

Сучасні математичні питання фінансових ринків, 29.11.2012

Introduction to Economic Forecasting: art or science?

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In these lectures, we introduce the main features of short term economic forecasting, from a practitioner point of view. Recall that our exercise is to predict the quarter on quarter gross domestic product (Gdp) growth rate for the next two quarters. We will detail real issues faced by economic forecasters: calendar constraints, data revision, real time data...

We describe the most useful explicative data: the business surveys. In particular, we show how the main indicator, so called business climate indicator, is derived using state space model.

In a suitable framework, we will review the main forecasting strategies together with their out-of-sample performances for the French economy.

At last, among economic forecasters, it has become a more common practice to provide point projection with a density forecast, so called fan chart. We will emphasize how to use interval confidence and density forecasts to describe in probability terms the uncertainty inherent to any point forecast.

Outline

I/ Introduction to economic forecasting

What? Why? Who and how?

II/ Business surveys

A/ Historical Background

B/ Climate Indicator using state space model

III/ Benchmark of Forecasting strategies

A/ Framework definition

B/ Review of the performances

IV/ Fan Chart

A/ Methodology

B/ Application to the French economy