HOW YOUR UNDIES TRACK THE RECESSION

By Michael Brush

MSN Money

Guys, if you want to know where the economy is headed next, look in your underwear drawer. If you're like most men, you've got more than a few skivvies in, well, less than perfect condition. If you've put off buying replacements -- and your significant other hasn't done it for you -- then guess what? The recession probably ain't over yet.

In fact, right now men's underwear sales suggest that things have bottomed but not started to recover. Sure, this sounds trivial. But no less an economist than former Federal Reserve chief Alan Greenspan is a fan of men's underwear sales as an important economic indicator. It's one of several unusual indicators economists turn to in hard times. We went looking through them in a quest for the much-discussed "green shoots" of an imminent recovery.

Underneath the underwear indicator

Greenspan reasons that because hardly anyone actually sees a guy's undies, they're the first thing men stop buying when the economy tightens. By extension, pent-up demand means underwear sales should be among the early risers when growth returns and consumers feel confident enough to shrug off "frugal fatigue," says Marshal Cohen, the chief industry analyst with NPD Group, which tracks consumer behavior.

After a 12-month, 12% decline through the end of January, men's underpants sales leveled off during February and March, according to NPD. That suggests the economy was stabilizing, Cohen says. For a recovery, we'd need to see a return to 2% to 3% annual growth in underwear sales. And that's not in the cards, believes Bill Patterson, an analyst at consumer research company Mintel. Based on market research and surveys, Mintel predicts a 2.3% decline this year in men's underwear sales and no recovery until 2013. That's four more years of saggy elastic and threadbare cotton.

Bra sales headed up?

Folks such as Greenspan don't seem to look as closely at women's lingerie -- reasoning, perhaps, that women are more sensitive about wearing worn undergarments. But Cohen says a pickup in sales of bras, as well as denim and footwear, will indicate the economy is on the mend. These are the sorts of items consumers wear longer in a recession, and then replace when they feel confident enough to shop again.

Bra sales were up 4% during the first quarter, a key reversal given that women turned more frugal this recession than men did. Usually men pull back on spending more. But denim and footwear sales remain sluggish, which suggests only stabilization, not recovery.

Watch those hemlines and midriffs

While economists now track sales, hemlines served as an oddball indicator for much of the previous century. In tough times, the experts muse, hemlines drop as an expression of conservatism, only to rise again as the markets hit go-go mode. During the late-1990s boom, the hemline indicator was supplanted by a midriff meter, as more women bared their stomachs as the popularity of tech stocks (and Britney Spears) peaked.

When the financial mess hit two years ago, blouses began replacing halter tops, and midriffs started to vanish, observes Jeffrey Hirsch of the Stock Trader's Almanac, which looks for seasonal and other patterns that traders can play. If you believe this indicator, Hirsch says to watch for bellybuttons, plunging necklines and higher hemlines to confirm that we are in recovery mode. As I write this, looking around the streets of New York City on a warm spring day, it doesn't seem we are there yet.

The 'can I return this?' indicator

The amount of stuff consumers return to stores can also tell us when a rebound is in store, says William Angrick, the chief of Liquidity Services. Retailers normally don't share much information about returns, but Angrick isn't shy about it. His company buys returned items from retailers and sells them to other businesses, which put them back on the market.

Returns have spiked for pricey discretionary items -- such as high-end apparel and shoes, expensive electronics and top-of-the-line tools and grills -- just as they did during the previous recession. "It's been high since October," says Angrick. And returns aren't letting up -- as you'd expect if consumers felt recovery was on the way.

Here's another bad sign: Angrick says the number of consumers who band together to amass the larger buying power needed to purchase directly from Liquidity Services -- like the soccer moms who recently bought a bunch of Guitar Hero games and game boxes -- is not letting up either. That's a sign they're not confident enough to pay retail.

The end-of-the-month squeeze indicator

Some working people and a lot of those on government assistance get paid once a month, usually near the beginning of each month. So during recessions, buying patterns change. Wal-Mart Stores has noticed that when times are hard, purchases tend to bunch up at the beginning of the month, when aid and paychecks arrive. People also buy larger packages of stuff at the start of month and smaller ones at end of month as they stretch their budgets. These two trends have played out once again this recession, Wal-Mart spokesman John Simley says. And neither has let up, suggesting a recovery is not yet at hand.

There's no shortage of quirky indicators in the retail world, in fact. Experts also look to doughnuts and hot dogs. Sales of both rise as consumers seek cheap, comforting foods. During an earlier bout of hard times, hot dogs were sold in more than one place as "Depression sandwiches."

The nattering nabob indicator

With the number of Internet blogs soaring, market analysts now see them as an excellent gauge of public sentiment. Todd Salamone of Schaeffer's Investments Research likes to use the Web site Blogpulse.com to chart the number of references to business-related phrases like "recovery" or "Great Depression of 1930s."

When the nattering nabobs of the blogosphere are using bullish phrases like "green shoots" often, as they are now, it's a sign the public has become overly optimistic about the economy. That may sound like good news, but it's not -- for stocks. When so many people are already bullish, there are few converts to jump in and push stocks higher. And it becomes harder for the next bit of good news to push up stocks. Widespread bullishness also leaves the markets more vulnerable to surprise bad news, Salamone says.

The recent spike in bullish sentiment is one reason Schaeffer's Investments Research has a bearish short-term outlook for stocks. It may be better to wait for a spike in the use of negative terms -- like "recession" -- in the blogosphere, to buy stocks. "Periods of ultimate despair create an opportunity for positive surprises," Salamone says. "They become buying opportunities."

The secret life of bees

The quirkiest market indicator of all may be the honeybees raised by market analyst and investor Gary Shilling. (And no, he's not a crackpot; in his newsletter Insight, he forecast much of the current financial mess.) Shilling is an avid beekeeper in New Jersey who has noticed that when he has a poor honey crop, a bad year for the economy and stock market is in store. "Last year was the second-worst year I've ever had," Shilling says.

This year, the bees are predicting an "iffy" performance, because conditions so far don't suggest a great summer honey harvest. Of course, Shilling isn't relying on his bees when he predicts more problems ahead. Shilling is troubled by excess housing inventory and problems in commercial-real-estate loans, credit card loans and student loans. And more layoffs will spook consumers and keep their wallets shut.

All of this means the recent strength in stocks is just a sucker's rally to be sold, Shilling believes. If he's right, the bees, the underwear and many of these other indicators are right on target.