

Notes and references for “Inflation forecasting: points and probabilities”

Lecture by Kenneth F. Wallis, 17 September 2008

Abstract Many central banks around the world now operate a monetary policy regime of inflation targeting. Since it takes time for policy changes to affect inflation this is, in effect, a policy of inflation forecast targeting. An emphasis on accountability and transparency is also a feature of such policy regimes, which has led central banks to publish their forecasts, either as point forecasts or as probability density forecasts. The latter represent a complete description of the uncertainty associated with any forecast for the future. Since expectations of future inflation affect current economic decision-making and reflect the credibility of monetary policy, central banks also carry out regular surveys of outside forecasters, asking for their point forecasts of inflation and, in some cases, their density forecasts. This lecture describes some recent developments in inflation forecasting and forecast surveys by central banks, and reports some interesting findings from recent research on the individual responses to one such survey. It is hoped that the lecture will encourage similar developments in Australia.

Material on forecasts by various bodies is taken from their respective websites:

Reserve Bank of Australia: www.rba.gov.au (*Statement on Monetary Policy*)

Bank of Canada: www.bank-banque-canada.ca (*Monetary Policy Report*)

European Central Bank: www.ecb.int/stats/prices/indic/forecast/html (for SPF)

Reserve Bank of New Zealand: www.rbnz.govt.nz (*Monetary Policy Statement*)

Bank of Norway: www.norges-bank.no (*Inflation Report*)

Bangko Sentral ng Pilipinas: www.bsp.gov.ph (*Inflation Report*)

Monetary Authority of Singapore: www.mas.gov.sg/eco_research/surveys/Survey.html (for SPF)

UK Treasury: www.hm-treasury.gov.uk (*Financial Statement and Budget Report*)

Bank of England: www.bankofengland.co.uk (*Inflation Report*)

NIESR: www.niesr.ac.uk (*National Institute Economic Review*)

US Congressional Budget Office: www.cbo.gov (*The Budget and Economic Outlook: Fiscal Years 2008 to 2018*; see also *The Uncertainty of Budget Projections: A Discussion of Data and Methods*, March 2007)

US Survey of Professional Forecasters: this is managed by the Federal Reserve Bank of Philadelphia (www.phil.frb.org/econ/spf/index.html), which also maintains a bibliography of academic articles that discuss or use the survey. The 1968-69 table of forecast probabilities is

from Zarnowitz (1969). The data on US disagreement and uncertainty are from Figure 5(c) of Giordani and Soderlind (2003), with more recent data kindly supplied by Paul Soderlind.

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