FUTURE takes
Transcultural Futurist Magazine
ISSN 1554-7744

Vol. 7, no. 3 (Winter 2008-2009)

Can you already see the weak signals of the next economic boom?

Elina Hiltunen
Editor, Weak Signals

The economic turmoil and the latest surprising events in financial markets last autumn have raised the question: could the financial crash have been predicted? Were there some weak signals of these events that could have better prepared us for the financial crash?

Using the Factiva database to capture financial data from major US newspapers, **Turo Uskali**, a Finnish professor with expertise in innovation journalism and weak signals, recently analyzed the subprime loans. Upon noticing weak signals of the financial crisis that were present as early as 2005, he commented that based on the articles in US newspapers and especially in the professional financial journals, the reader could have well anticipated the forthcoming troubles, even the crises.

According to Uskali, the *Wall Street Journal* was the first newspaper to warn about forthcoming free fall of housing prices. However, the US Federal Reserve had warned about the risks of subprime mortgages since 1999, whereas the *Wall Street Journal's* warning came in 2005. Uskali claims that the US media woke up to the risks of the real estate markets in the December 2006, while the issue got global attention only March 2007.

Ojala and Uskali (2006) have studied the journalistic texts of the *New York Times* from the times before the market crashes of 1929, 1987 and 2000. In their study, they concluded that *"even if information and communication technology advanced dramatically from the 1920s to 2000, the flaws of the business journalism in writing about the stock markets have remained almost the same: their reporting is too enthusiastic (or positive) and uncritical, and therefore incapable of effectively detecting the weak signals impending collapses on the Stock Exchange."*

Based on the studies by Uskali (2008) and by Ojala and Uskali, one might attempt to answer the following questions: could the financial crash have been predicted and were there some weak signals of these events that could have better prepared us for the financial crash? The answers to both of the questions are yes. Weak signals were evident at least in some media, and we could have anticipated the crash by interpreting these signals right. So why did we fail to anticipate it? Like the media, people appear to be slow in changing their mental models. Changes, especially negative, appear to be difficult to accept. Uskali (2008) pointed out that the weak signals of the real estate price crash were first recognized by major institutions such as the FED and by specialized professional journals. Only later did the mass media react to the crises. One possible cause of this slowness is the superficiality of the journalists on the issues they write. Uskali calls for the more high quality journalism for anticipating the changes in the markets.

If it is difficult to read the weak signals from media well in advance, either because the media do not report about them because or we do not believe them, could there be other indicators of the forthcoming changes? Professor **John L. Casti** has very fascinating theories about anticipating future changes. He has identified the concept of *social mood* as a key indicator of future events. He considers financial market averages to be a "sociometer" measuring a population's mood in the way that financial markets are reacting to people's beliefs about the future and present. With this hypothesis in mind, measuring the social mood of a nation or of the entire world becomes a challenging effort. Professor Casti and Finnish futurist **Leena Ilmola** are currently working on a project that tries to identify the correlation of social mood with stock index changes. They have analyzed many newspaper articles to identify positive or negative moods and then compared this data to the stock index. The results of their study indicate that the change in the social mood pre-indicated the changes in the stock index.

Of course, this method does not presently provide accurate predictions of future events or their nature, nor is there a patent solution for anticipating changes in the economy or in general. However, it is possible to fine tune ourselves so that we can better recognize weak signals. First, one can focus on the fringe. Look for disruptions in current trends, especially in cyclical trends such as those associated with the economy (boom-depression). A common reason for failure to recognize weak signals is that they are often blocked by one's filters. In addition, one might question hidden assumptions that people often make – for example, that energy will remain inexpensive or that home values will continue to increase without end.

With the economic depression now here, the challenge is to spot weak signals of the next boom and be prepared for it well in advance.

Sources

Jari Ojala and Turo Uskali, "Any Weak Signals?" *The New York Times* and the Stock Market Crashes of 1929, 1987 and 2000, XIV International Economic History Congress, Helsinki 2006, http://www.helsinki.fi/iehc2006/papers1/Ojala.pdf (retrieved 24th, January, 2009)

Turo Uskali, "Finanssikriisi osattiin ennustaa vain harvassa lehdessä," *Helsingin Sanomat*, vieraskynä, 3rd, Nov, 2008.

John L. Casti, "Austro-Angst," *Die Presse*, 31.12/1.1. 2008

Elina Hiltunen *is a Futurist and Strategic Foresight Manager at Nokia Group. In addition, she is completing her Ph.D. on weak signals at the Helsinki School of Economics. Her interests include the definitions of weak signals and ways to use them in the commercial environment. She can be contacted at elina.m.hiltunen@nokia.com.*