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**Observations on Forecasting
the Canadian Economy**

**Mike McCracken
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Introduction

What is forecasting?

- **What is the likely value for X next year or in ten years?**
- **What is the effect of policy move A, this year and in the longer term?**
- **What happens over the next five years if (or "whif") we pursue the Green strategy?**
- **When next will we encounter a major drop in sales?**
- **Are there surprises for us in the future in areas we don't watch carefully?**

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Important characteristics:

- **A time frame or point in time is specified.**
- **The variable or variables of interest are usually specific to the organization.**
- **The results are not obvious; otherwise you would not have received the question!**
- **The process of forecasting involves:**
 - The exploitation of available information
 - by using the tools of the trade, and
 - communicating the results.
- **The notion of "conditional" forecasts.**

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Information

- **Exploiting What is Known**
 - Order, correlation, theory, structure
 - Consistency, reproducibility
- **Handling What is not Known**
 - Scenarios
 - Impact Statements
- **Core Assumptions**
 - Interdependence
 - Assumption Drag
 - Socio-political

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Quantitative Tools

- **The information in a single series**
 - Seasonal Adjustment
 - Plotting
 - Box-Jenkins
- **The information in a set of data series**
 - Correlation and Regression
 - Structural Models

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Model Choices

- **What time period?**
- **What frequency?**
- **How much disaggregation**
- **What kind of model?**
 - Large vs. small, Input/Output, econometric, Box-Jenkins
 - Best method: consider all options
 - Value of detail
- **Drawbacks of small and large models**

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Computer Tools

- PCs
- Data pumps (e.g., CANSIM)
- Software
 - Plotting
 - Regression analysis
 - Simulation of Simultaneous models
- Web usage

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What approach to use?

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Communication of Results

- **Right-Brain**
- **Graphics**
- **Probabilities**
- **The Competition**

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Realities of Forecasting in Canada

- **Canada is a small, open economy, with numerous linkages to the United States. A model of the Canadian economy should:**
 - Have elaborate export and import sectors
 - Have explicit recognition of the effect of the exchange rate and traded goods prices on domestic price formation
 - Link explicitly Canadian interest rates with U.S. rates
 - Have an exchange rate equation or set of rules to determine the exchange rate
 - Define export prices and import prices with recognition of the strong role of foreign prices in their determination
 - Distinguish between National and Domestic concepts of income.
- **Federal and Provincial Policies**
- **Variance in Data**
- **Fixed Costs of Research**

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Questions for You to Ask

- **Natural Frequency of your Organization**
- **Where can I spend my time most productively?**
- **Things to Avoid**
 - Don't make categorical statements.
 - Don't stick with your forecast if its underpinnings change.
- **Things to Do**
 - Subscribe to a macroeconomic forecasting service.
 - Do post mortems of your forecasts.
- **Keep trying**