OECD FORECASTS DURING & AFTER THE FINANCIAL CRISIS

A POST-MORTEM

OECD-BLOOMBERG EVENT
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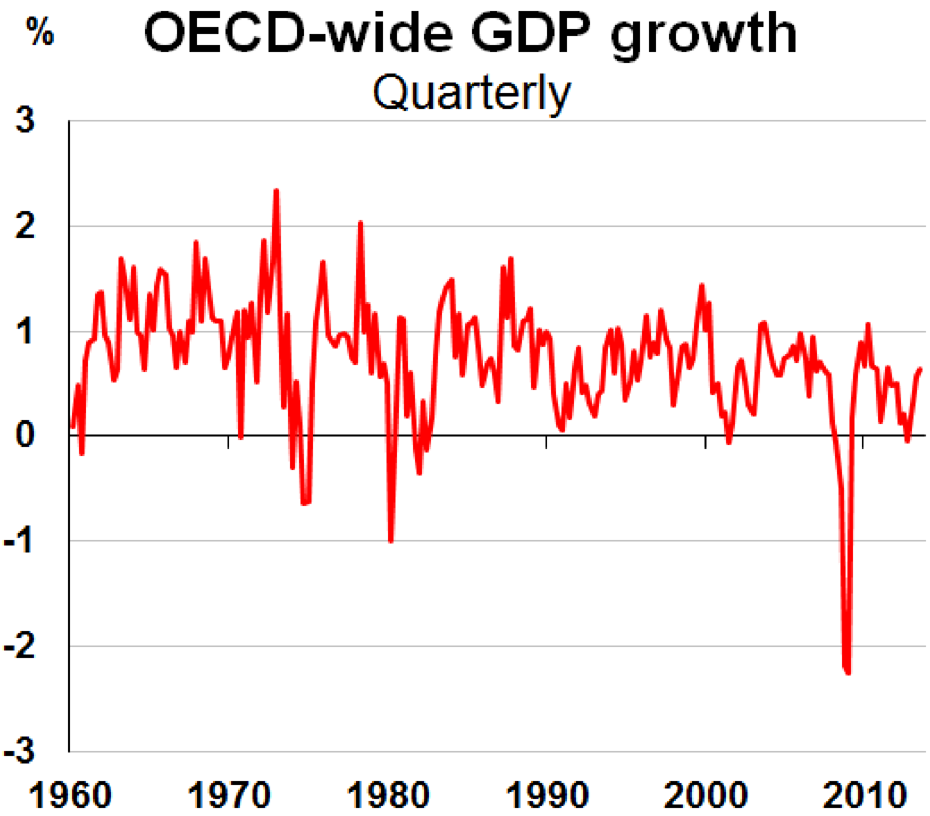
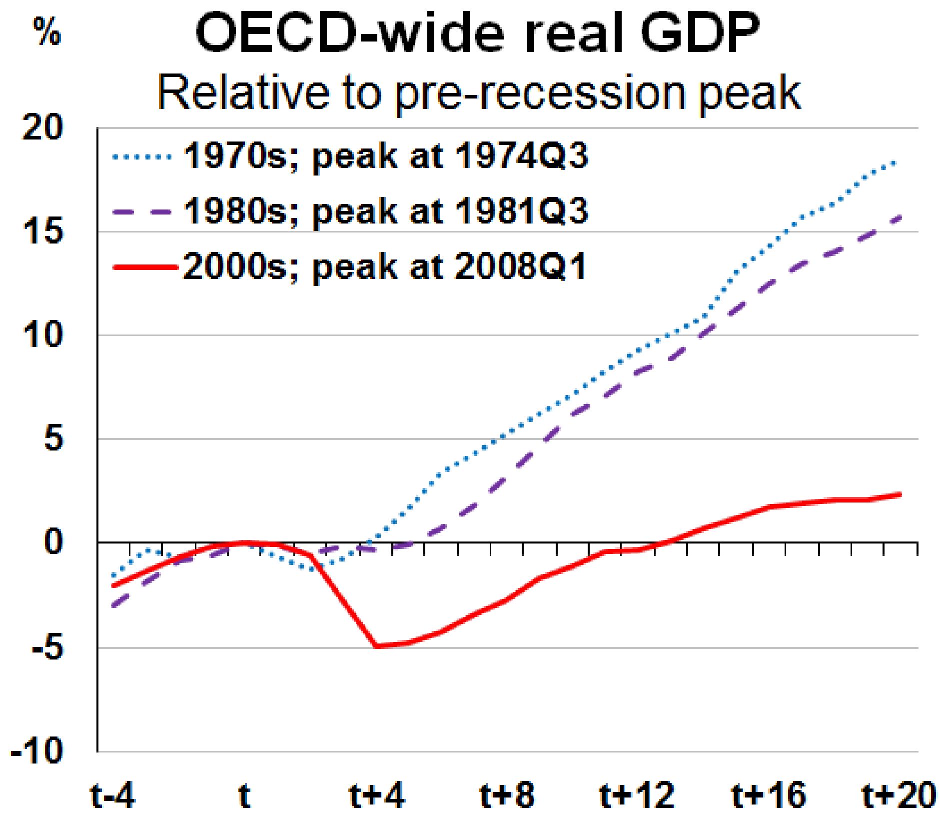
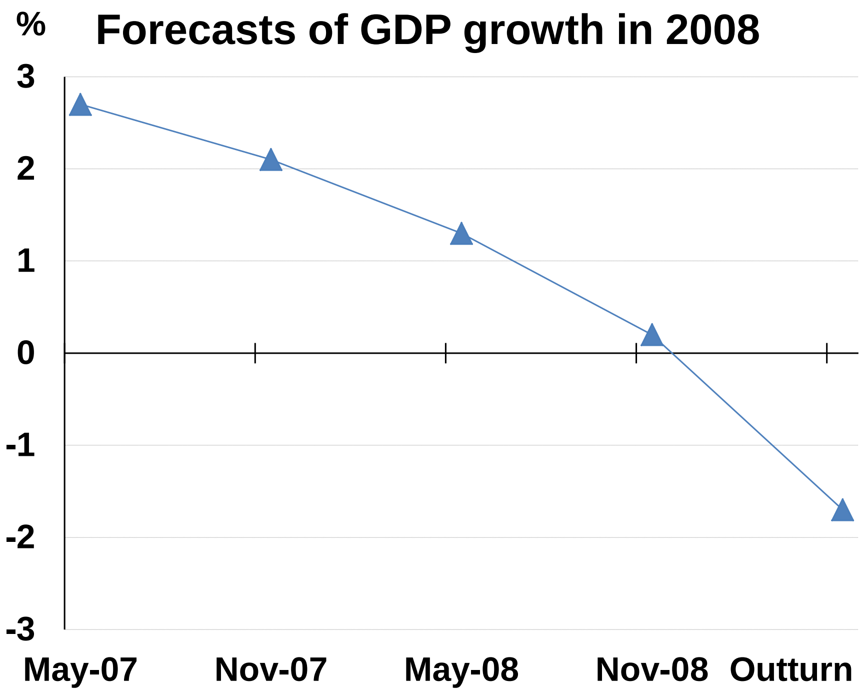
BETTER POLICIES FOR BETTER LIVES

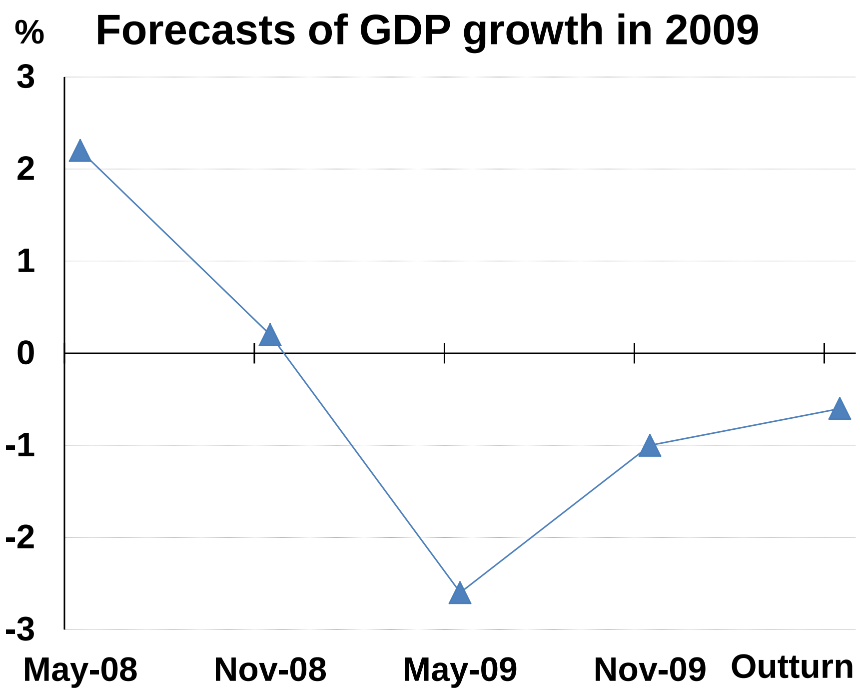
The crisis and the recovery have been exceptional





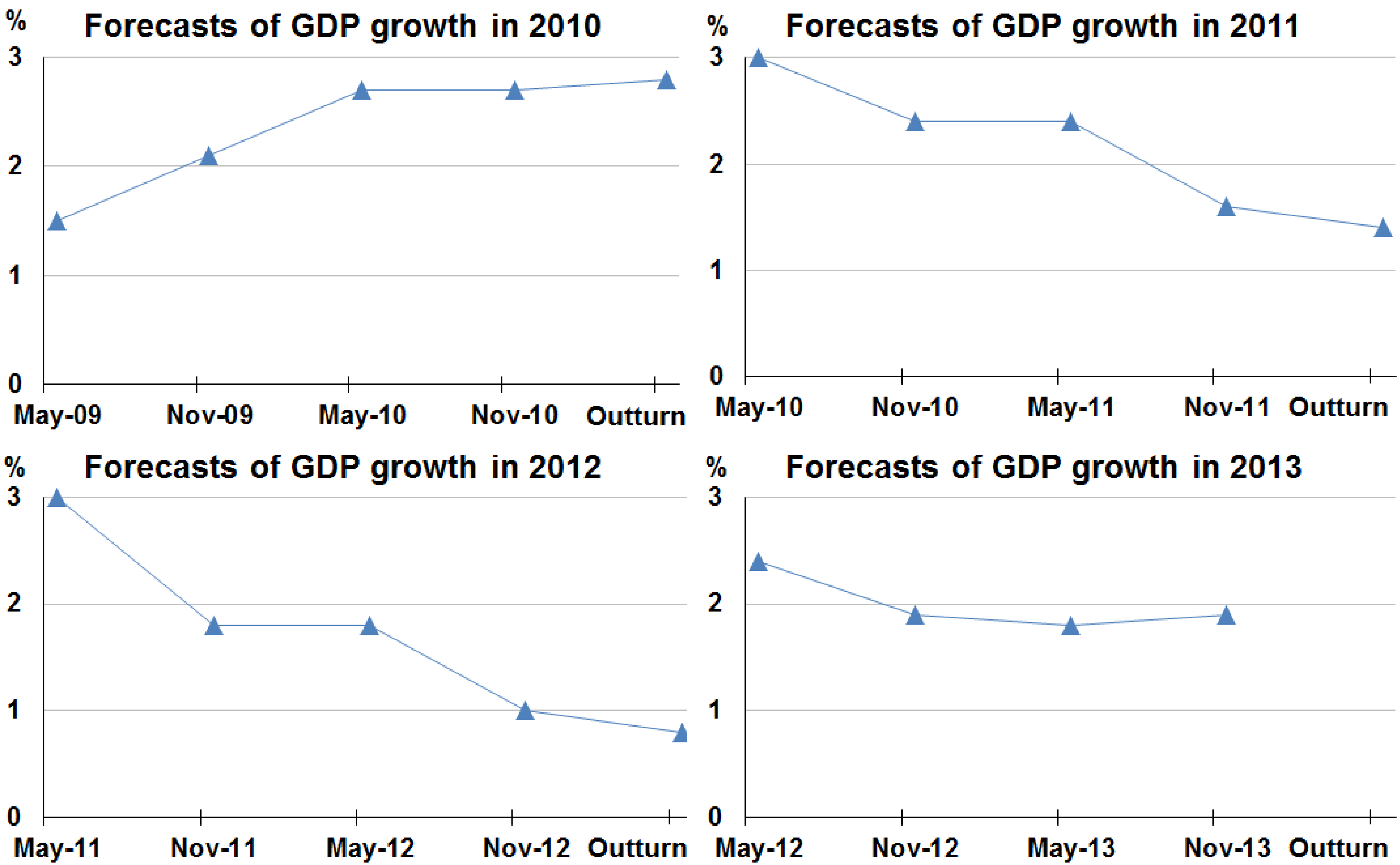
Forecasts missed the downturn….





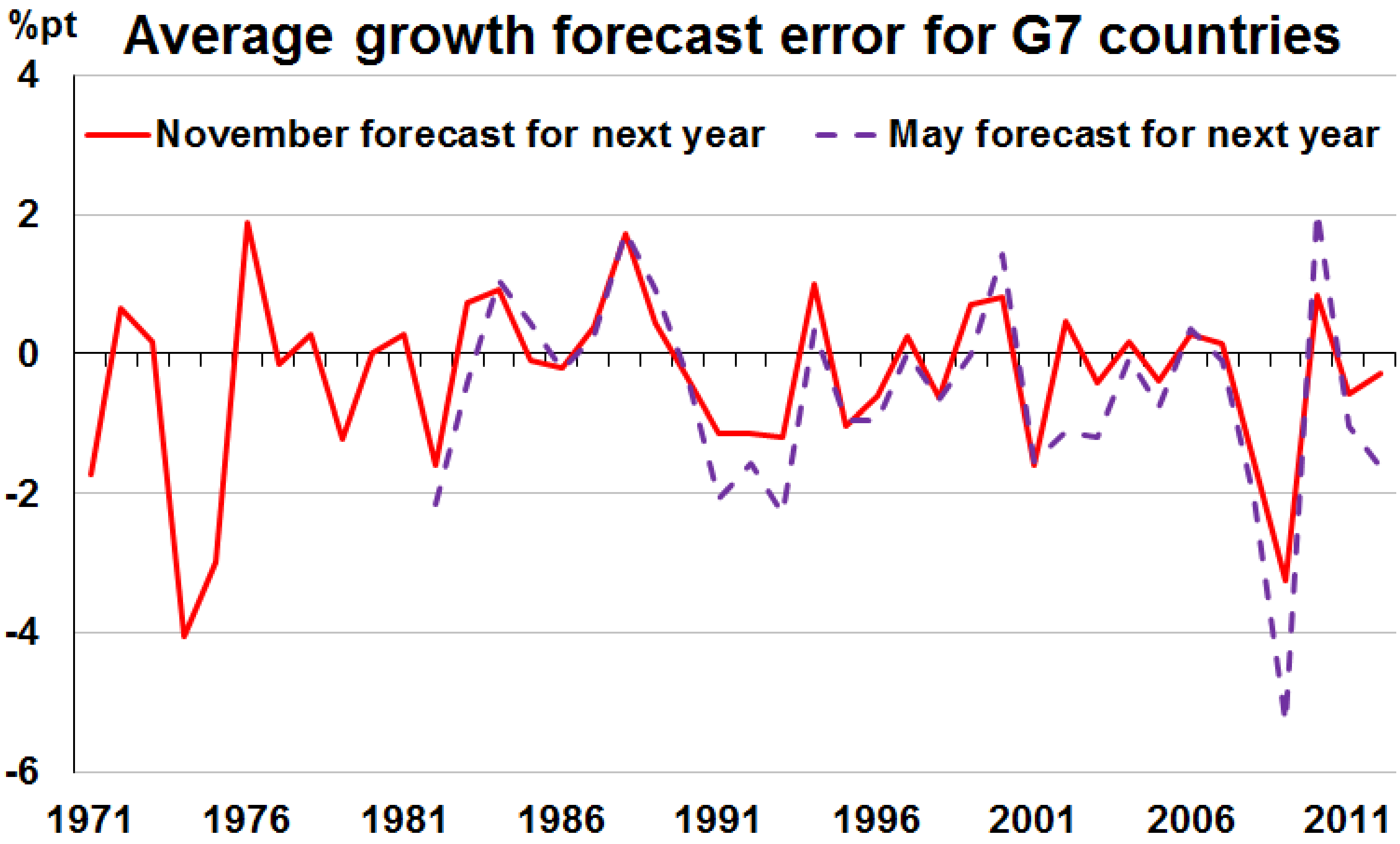
Successive forecasts of Q4-on-Q4 OECD GDP growth

…and accuracy was mixed during the recovery



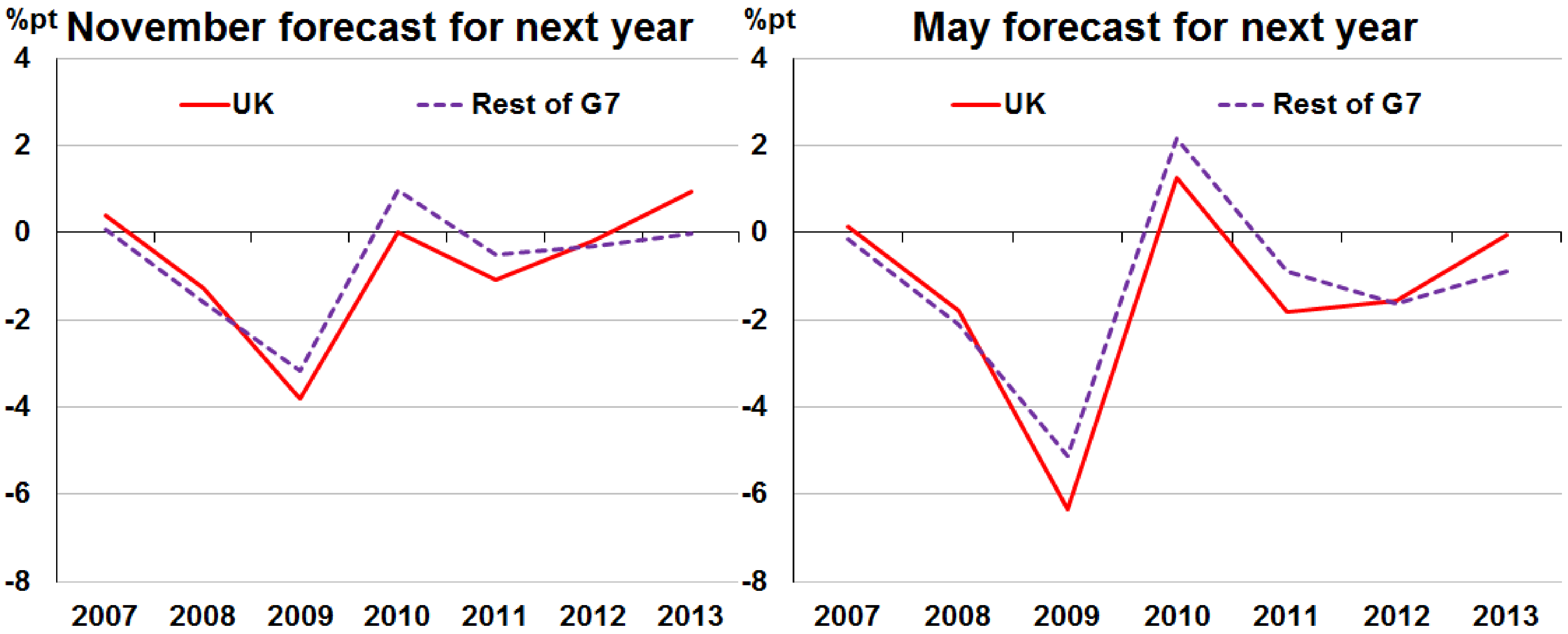
Successive forecasts of Q4-on-Q4 OECD GDP growth

Forecast errors in the crisis were comparable to the first oil shock in the 1970s

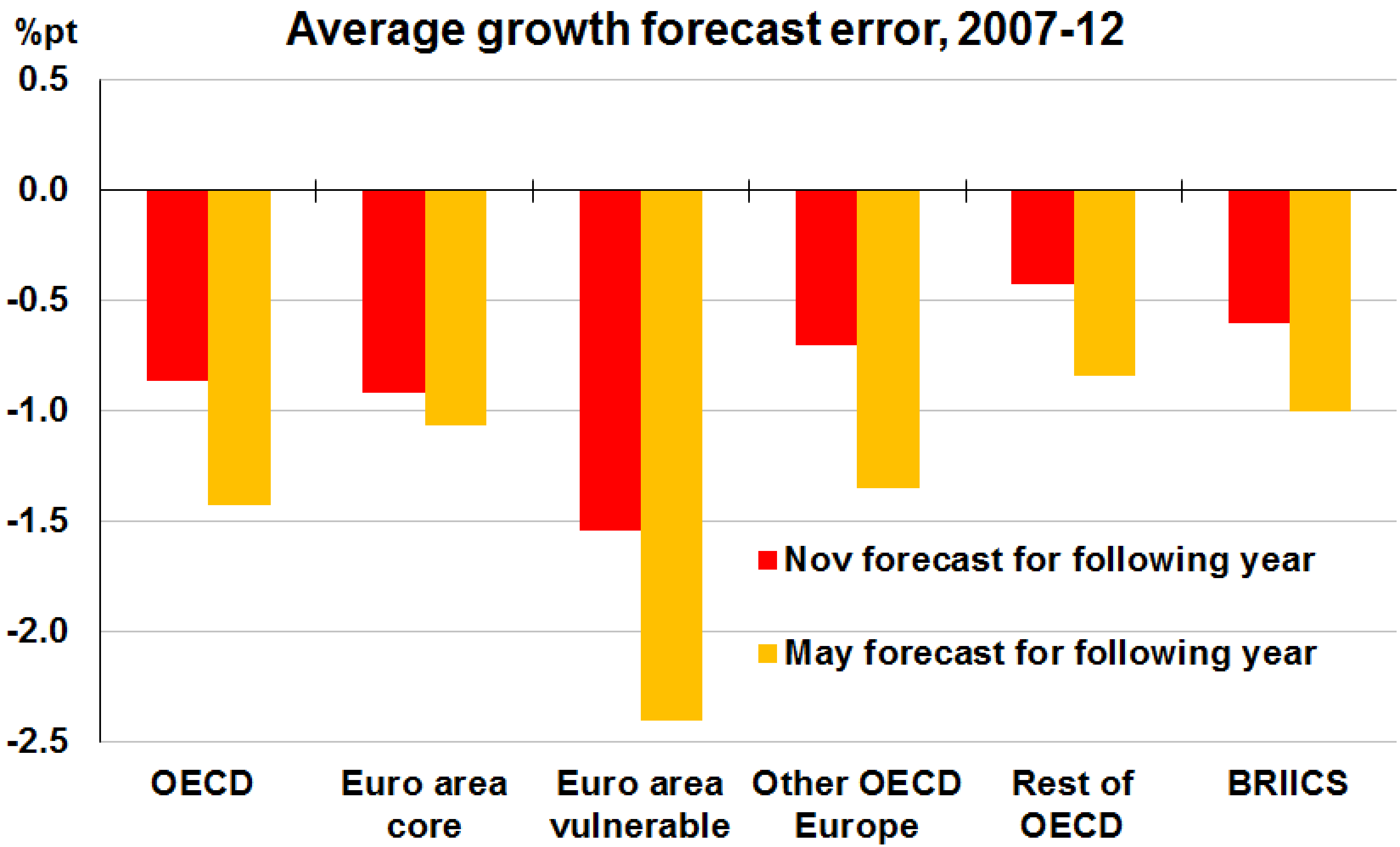


UK forecast errors are similar to those of other G7 economies

Error in GDP growth forecast



Forecast errors were largest in the vulnerable euro area countries



What can explain the forecast errors? Could they have been avoided?

Two approaches:

1. Comparing errors with data available at the time

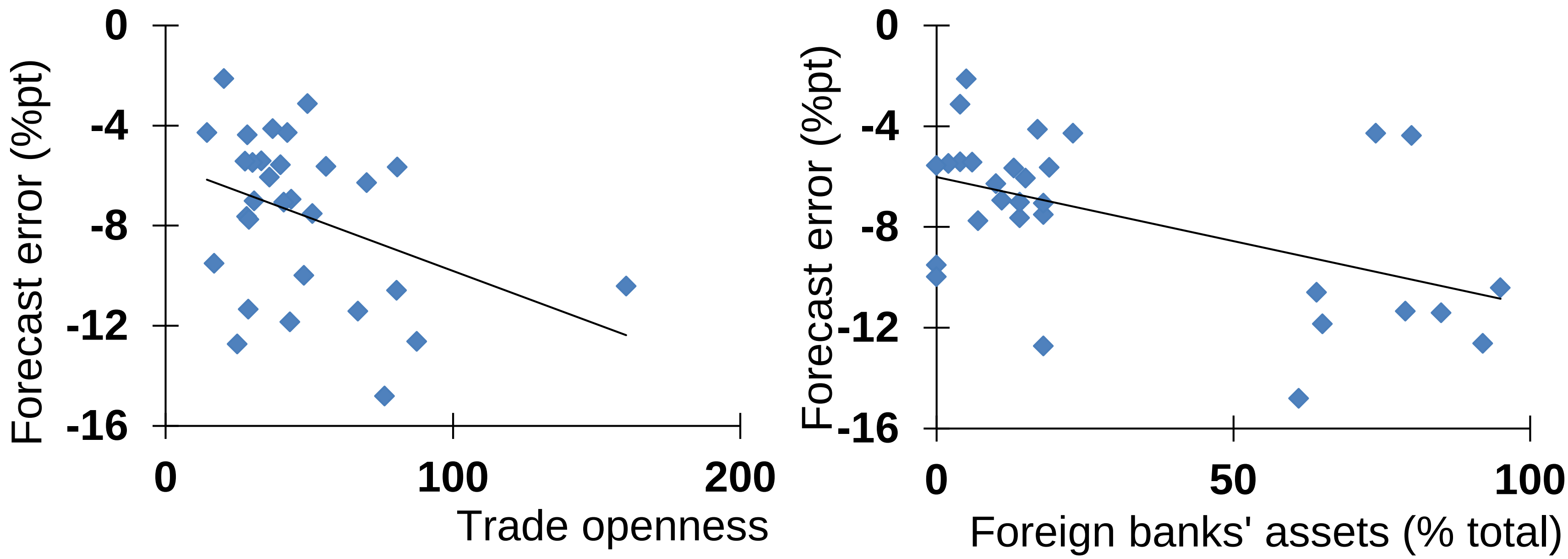
   These data could have helped to reduce our forecast errors

2. Comparing errors with data available now (not available at the time)

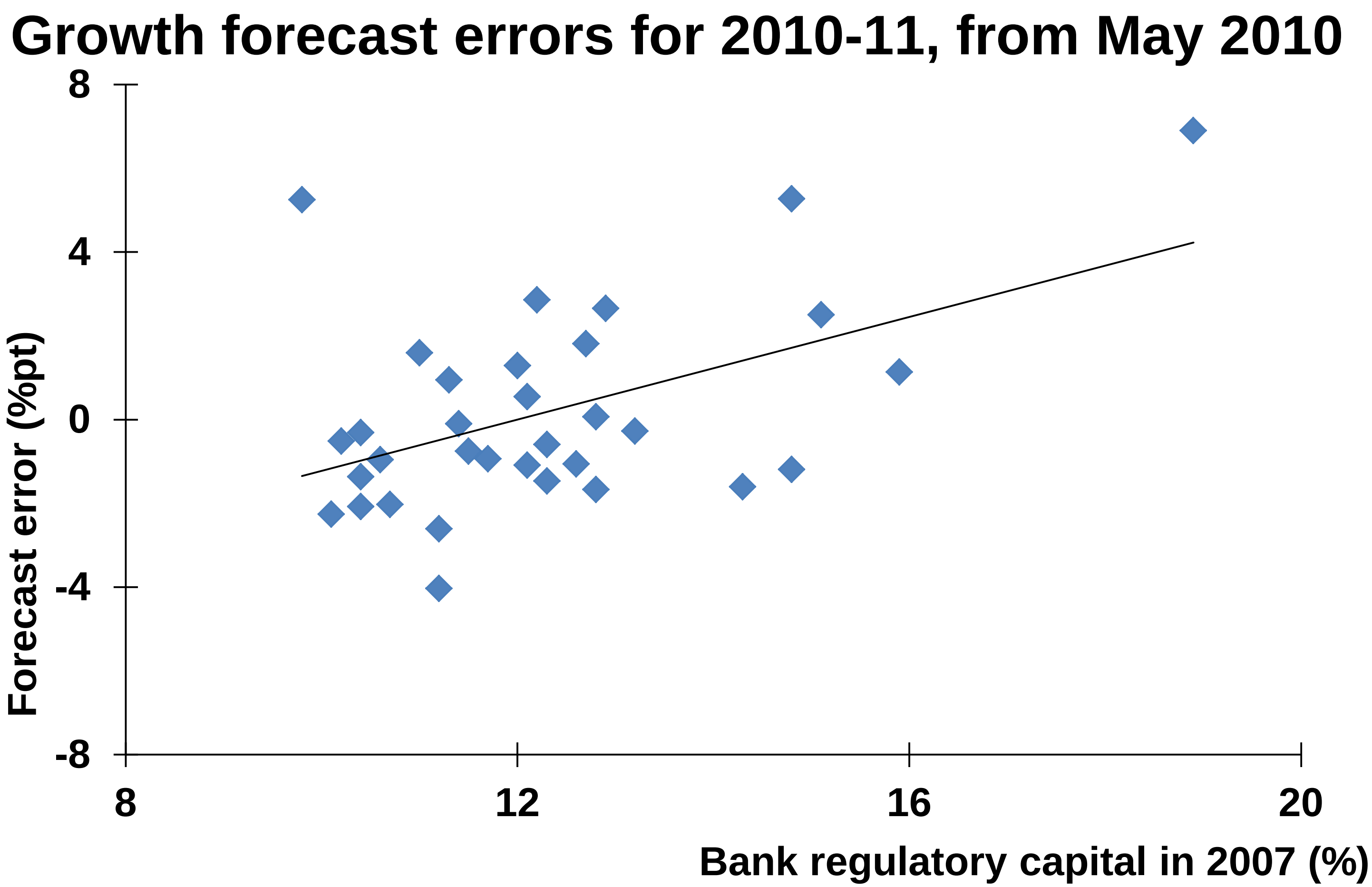
   These data help identify the "shocks"

The downturn was deeper than projected in more open economies

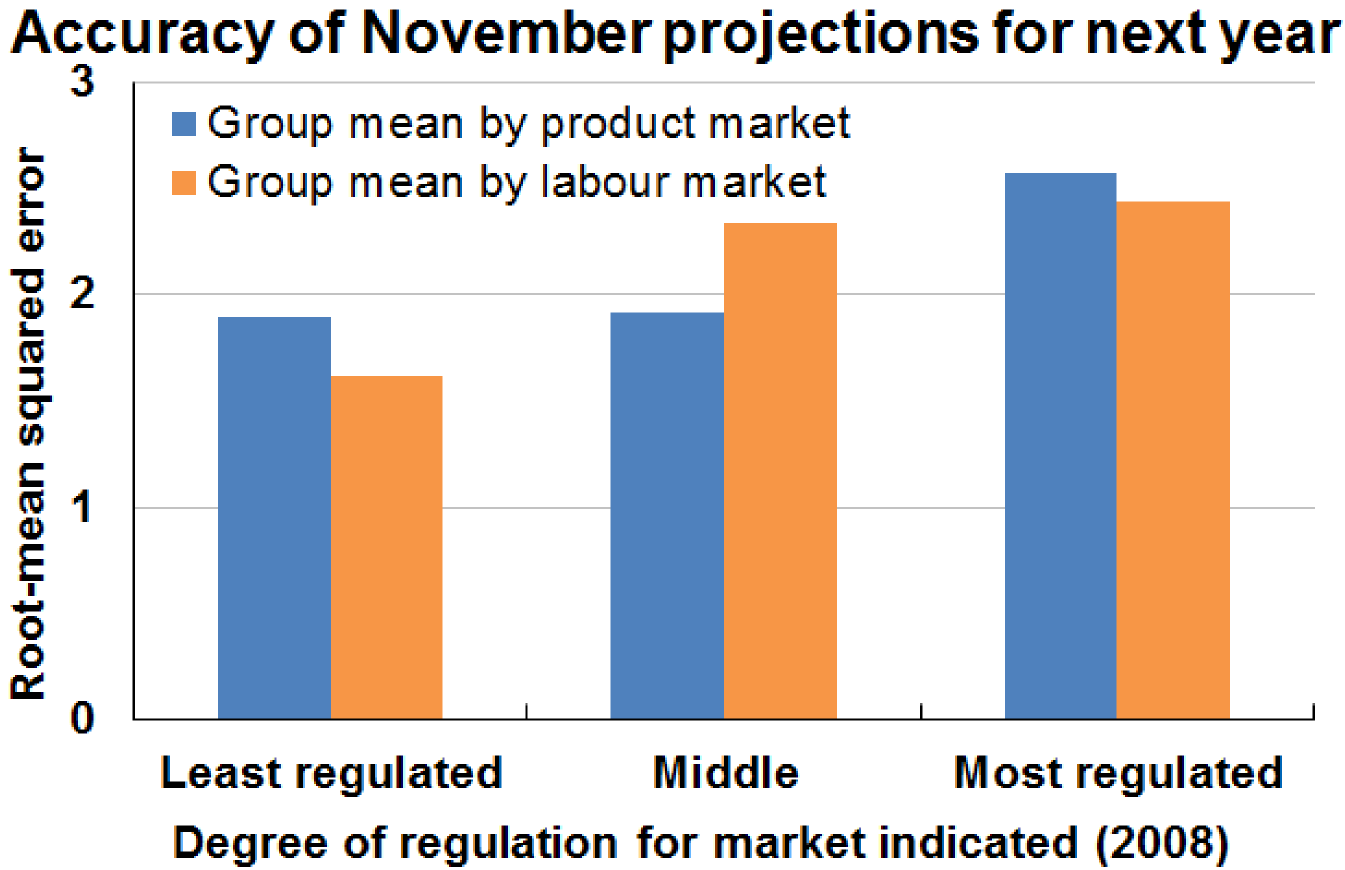
Cumulative errors in May 2008 forecasts for GDP growth in 2008-09



Forecasts were too optimistic for countries with lower pre-crisis bank capital

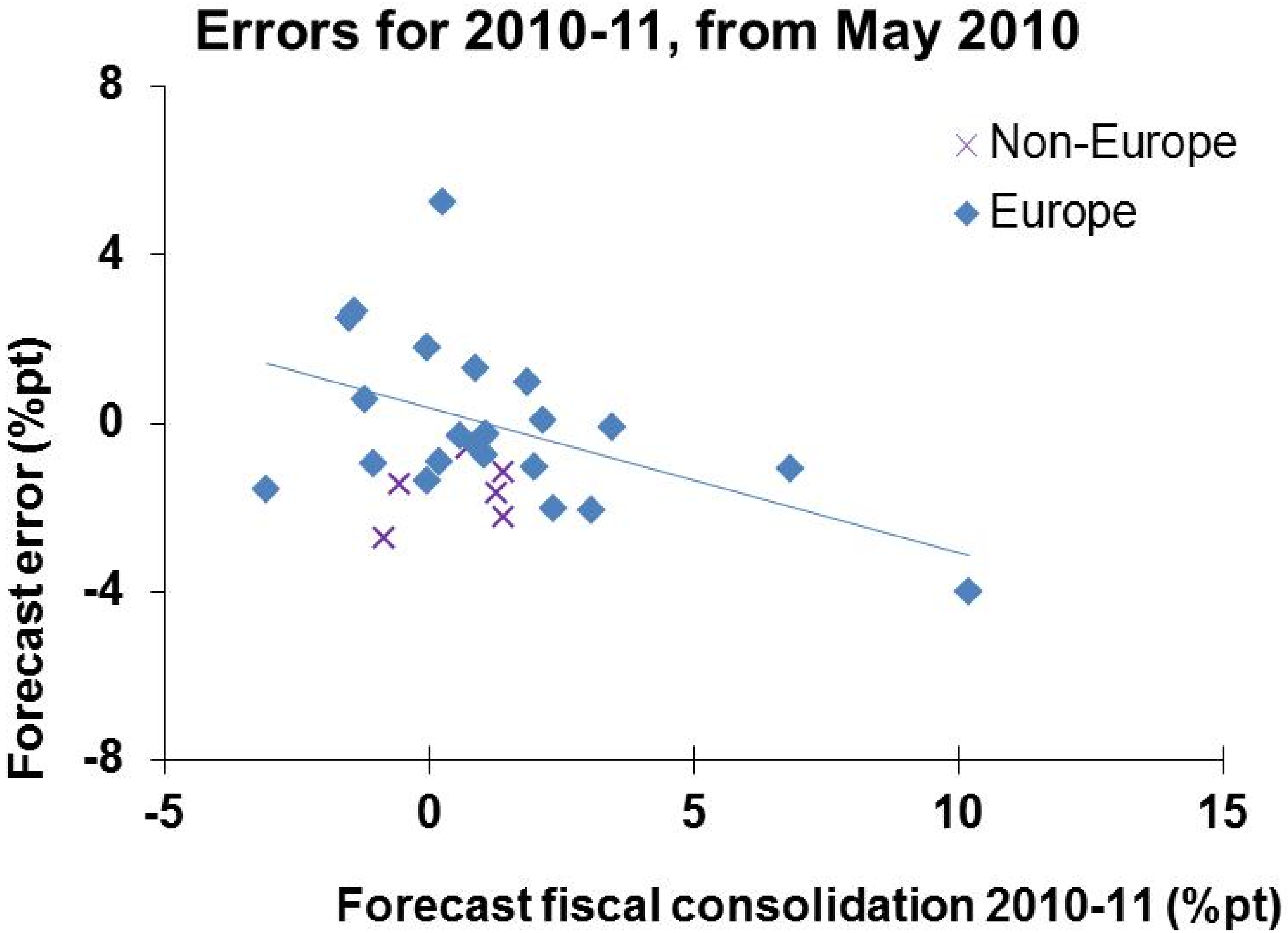


Growth forecasts were less accurate in more heavily regulated economies

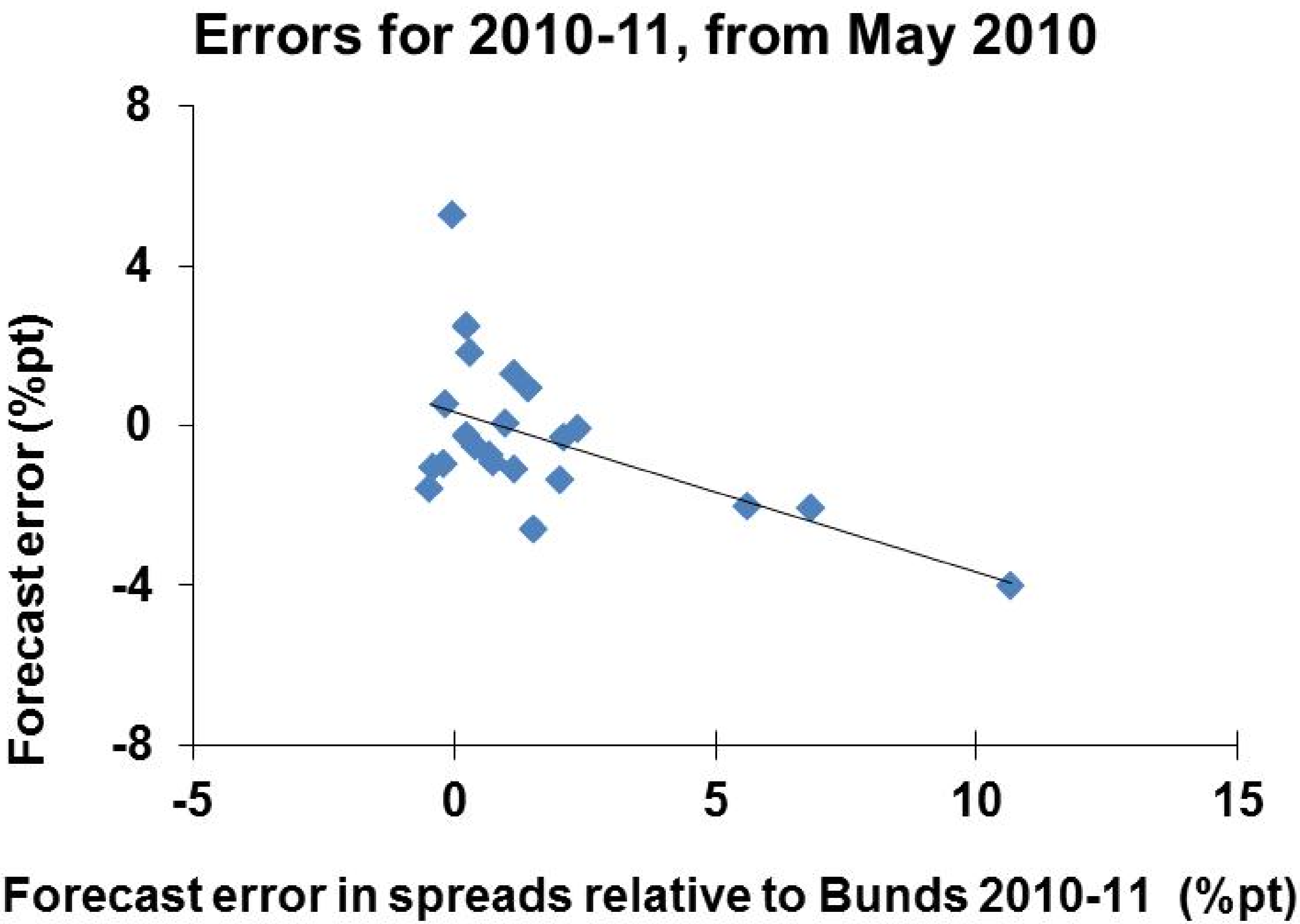


Indicators are the OECD product market regulation index and the OECD measure of the strictness of employment protection (for regular workers)

Were we too optimistic about the negative impact of fiscal consolidation?



The intensification of the euro area crisis was a more important source of growth forecast errors



"By seeking and blundering, we learn."

Goethe

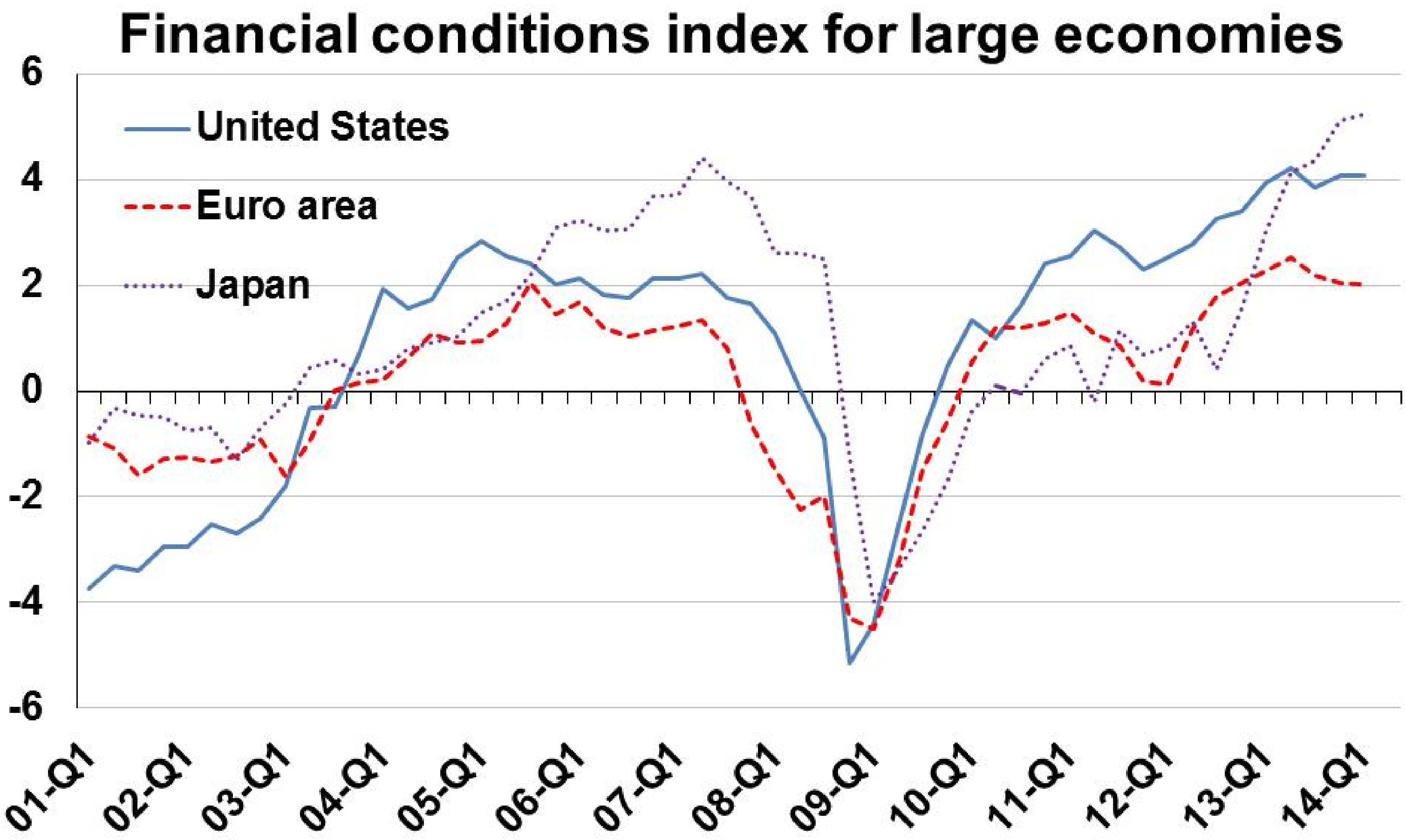
Lesson 1 – get better at spotting downturns

Directional accuracy of May growth projections

OECD countries: 2007-12	Accelerations	Decelerations
Number in period	56	116
% correct: projections for same year	86	88
% correct: projections for next year	91	46

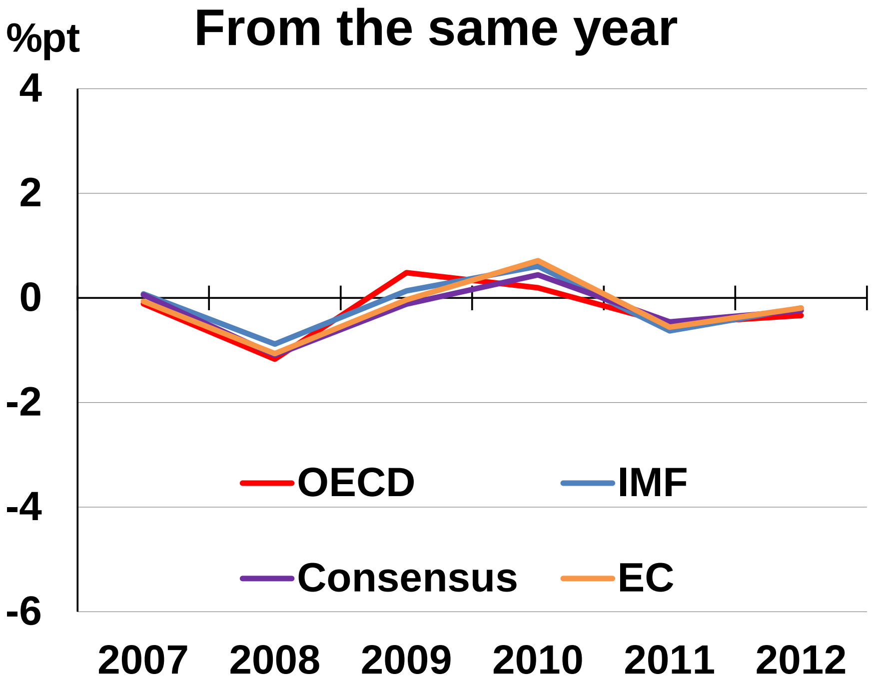
G7 countries: 1982-2006	Accelerations	Decelerations
Number in period	82	78
% correct: projections for same year	79	83
% correct: projections for next year	74	45

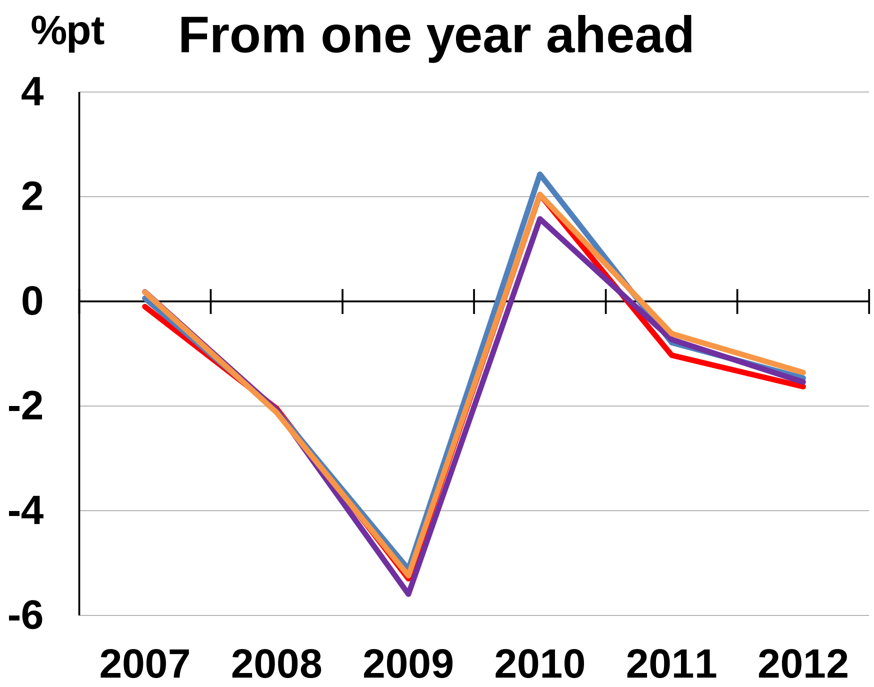
Lesson 2 – include more information on the financial system



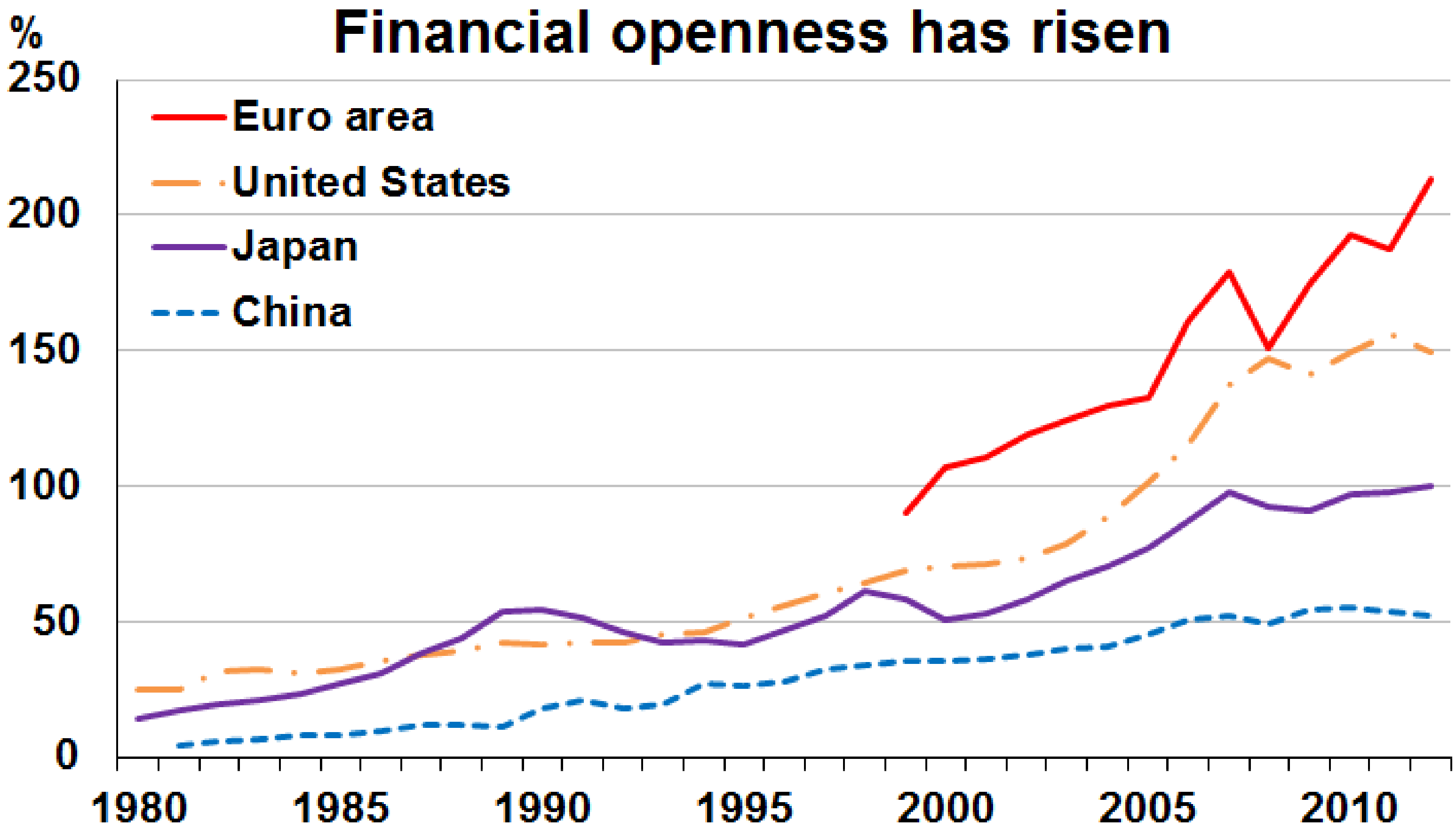
Lesson 3 – avoid "groupthink"

Average errors in forecasts from May - G7 countries





Lesson 4 – better recognise global linkages and spillovers



Financial openness is the sum of foreign assets and liabilities as a percentage of double GDP.

Lesson 5 – think more about risks

- More information about the risks around the main projections.
- Greater use of quantitative scenario analysis to illustrate possible outcomes.
- Horizon scanning to plan ahead for unlikely but potentially costly events.

Summary

- Forecasting in recent years proved very challenging and growth has been repeatedly over-estimated.
- We can learn from our errors to focus more on global linkages, the financial system and risks.
- There are limits to what forecasts can achieve. Accordingly, as much attention should be paid to the balance of risks as to point forecasts.

“OECD forecasts during and after the financial crisis: a post mortem”
OECD Economics Department Policy Notes No. 23