treasury note and the benchmark thirty-year Treasury bond. The range for each maturity along the yield curve is provided, as well as an "average" yield for each quarter.

### **The Internet, an Economist's Secret Research Department**

The role of the financial markets economist is both enhanced and complicated by Internet technology. Research that would have taken weeks can now be conducted in a matter of seconds. Data are plentiful and available on every industry. Virtually every company, state and central bank has a web site containing the most important tool for the economist, i.e., information. The nation's providers of economic data, the Bureau of Labor Statistics, the Department of Commerce and the Federal Reserve, all have web sites containing the most recent economic data. I dedicate about two (early morning) hours daily to the gathering of economic reports, data, information and research released by these agencies. Any of the Fed's thirteen web sites provides more economic information and data than any economic start-up could demand. Academic research papers provide an excellent foundation for future commentary and economic model development. An excellent source for this information is the home pages of university departments of economics. U. S. economics departments on the Internet can be found at <http://price.bus.okstate.edu/econdept.html>. At last count, 320 schools were represented on this site. Staff reports, working papers and discussion

papers from web sites generally account for the bulk of evening and weekend readings.

Journal articles from think tanks also provide insight for upcoming commentaries, speeches or forecast methods. Preferred sources include the Brookings Institute, the American Economic Institute, *Challenge*, and the NABE's own *Business Economics*. All are excellent places to find topics for economic commentary. Even those working papers deemed too technical for the junior economist can generate new ideas. Papers on inventory cycles, the wealth effect and the Asian financial crisis are just a few of the thousands of areas that can help provide support for an argument in a commentary, update a module in the firm's model or generate new ideas for future projects and speeches.

We recently found a working paper found on Granger Causality that added color to our research and commentary on whether increases in wages, as measured by average hourly earnings, equate to increases in the general price level. Even if a paper merely prompts a thought, it may assist you in future research.

Other respected and much-frequented sites for research include the Bank for International Settlements (with links to fifty-five central banks from around the world), the U.S. Treasury Department, the Department of Commerce and the Bureau of Labor Statistics. Much of the day's time is dedicated to searching these sites for material, papers and data.

### Industry Analyst Input

One of best aspects of working at an independent equity research firm is the ability to speak with industry experts. I frequently discuss emerging trends in areas as diverse as building materials, merchandising, and banking. Analysts provide not just the hard numbers but insight into the consequences that their "covered" firms face when global economies slow or accelerate. When companies experience problems—bottlenecks, weather-related issues, shipping disruptions—the industry analyst can quantify the degree to which these developments hinder or promote activity not only in the industry, but in the economy as a whole. Again, this helps the economist with macroeconomic forecasts. At Argus Research, analysts use the forum of a weekly Tuesday meeting (now in its sixty-fifth year) to discuss existing and pending developments.

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This provides the economist with much greater insight and a wider perspective regarding future economic activity than similar trading floor economists or many banking/financial economists may receive. I actually believe that the Federal Reserve doesn't get a perspective as immediate and profound as this.

By necessity, some relationships are "tighter" than others. From a macroeconomic perspective, the insights from the basic materials or retail analyst will play a more integral role in shaping economic forecasts than input from, say, the pharmaceutical analyst. In the macroeconomic picture, some inputs carry greater weight in overall economic activity. Conversely, consumer and producer price forecasts are deeply dependent on input from consumer nondurable analysts.

Another great benefit of having all of these analysts around is the availability of trade journals. Nothing is more attractive to a macroeconomist than some trade journals lying around the office, chock-full of data. Some of the more informative journals include: *Oil & Gas Investor*, *Chemical Market Reporter*, *Automotive News*, *Railway Age* and *Beverage World*. A truly devoted macroeconomist takes to these journals as a sixteen-year old boy would to a *Playboy* magazine.

### Database Management

In addition to having to forecast all of the major macroeconomic variables, database maintenance is an essential part of the job. How credible can the forecasts be if they are based on outdated and unrevised data? A great portion of the day is spent updating this database. At last count it comprises 6,500 series, including some lesser-known but important economic statistics. Some of the more obscure data include railroad car loadings, oil rig counts and shipping and port activity.

Again, trade journals contribute extensively to the data-

base. Some of the more recognized data-providing journals include: *Railway Age*, *Modern Plastics*, *Engineering News-Record*, *Pulp & Paper* and *Automotive News*.

Furthermore, the models are frequently revised with respect to new information obtained either by reading or through some of the industry contacts. As web sites are discovered and new data become available, the data are incorporated into our models. A recent example is having stumbled upon sites containing pallet production data. We have since incorporated that into some of our shipping and export components of the Argus macromodel.

### Media and Press

One of the more essential duties of the Wall Street economist is the marketing and promotion of the firm's wares. How can the firm attract more clients without the knowledge of the existence of the firm's business? The economist of a firm has the ability to present the firm and its opinions for public attention.

When the media calls, it is in the best interest of the economist to respond in an informative manner. At Argus, all analysts and economists are encouraged to make appearances on the major Business Networks like CNNfN, CNBC and Bloomberg Television when time affords it.

Stealing from Joel Prakken's comments in this column in January 1999, "Never turn down a national TV spot." The exposure that a national television spot creates is remarkable. After appearing on CNNfN, my office is inundated with phone calls, some from prospective clients.

Newspapers and newswire comments are just as important, because it is this path that permits the general public to read about your forecasts and your interpretation of different economic releases.

### Suggestions

Finally, some helpful hints. These may not be secrets to fellow economists, but to those of you that are just getting started or are thinking of making your way into Wall Street as an economist, they should prove beneficial.

Read everything! The greatest tool an economist can have is information. Generally, the information comes in the form of economic news reports, and not everyone can have the newswires running through their home. So, read the newspapers and use the Internet. Every newspaper

contains something of importance to the macroeconomy; you just have to look for it.

This is where the economist's second greatest tool comes in handy—a pair of scissors. Literally cut the important information from the newspaper or magazine and paste it into a notebook or file. Then, when you are called for a presentation by clients, schools or finance groups, you have some reference materials available.

Carry a notebook with you at all times. Ideas come at the most unexpected times and should be jotted down. When economists are required to write weekly columns on the economy, it can be boring for readers to read about economic data releases. In fact, I shy away from writing about releases in our *Weekly Staff Report*. It isn't always economic data that finds its way into this book and subsequently into my writings. Generally anything that disrupts or furthers economic activity to a substantial degree finds its way into this book.

Folders in my office range from the truly obscure India & the Bomb, the Big Mac Index, and Cigarette Tax to the more common Social Security and Underground Economy.

Build that Rolodex. Make contacts in many different fields. Don't limit your contact sheets to just traders of bonds, futures or equities. Find heads of industry, Federal Reserve Bank officials, senior economists in state and local municipalities. I have found that academics are wonderful sources for insight to international developments and alternative ways to look at economic conditions and developments. ■