

# How to make economic forecasting fit for purpose

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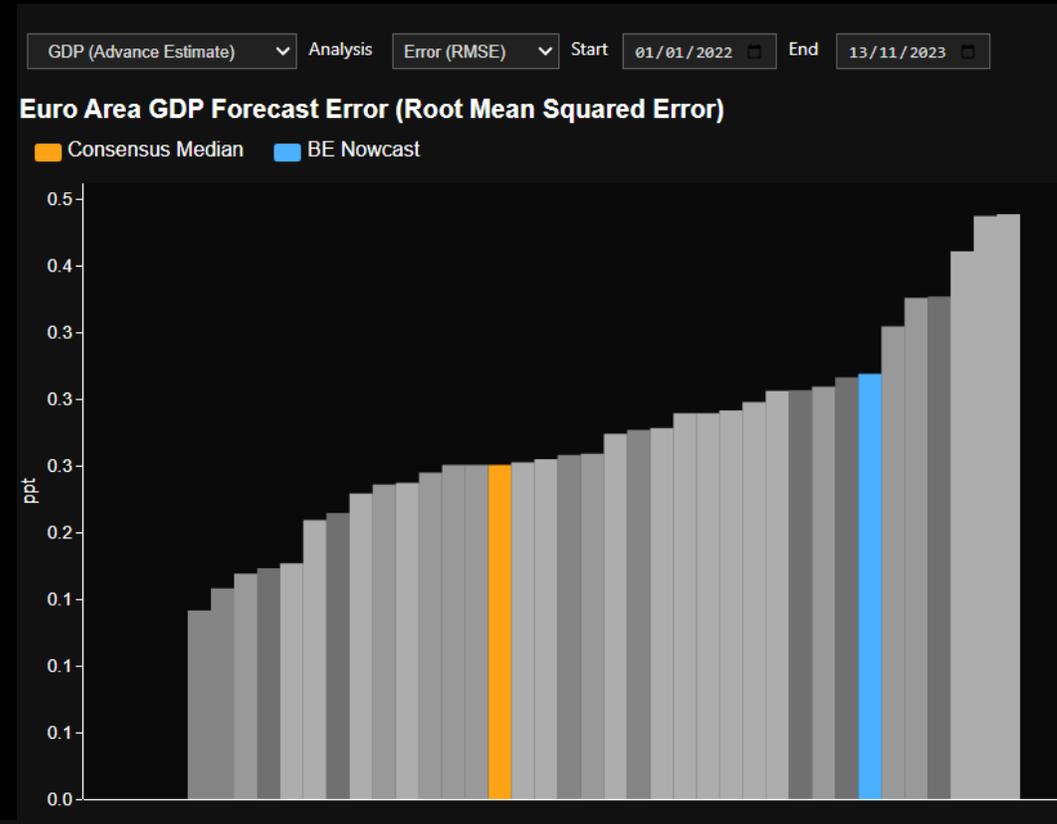
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# What is the purpose of economic forecasting?

1. Accurate Predictions
2. Understand the relevant news from data releases
3. Predictions conditional on scenarios for key variables
4. Communicate the future path of key macroeconomic variables to explain decision-making.
5. Communicate uncertainty about the future.

# Accuracy

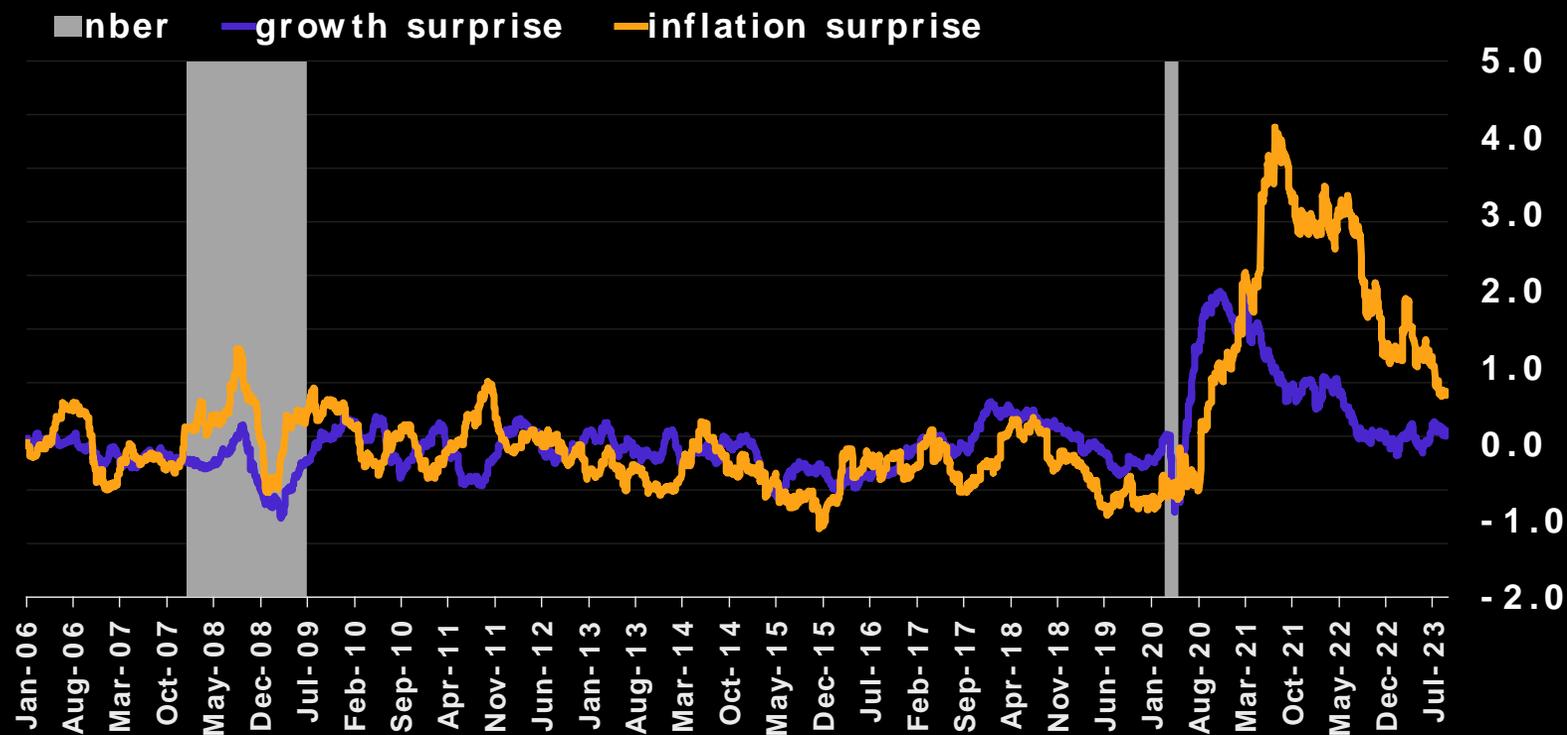
- Judgment may improve the accuracy of statistical model-based forecasts at short horizons by adding additional information.



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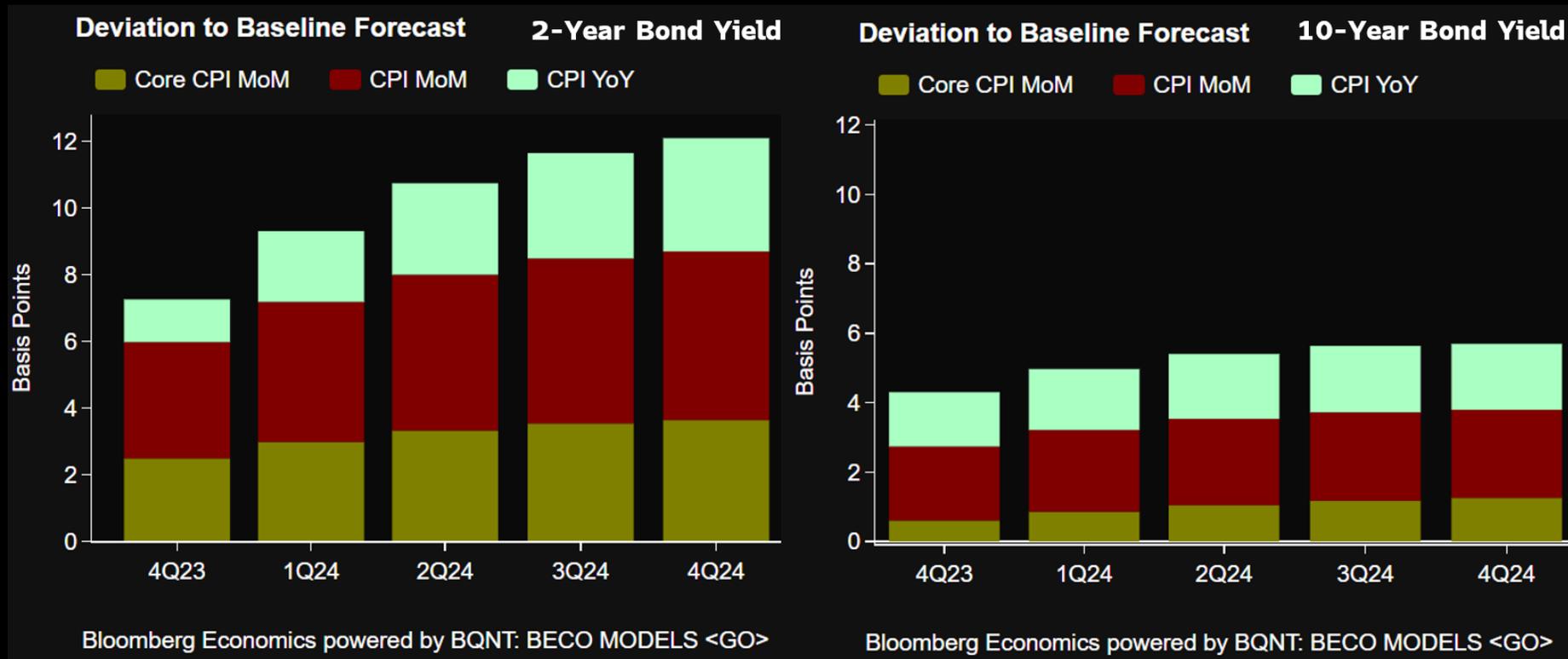
# Data News Content

- Using the Bloomberg ECOS consensus forecasts to measure 'data surprises' of almost 100 data releases split into growth and inflation.



# Data News Consequences:

- The Expected Effects of CPI Data Surprises on US Treasury Yields:



# Predictions using Scenarios for Shocks

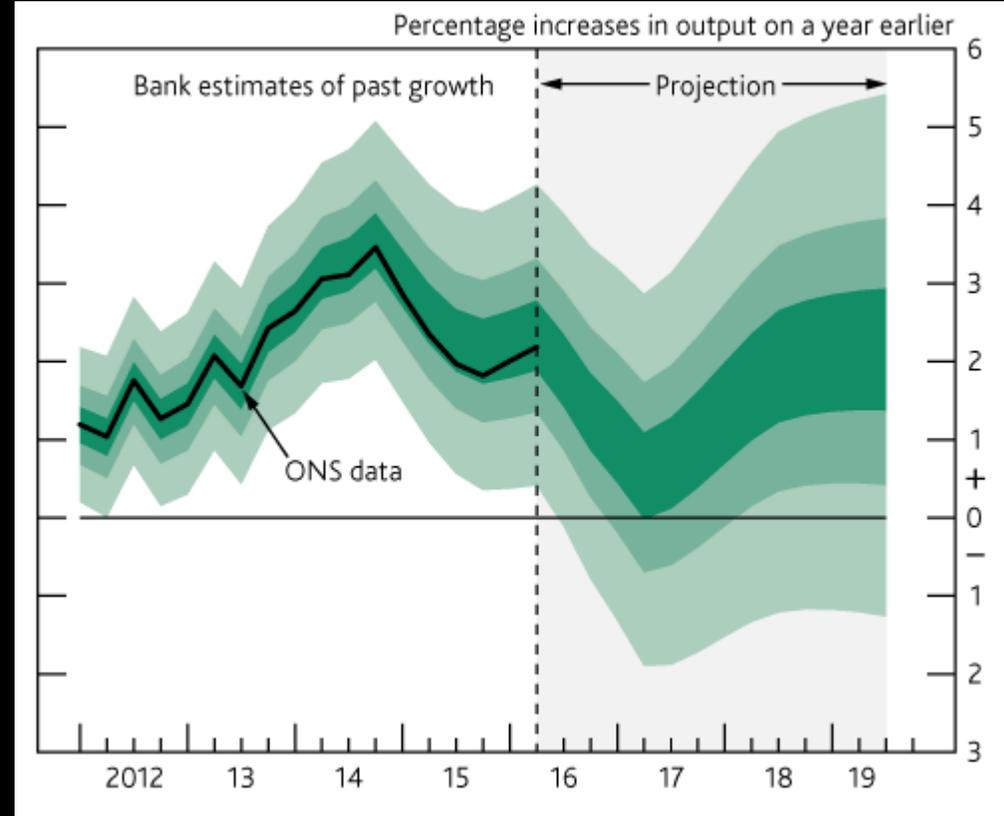
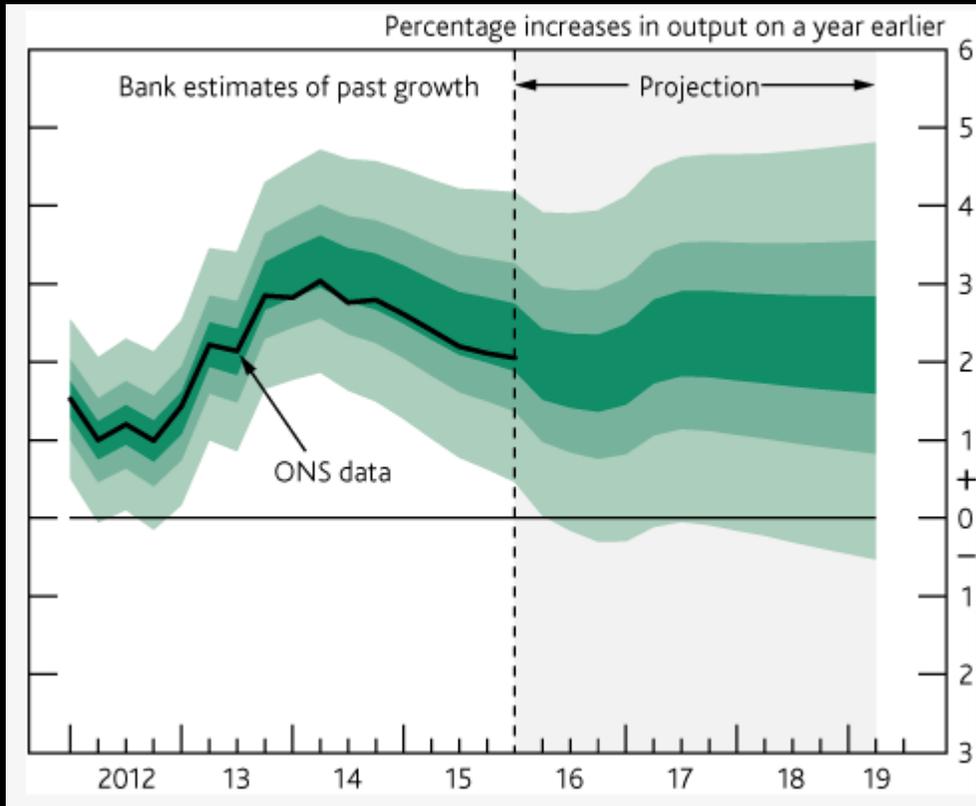
- Usually based on Dynamic Structural Models:



# Communicating Path for Policy

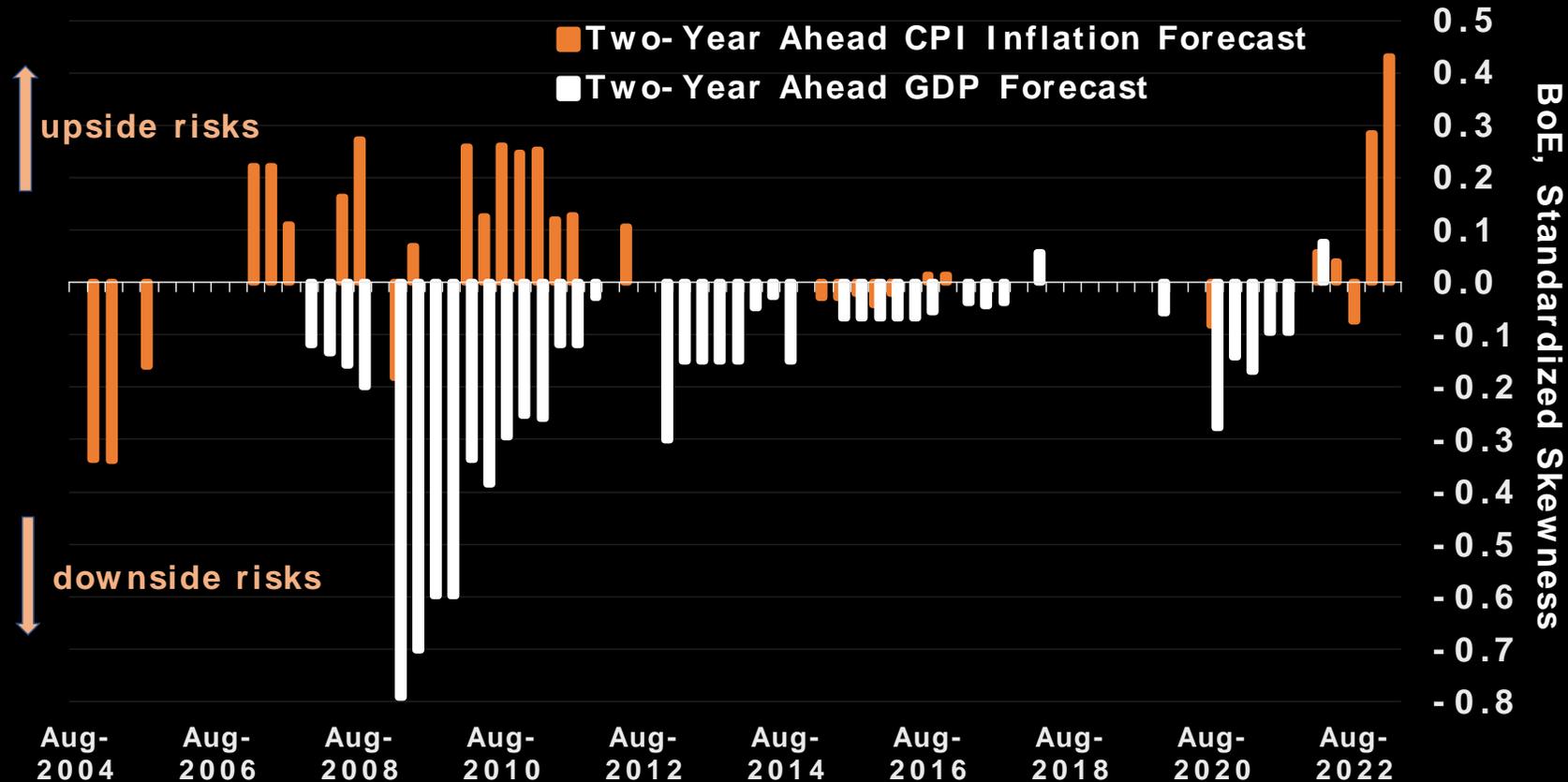
- MPC Projections for GDP based on market interest rate expectations
- May 2016

August 2016



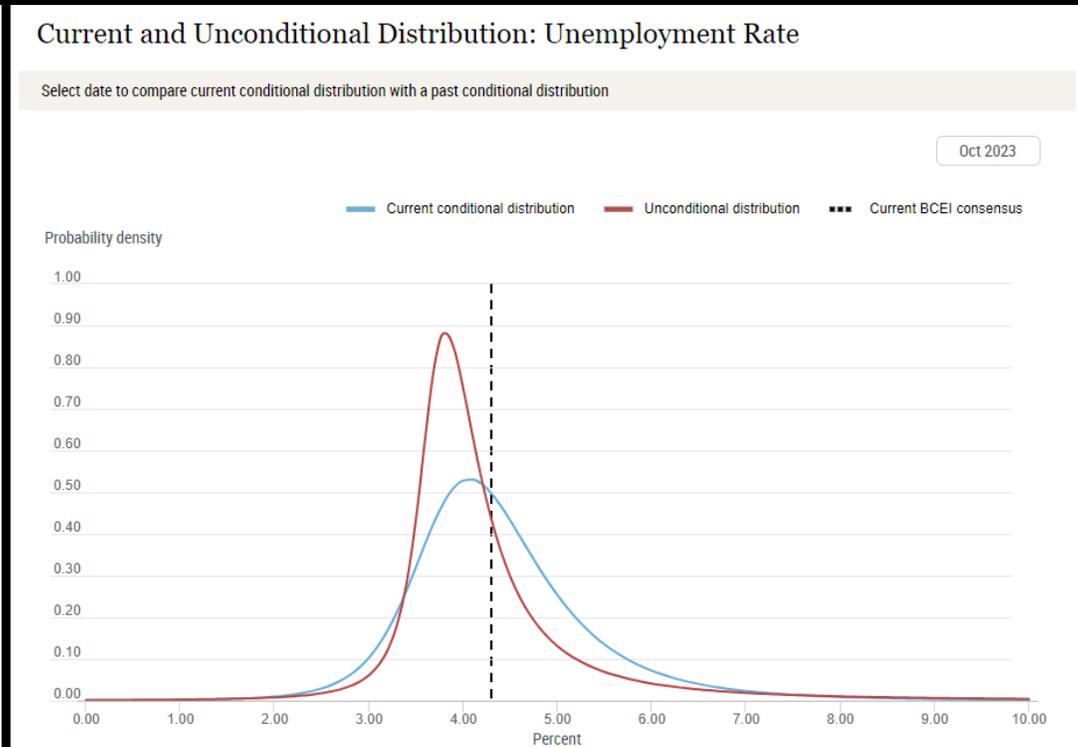
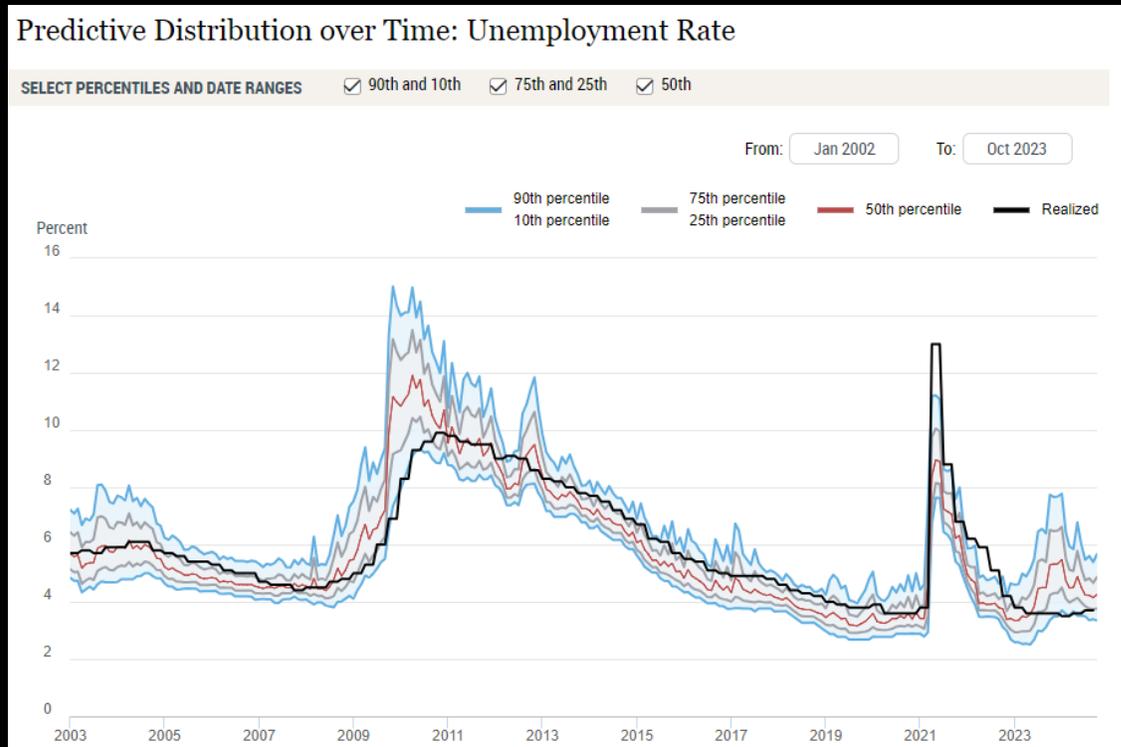
# Communicating Uncertainty

- ‘Balance of Risks’ (i.e., skewness) to accommodate disagreement about predictions.



# Statistical Model Uncertainty

- New York Fed, Outlook at Risk, 4-quarter Ahead Model based:



# Take Aways:

- (From my experience and reading of literature)
- Use a statistical model to summarise data and compute projections, but consider using additional information in periods of turbulence.
- Use data releases to explain forecast revisions.
- Develop structural models to build scenarios and aid medium-term forecasting.
- Use past performance or statistical models to figure out forecast uncertainty -- subjective uncertainty is usually not correctly calibrated.