

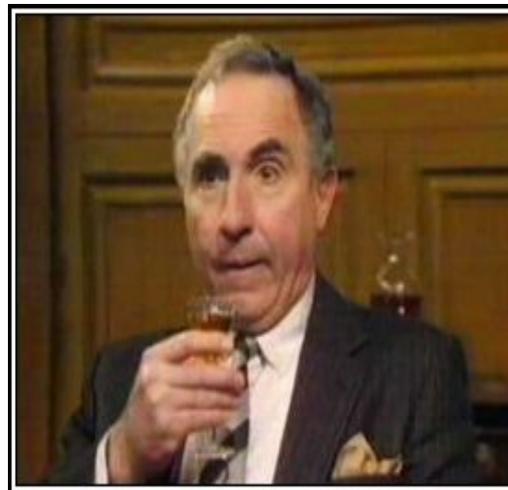
Fail Again? Fail Better?

Forecasts by Economists during the Great Recession

“Why did no one see this coming?”



“Ma’am, to see this one coming would have ruined our perfect record of failure to see it coming”



Hites Ahir and Prakash Loungani, IMF

Prepared for presentation at *George Washington University Research Program in Forecasting Seminar*
January 30, 2014

Views expressed are those of the authors and should not be attributed to the IMF.

What we knew ...

From Loungani, 2001, International Journal of Forecasting)

- “The record of failure to predict recessions is virtually unblemished”
- It’s “a statistical photo finish” between private sector and official sector forecasts

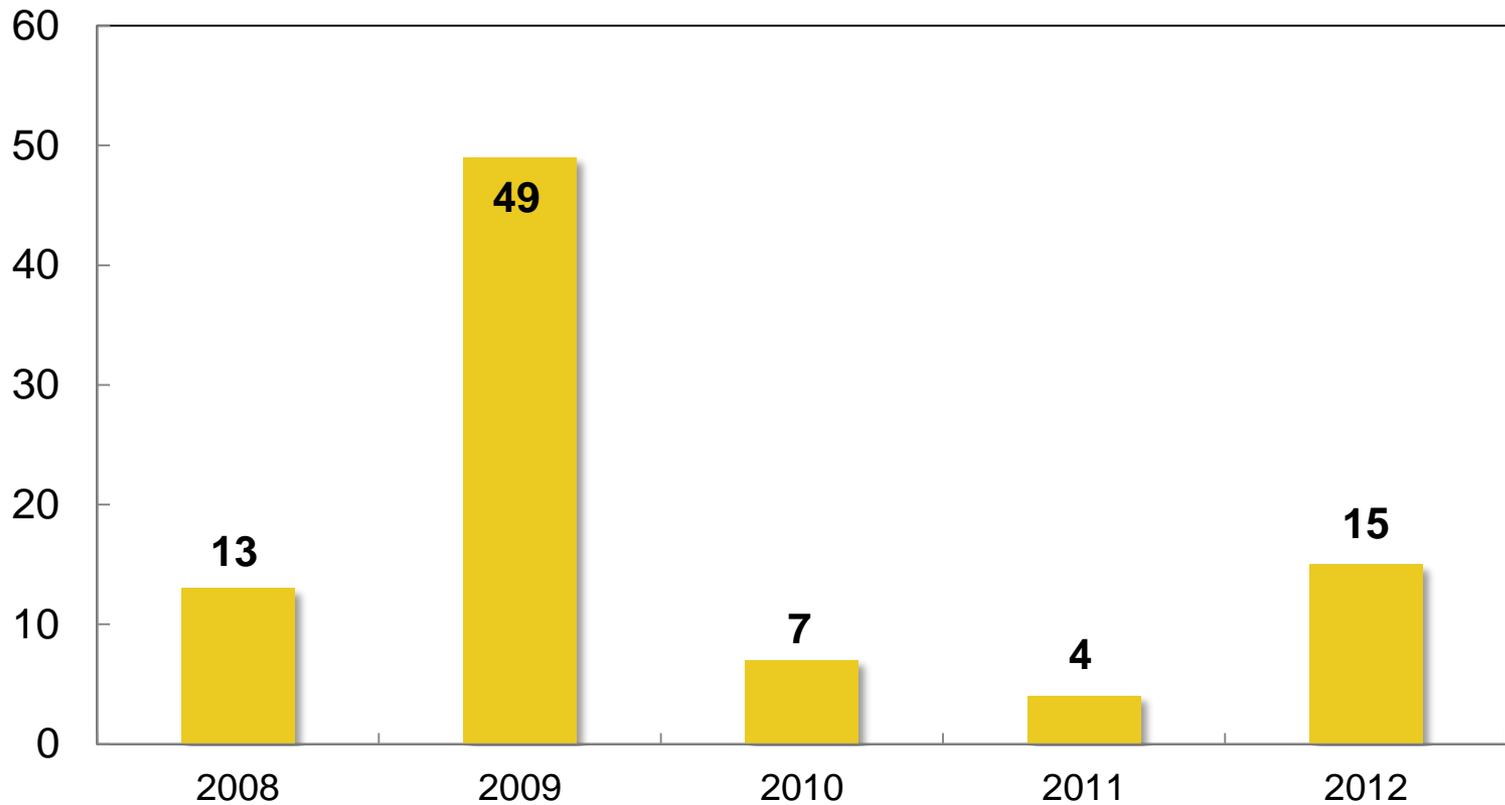
New evidence for 2008-12

- We study forecasts of output (real GDP growth)
 - For 77 countries (incl. 28 country OECD sample)
 - From three sources
 - Consensus Economics (“private sector forecasts”)
 - IMF’s World Economic Outlook (WEO)
 - OECD’s Economic Outlook
- Evidence shown here on how well recessions were predicted is based on Consensus forecasts.

Summary of new results

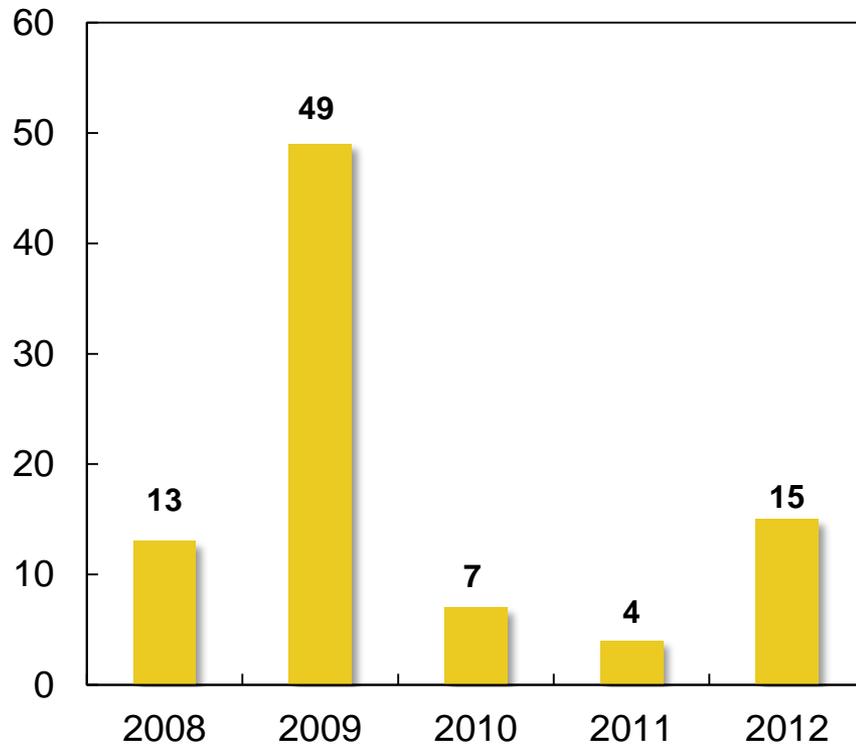
- Ability to predict recessions
 - **Fail Again:** *Economists were not able to predict too many recessions over this period, particularly in advance. Generally, recessions arrived before they were forecast*
 - **Fail Better:** *though recessions occurring in 2009 were not predicted a year in advance, the number of recessions was actually over-predicted over the course of 2009. Herman Stekler would argue that this is progress because in the past economists have been too timid about calling recessions.*
- Statistical photo-finish:
 - Consensus, WEO and OECD forecasts are virtually identical

Number of “recessions” in a sample of 77 countries, 2008-12

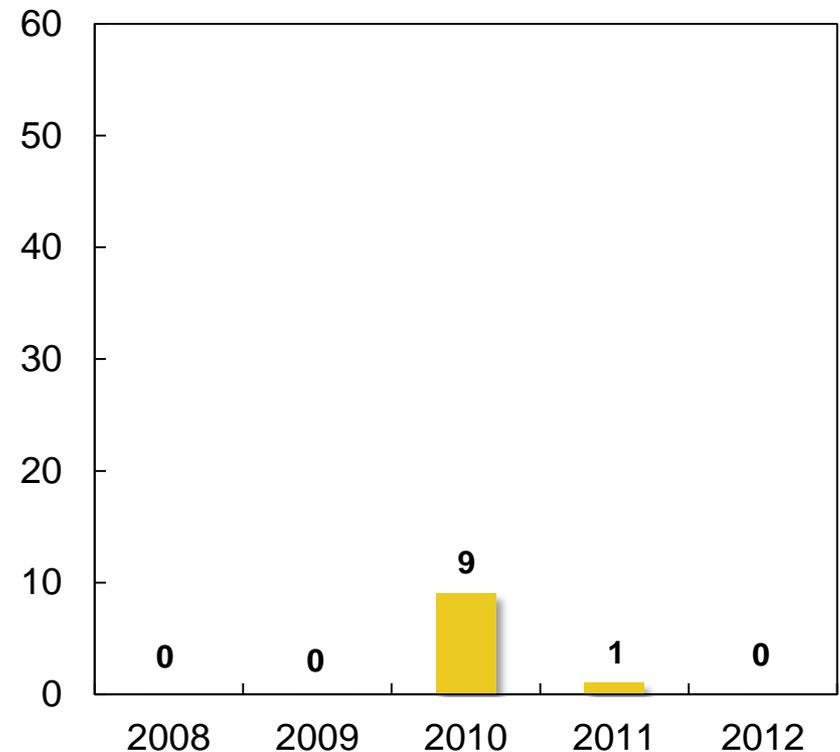


Number of recessions predicted by April of the previous year

Recessions (Reality)

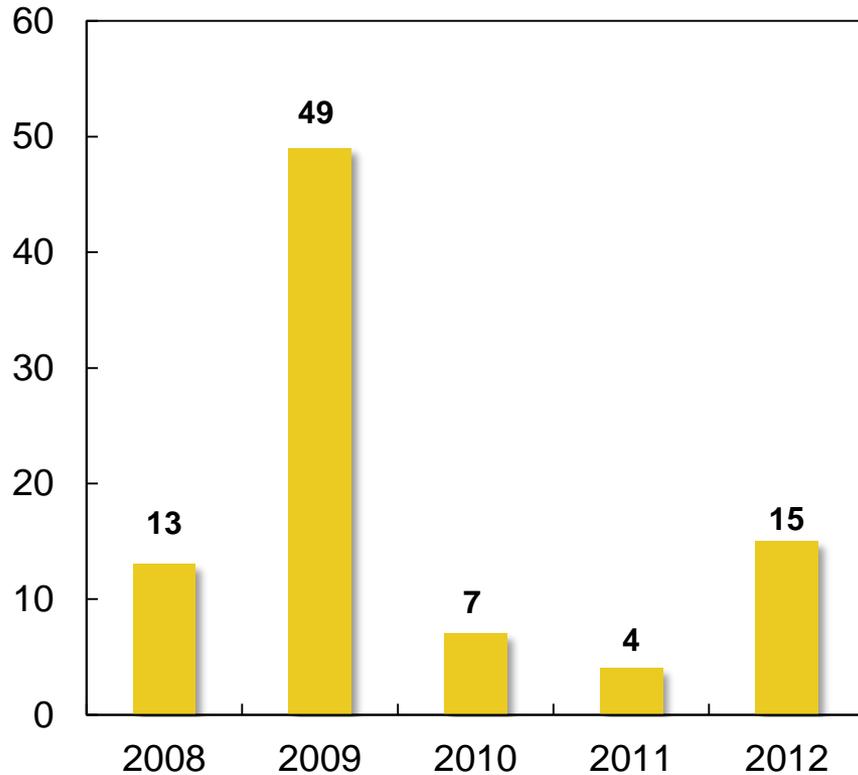


April(t-1): Recessions (Predicted)

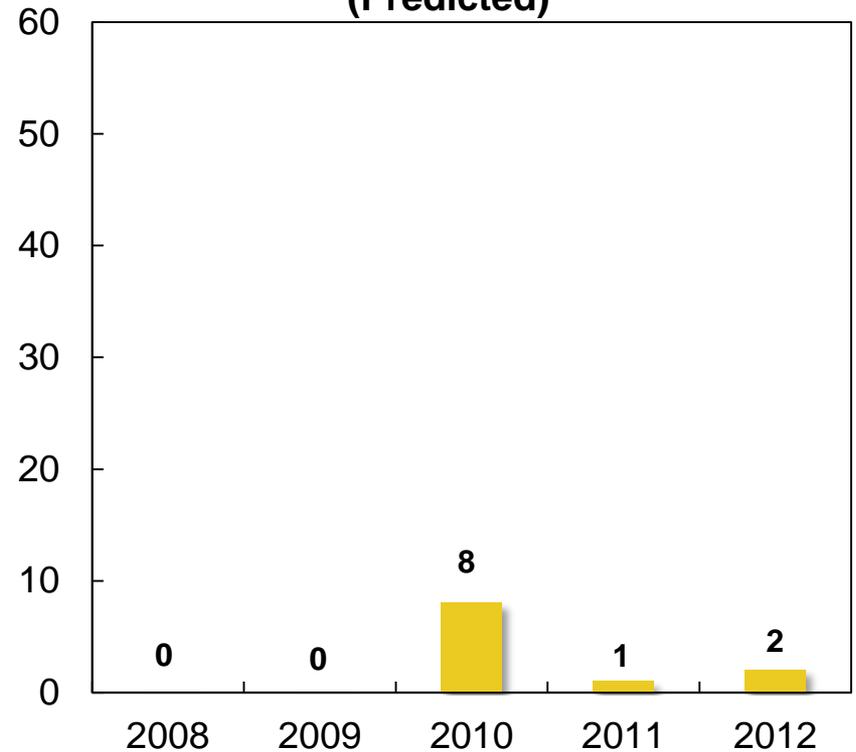


Number of recessions predicted by September of the previous year

Recessions (Reality)

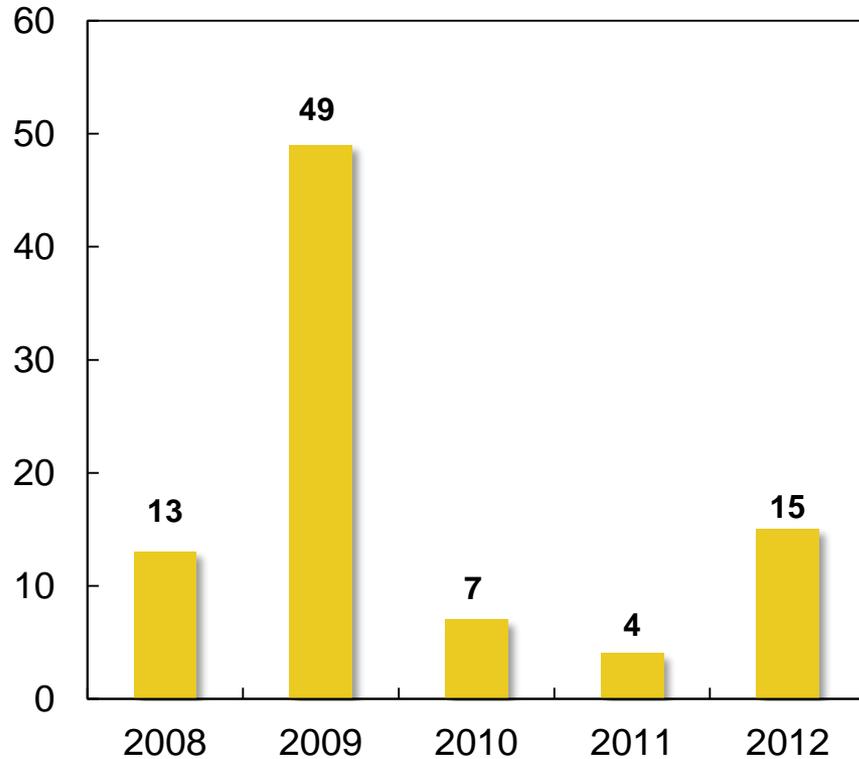


September(t-1): Recessions
(Predicted)

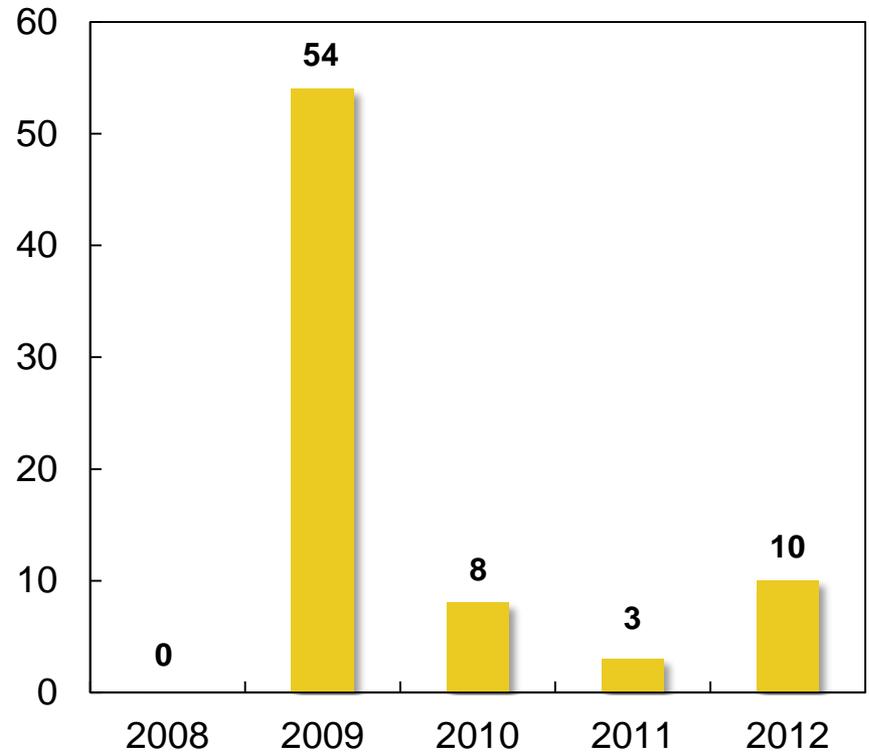


Number of recessions predicted by April of the year in which the recession occurred

Recessions (Reality)

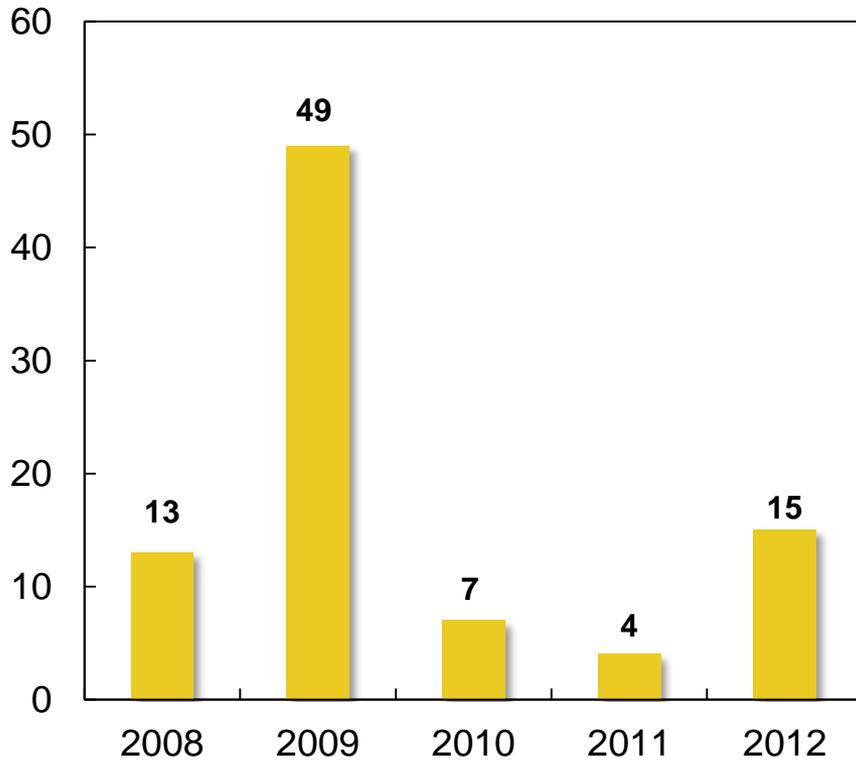


April(t): Recessions (Predicted)

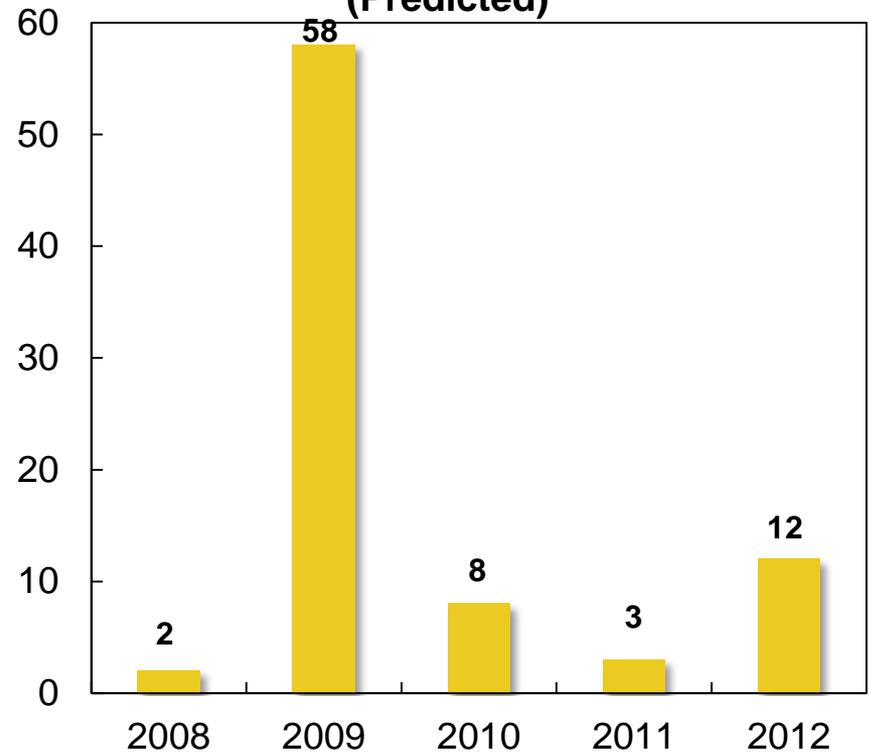


Number of recessions predicted by September of the year of the recession

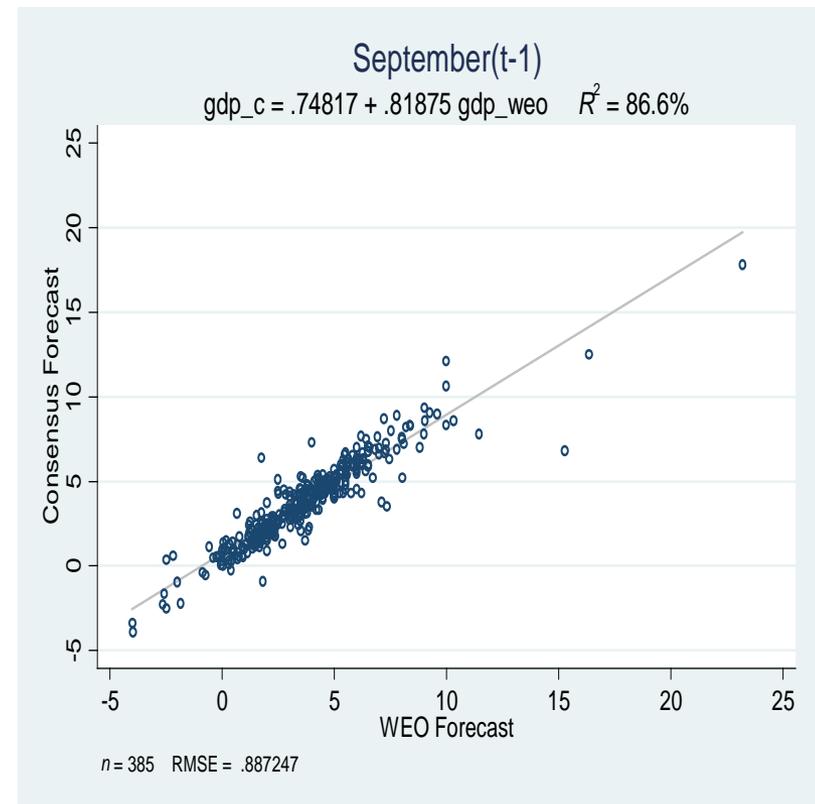
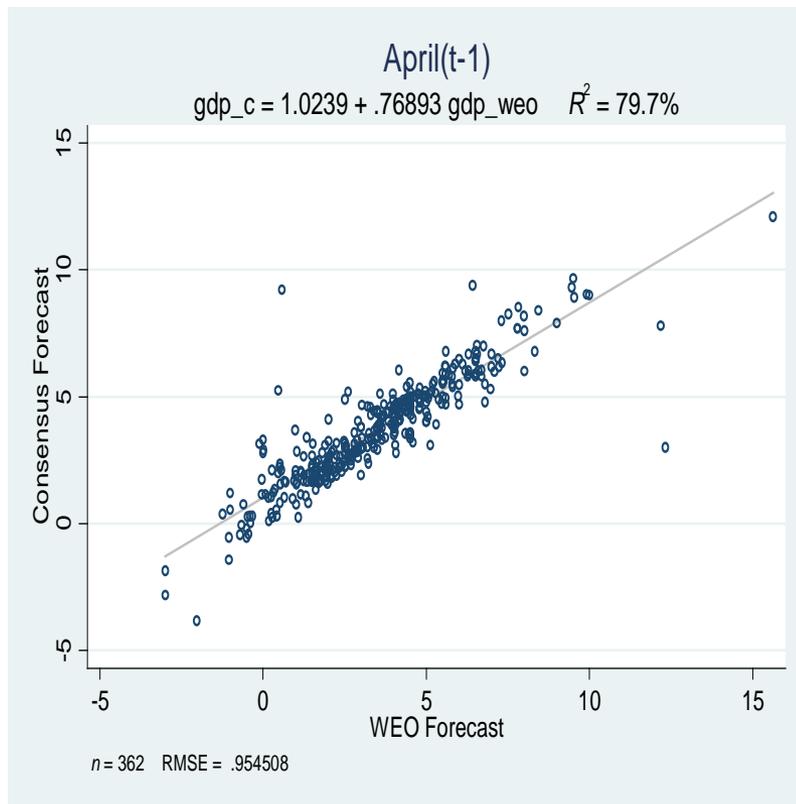
Recessions (Reality)



September(t): Recessions (Predicted)

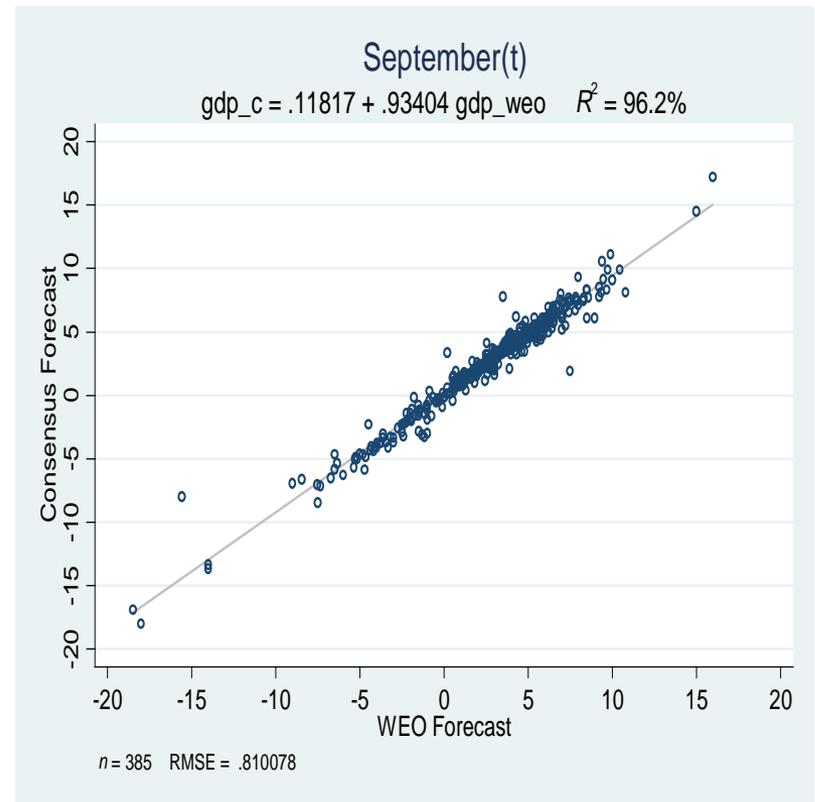
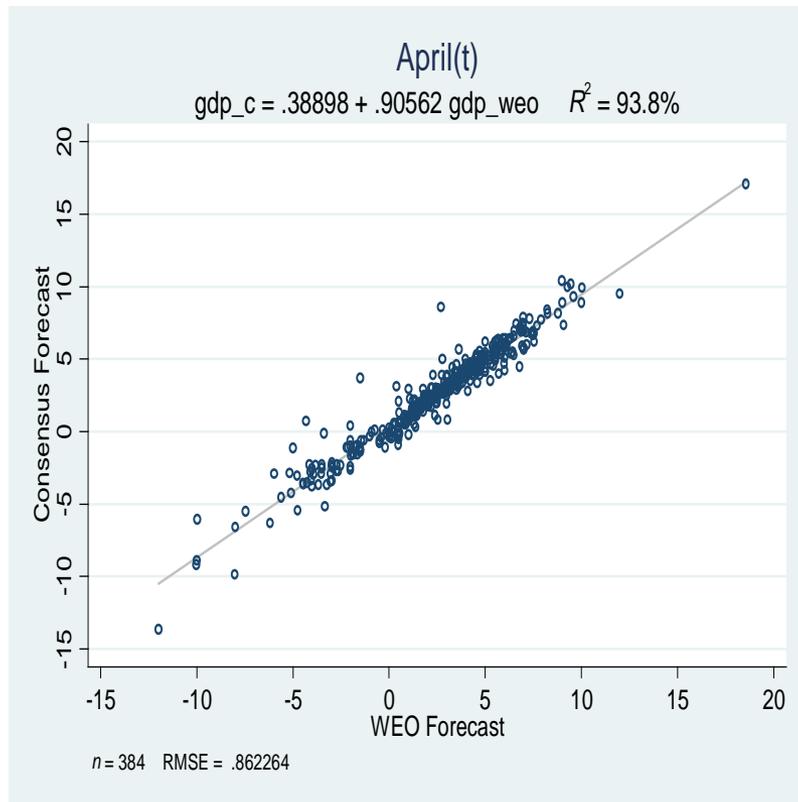


Year ahead forecasts: Comparing Consensus and WEO

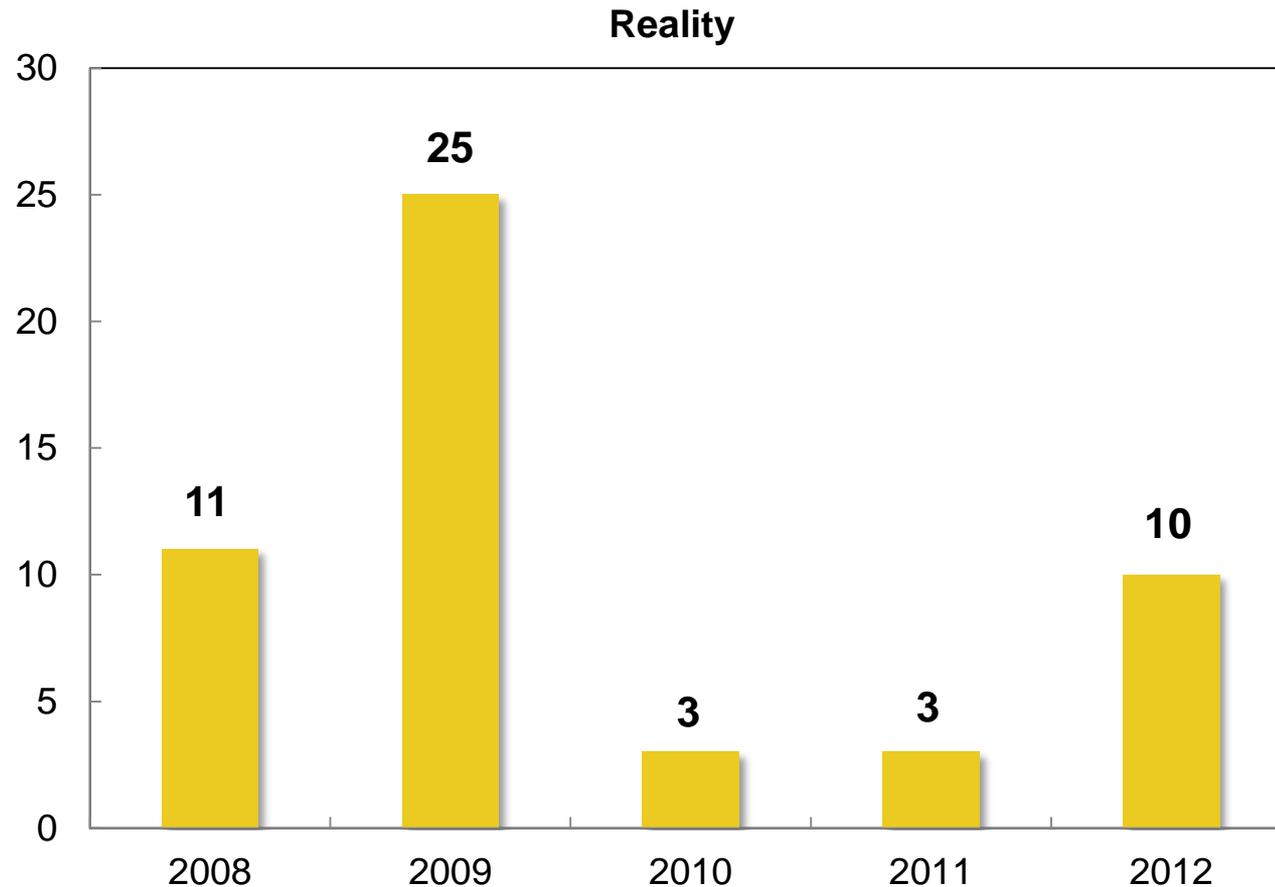


Current Year Forecasts

Comparing Consensus and WEO

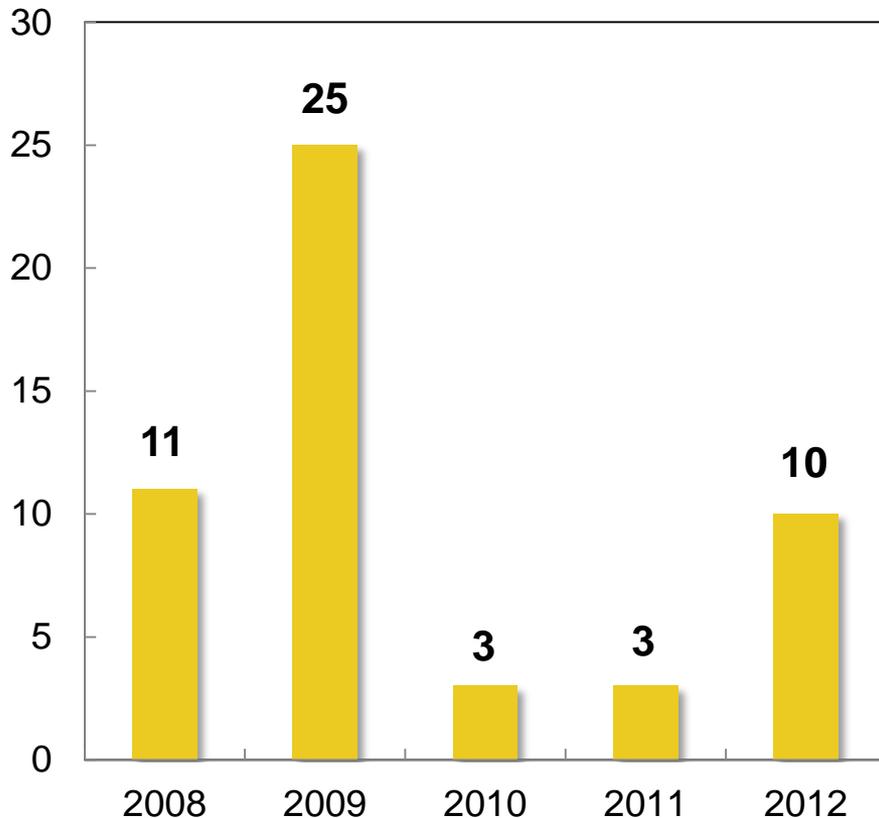


Number of recessions in OECD Sample (28 countries)

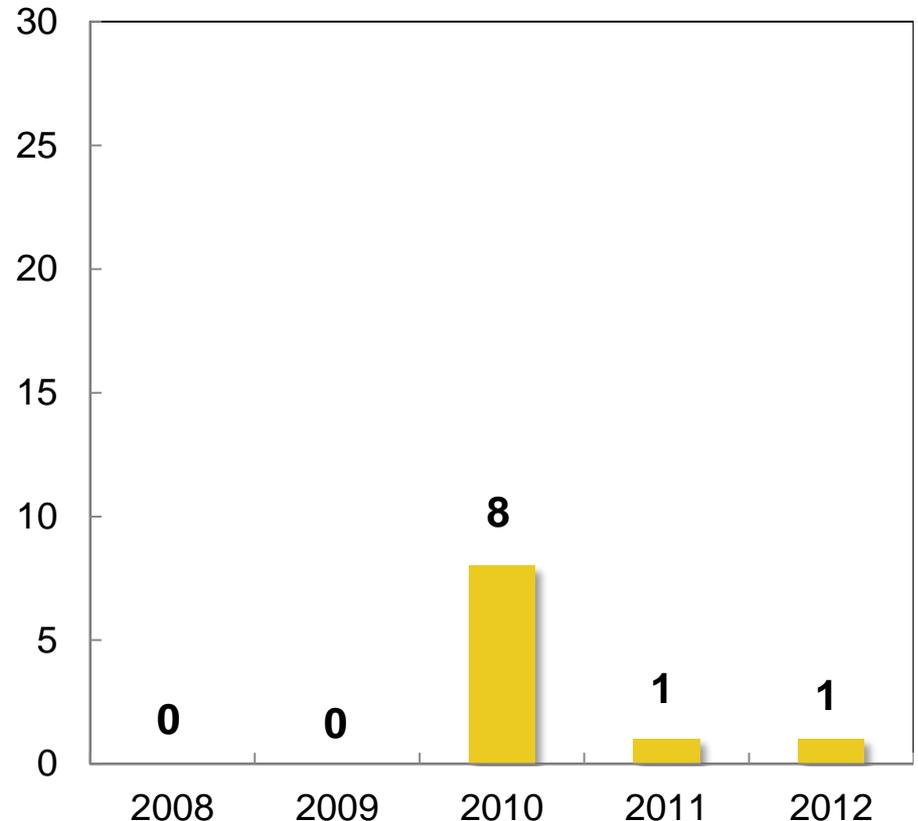


Number of recessions predicted by June of the previous year

Reality

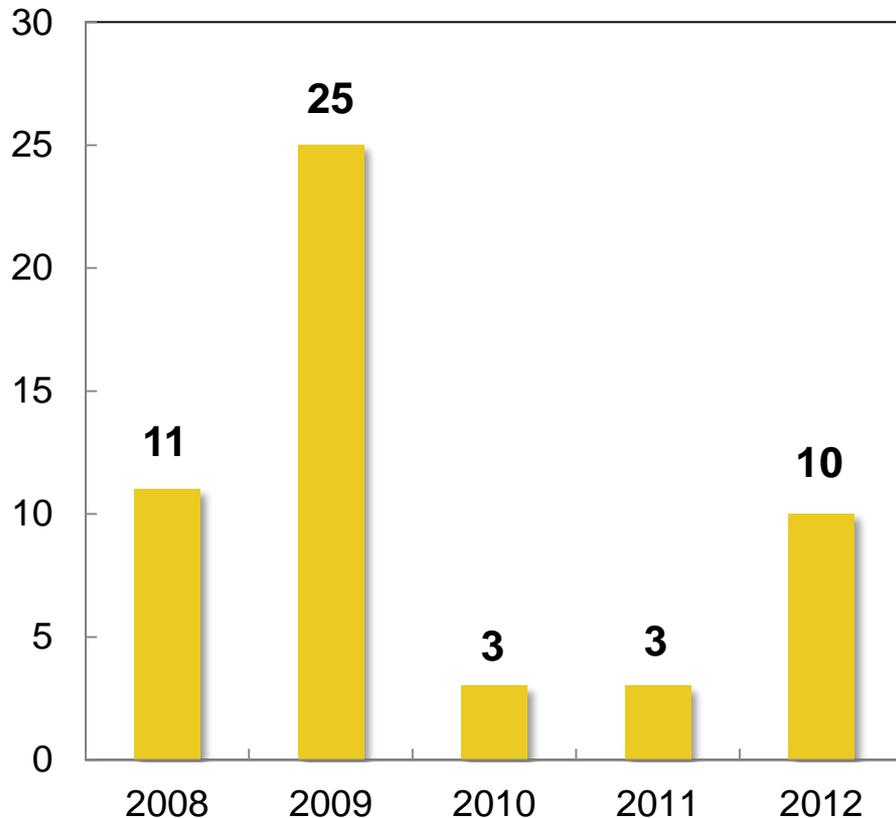


June(t-1): Predicted

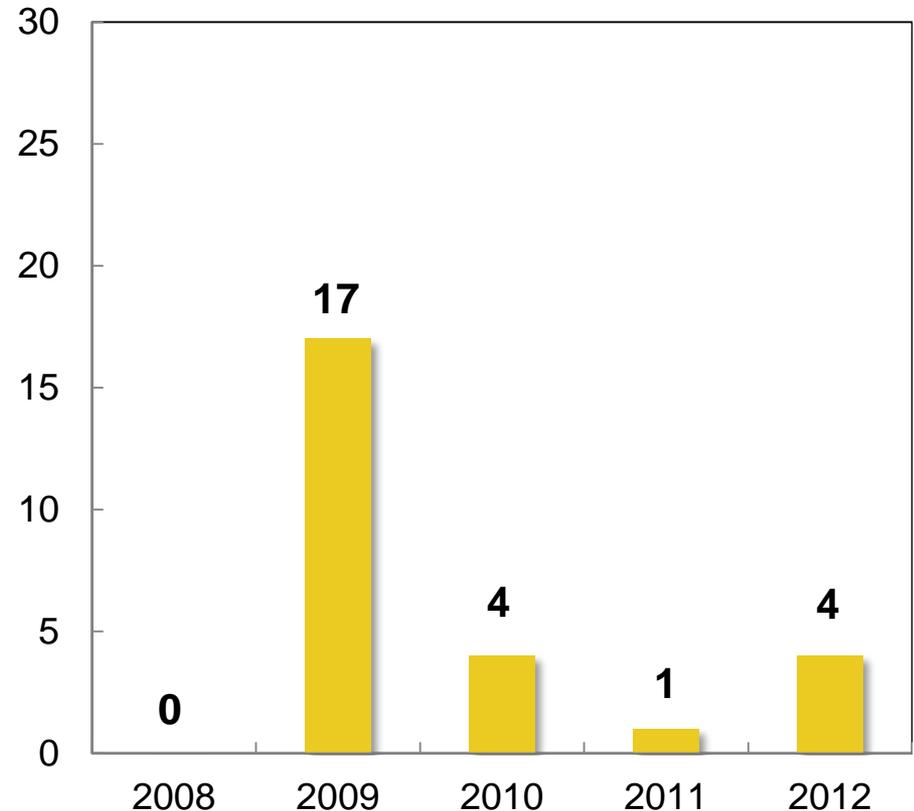


Number of recessions predicted by December of the previous year

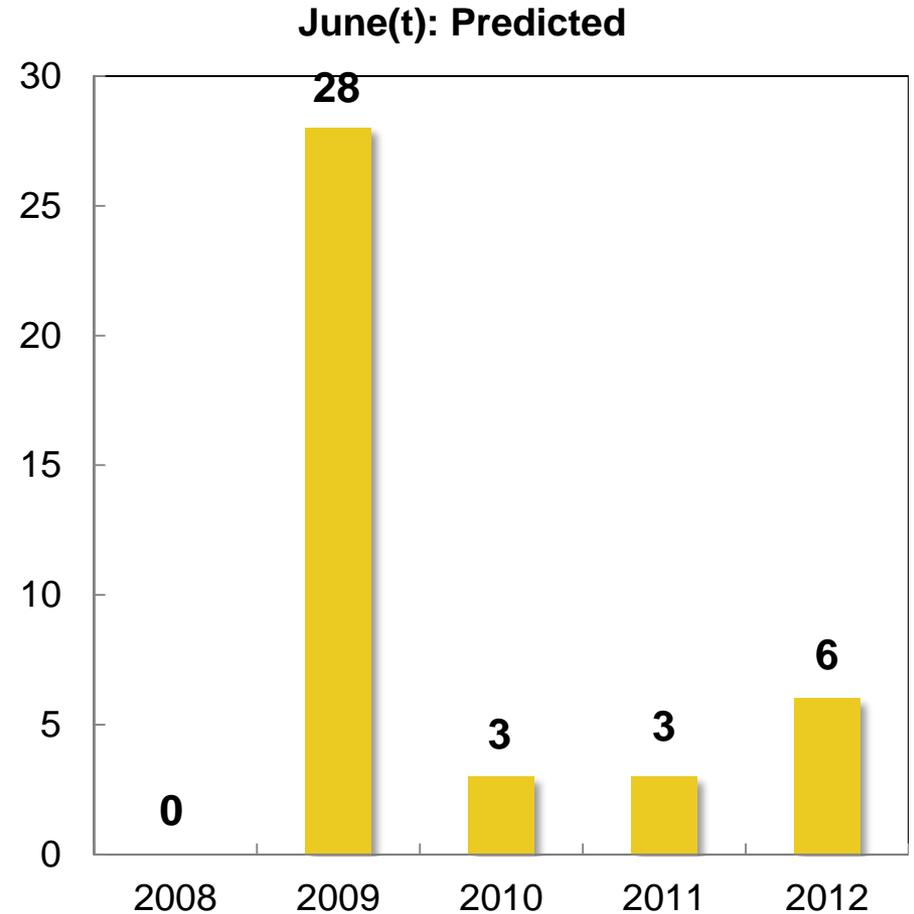
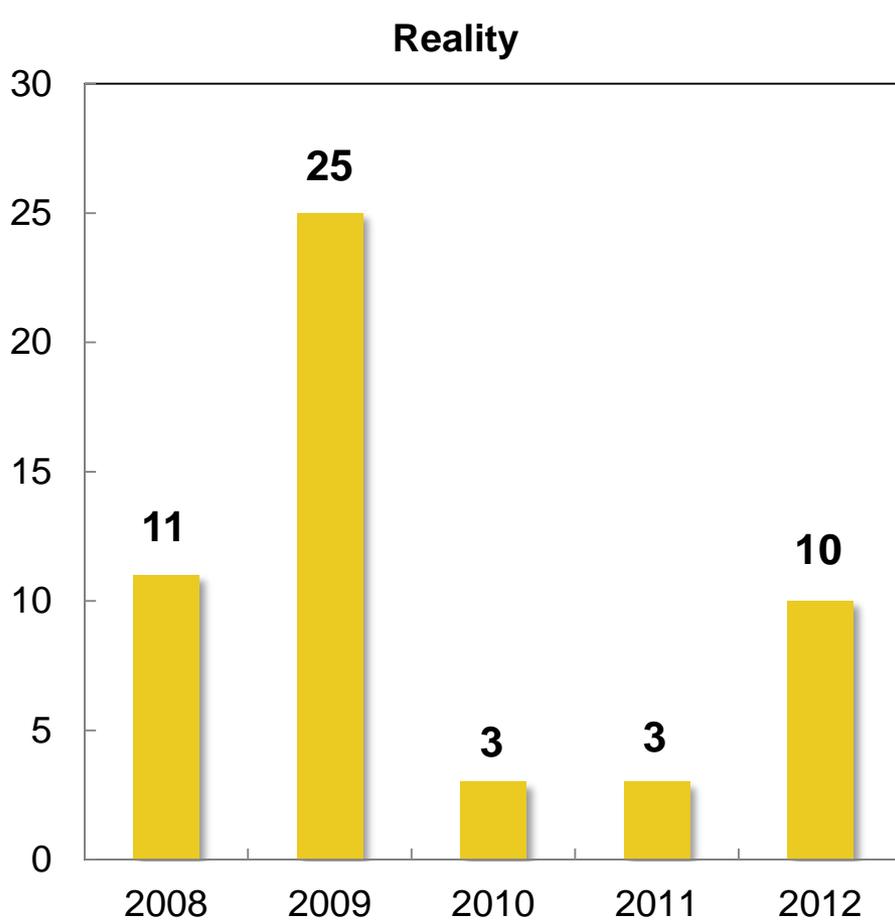
Reality



December(t-1): Predicted

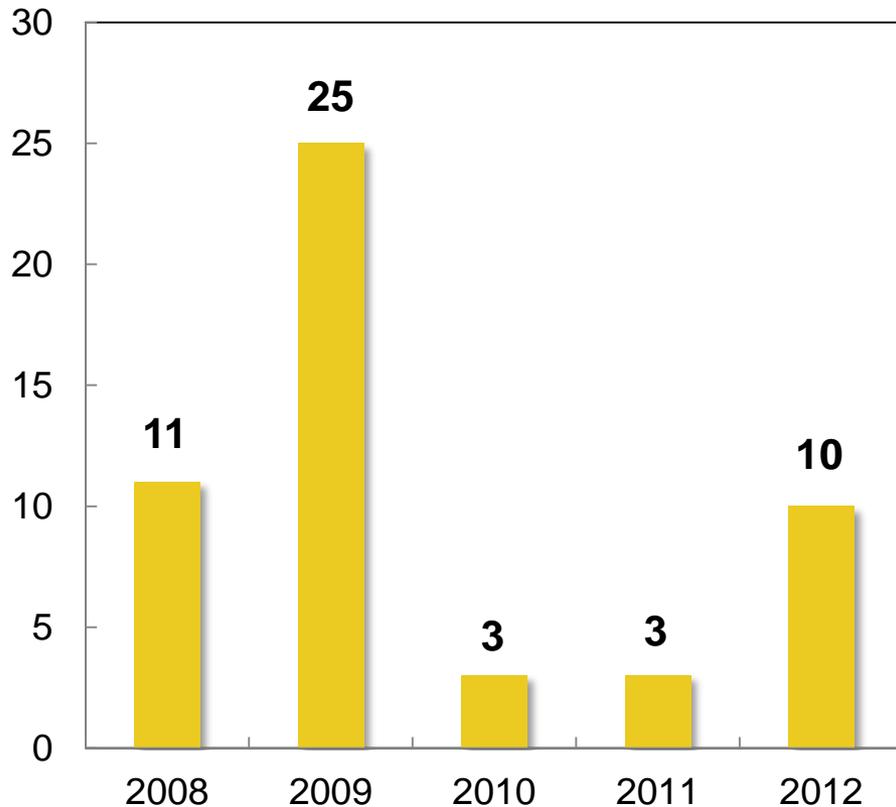


Number of recessions predicted by June of the year in which the recession occurred

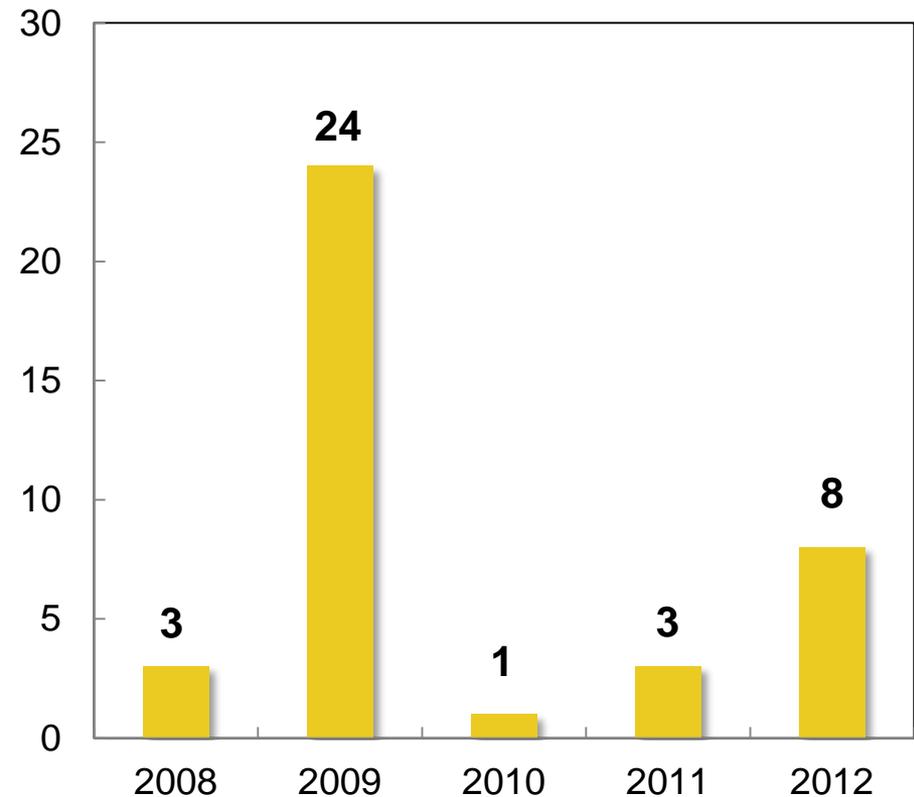


Time's up! Number of recessions predicted by December of the year of the recession

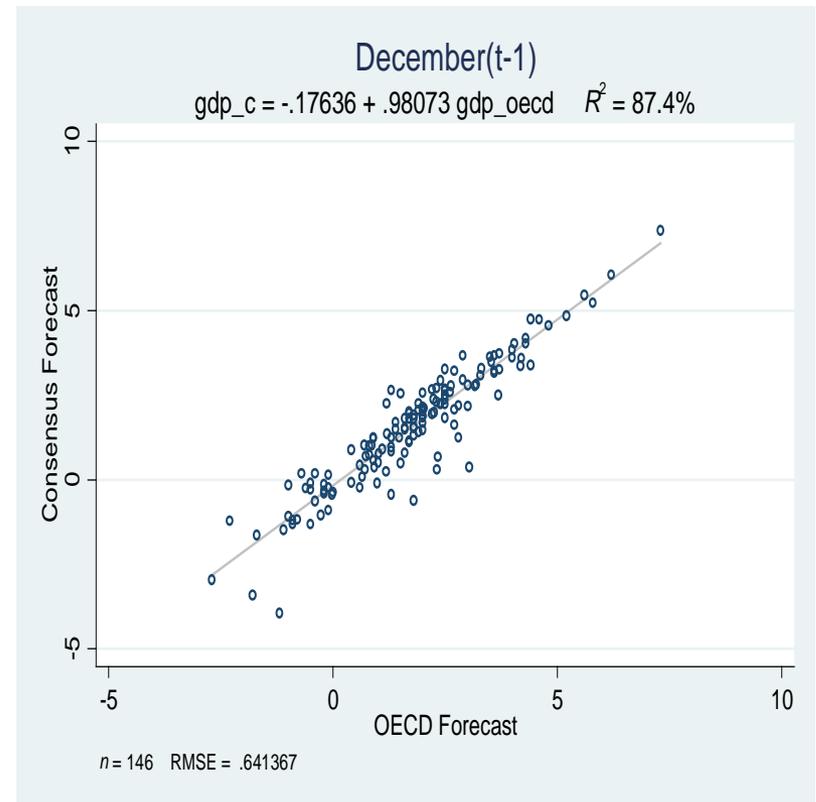
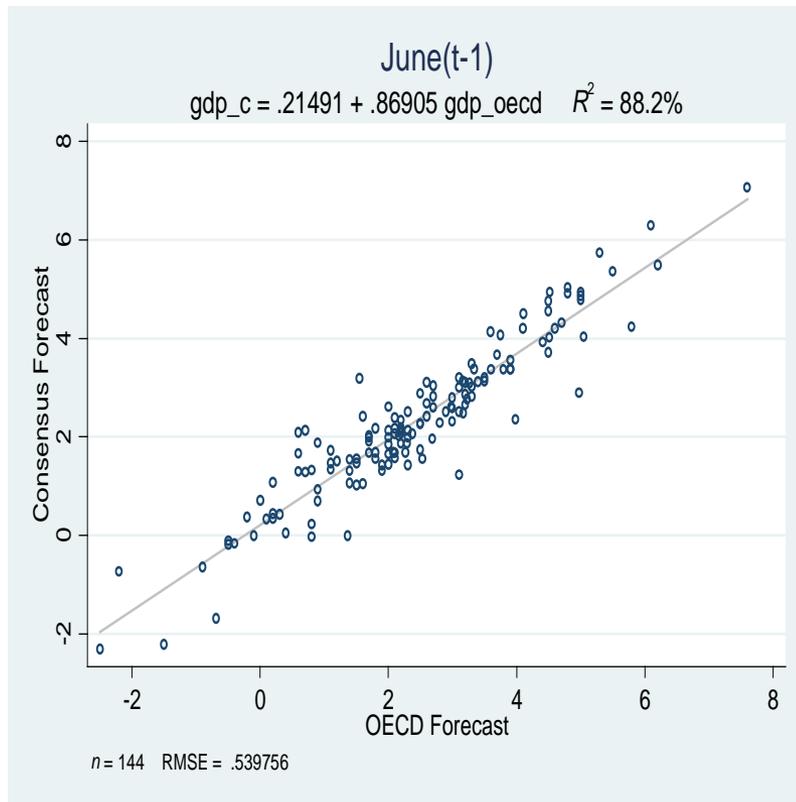
Reality



December(t): Predicted



Year ahead forecasts: Comparing Consensus and OECD



Current Year Forecasts

Comparing Consensus and OECD

