Summary for non-specialists
Economic Papers No. 476 / December 2012
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The accuracy of the European Commission's forecasts re-examined

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This paper updates the previous assessment of the Commission's forecasts' track record from 2007, by extending the observation period to 2011 to also take into account the forecasts and outcomes for the crisis years 2009-2011. The track record of six variables is assessed: real GDP growth, inflation, general government balance (in % of GDP), the unemployment rate, the current account (in % of GDP) and total investment. Moreover, this paper also expands the track record analysis to the twelve Member States which joined the European Union in 2004 and 2007. The paper also includes for the first time an analysis of the accuracy of selected quarterly GDP forecasts (since 2000).

The extension of the observation period to include 2009-2011 points to a limited impact of the crisis on the long-term accuracy of current-year forecasts. However, a significant deterioration of the accuracy of year-ahead projections is found, mainly due to larger forecast errors in the recession year 2009, which by all standards proved exceptional and unanticipated by forecasters. Larger forecast errors are typical in and around recession years.

The accuracy of forecasts is found to be substantially lower for new Member States, which generally exhibit more economic volatility, than for old Member States over the period 2004-2011. This is true for both GDP and inflation and for both forecast years. For the general government balance, however, forecast accuracy is found to be on average similar, if not better in new Member States.

A test for the persistence of forecast errors was carried out to investigate systematic correlation between prediction errors. It shows that at the EU and euro-area level, there are no cases of persistence in forecast errors for the current-year outlook. The results for the year-ahead forecasts are somewhat less satisfactory for the EU, where serial correlation is noted for investment, unemployment and the current account. At the Member State level, serial correlation is largely absent in the old Member States, with the exception of a few smaller countries for the unemployment and current account forecasts. Among the new Member States, serial correlation was found for GDP forecast for Cyprus and Estonia.

Confirming the previous analysis, there is no evidence of a bias in the forecast for the EU and euro-area aggregates, thus no systematic over- or underestimation can be detected in the Commission's forecast. At the Member State level, Italy is the only country among the old

Member States to have a systematic and statistically significant bias. This bias already existed in 2007. Results showed no bias for the new Member States for the GDP outlook.

The analysis of the accuracy of quarterly forecasts over the period 2000Q1-2012Q2 shows the largest forecast errors occurring between 2008Q4 and 2009Q2, at a time of heightened economic volatility. Since then, quarterly mean absolute errors have been heading back to their pre-crisis levels (0.3-0.4 pp.).

The Commission's track record has been similar to that of the OECD, IMF and Consensus Economics. Overall, it appears that the Commission projections scores better than the forecasts released by Consensus and the IMF. For the latter, this may partly reflect the timing of the forecast, with the Commission having an informational advantage. In contrast, the Commission's forecasts do not appear to perform as well as those of the OECD, especially for the year ahead. However, this could partly be explained by the fact that the OECD released its forecast on average one month later (whereas the IMF issued its forecasts earlier than the Commission).

The comparison of forecasting performance across institutions since the beginning of the crisis shows that the deterioration in forecast accuracy was a common phenomenon. Moreover, this deterioration does not seem to have been more pronounced in the case of the Commission. Overall, the Commission forecasts continue to dispose a reasonable track record.