Oracle of IIF
Online Volume 5 Number 1

# Future Conferences, For Your Planning

**Forecasting Summit 2003, September 10-12, 2003**

The IIF has teamed up with Business Forecast Systems (BFS) on Forecasting Summit 2003 which will held in Boston, MA on September 10-12, 2003. The two-day main conference includes keynote presentations, tutorials, round tables, Q & A sessions, lectures, practitioner presentations, hands-on sessions and software demonstrations. In addition, the conference features a variety of optional half-day and full-day workshops, enabling in-depth exploration of important topics in forecasting.

Robert Fildes will present a keynote address entitled "What Makes Forecasters Tick (Effectively)." Several IIF members, including Roy Pearson, Len Tashman, Nada Sanders, Victor (VK) Kumar, Geoff Allen and Bernie Morzuch will be presenting "Tutorials & Perspectives" sessions as well as pre-conference workshops. For more information, visit the new Summit site at www.forecasting-summit.com.

**The 13th Federal Forecasters Conference (FFC/2003), Thursday, September 18, 2003**

The one-day conference is free, at the Bureau of Labor Statistics, Conference and Training Center, 2 Massachusetts Avenue, NE, Washington, DC.

Send an abstract of 100 or fewer words to Karen S. Hamrick, at khamrick@ers.usda.gov, by June 6, 2003. Preferred form is an abstract submitted by plain text e-mail.

For information about the Announcement, Call for Papers, and Registration Form, visit the Federal Forecasters Conference Page at http://www.va.gov/vhareorg/ffc/ffc.htm.

**First International Institute of Forecasters Workshop, Madrid, 12-14 December 2003**

The theme is “Nonlinearity, Business Cycles and Forecasting” (see the December 2002 *Oracle* for the preliminary list of presenters). Attendance is limited. If interested in attending, contact Antonio Garcia-Ferrer at antonio.garcia@uam.es.

**24th International Symposium on Forecasting, Sydney, Australia, July 4-7, 2004**

Important information about Key Speakers, Conference sessions, Registration and the Conference program will be posted on the website, www.isf2004.org, later in the year as it becomes available. Key dates are: 12 December 2003, deadline for organising a session or a workshop; 27 February 2004, deadline for submission of Abstracts; 31 March 2004, early registration deadline; 04 May 2004, final accommodation bookings at the conference rate.

**27th CIRET Conference, Warsaw, Poland in 2004**

The next CIRET Conference will be held in Warsaw from September 15 to September 18 2004. The Conference is hosted by RIED - Research Institute of Economic Development at the Warsaw School of Economics.

# Report on CIRET

## What is CIRET?

Some forecasters may have come across this acronym, which stands for Centre for International Research on Economic Tendency Surveys. I participated in its 26th conference in Taipei, Taiwan, October 16-18, 2002. Considering that conventions are held every other year, this is a much older association than IIF; in fact it was founded as far back as 1953. This was the time when business tendency surveys started to appear in Europe. CIRET acts as a network between agencies that conduct regular surveys on consumer and entrepreneurial sentiment. On its website you can find a large international database consisting of the data gathered by member agencies. The Centre's organization is quite different from IIF's. It has a secretariat that moves between institutes. At the present, the secretariat is with the Swiss research institute, KOF.

Why should a forecaster be interested in CIRET? Anyone who has been forecasting macroeconomic variables recorded in official statistics knows that the statistical figures are slow in appearing, and what first appears is a rather shaky estimate. Survey data are measures on ordinal scales and are as such also inaccurate, but they appear almost immediately after the month or quarter has expired. Even more important, many surveys contain questions about expectations that should contain information on the future. I have some experience of using survey data in business cycle indicators. Especially if we try to get warnings of turning points in the economy, such data are very useful. In fact, there are very few other forward-looking data to use. Sound statistical methods applied to forward-looking data have proved to be the only reliable way of "now-casting", or even better, forecasting turning points. I hope more forecasting agencies would learn this. These agencies are stuffed with good economists, but there is just no way economic theory and eyeballing the latest statistical figures could reliably predict a turning point.

I have invited CIRET members to participate in ISF2003 in Merida, Mexico, and I hope there will be enough interest for a session on survey data in forecasting. IIF members are welcome to participate in the next CIRET conference in October 2004 in Warsaw. The Taipei meeting was very well organized, the agenda was filled with forecasting issues, and Taipei was an interesting city. For more information, see www.ciret.org.

Lars-Erik Öller

# ISF 2003 Merida, Yucatan, Mexico June 15-18, 2003

**If you have not registered for the 23rd International Symposium on Forecasting, it is not too late to get the reduced rate if you act now! The deadline for reduced rate registration has been extended to April 21st. This information also appears as an update on the website (isf2003.org).**

## Symposium Theme

The main theme of ISF2003 is Forecasting in Business, Finance and Economics in the Electronic Era.

## Keynote Speakers

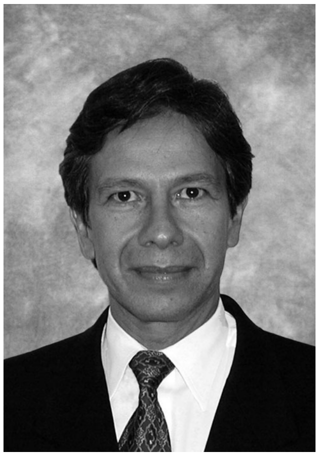
**Agustín Maravall**, Bank of Spain, Madrid, Spain.
"Decomposition of Economic Time Series"

Agustín Maravall is Chief Economist at the Research Department of the Banco de España, and formerly Professor at the European University Institute in Florence, Economist at the US Federal Reserve Board of Governors, and Engineer at the Spanish Ministry of Agriculture. He has been Associate Editor of several journals, including the Journal of Econometrics, the Journal of Business and Economic Statistics, and Econometric Reviews, among others, and has about 100 publications mostly in the area of applied time series analysis and dynamic econometrics. He is author/co-author of several statistical computer programs (TRAMO, SEATS, TERROR, TSW), widely used by Central Banks and Statistical Offices throughout the world, and is an elected member of the International Statistical Institute, a Fellow of the Journal of Econometrics, and a Fellow of the American Statistical Association.

**Thomas B. Fomby**, Southern Methodist University, TX, USA.
"Forecasting with Stable Seasonality"

Thomas Fomby has been a Professor of Economics at Southern Methodist University since 1975. He is co-author of the textbook Advanced Econometric Methods and has authored numerous articles in professional journals. Professor Fomby is currently co-editor of Advances in Econometrics (Elsevier Science), a research annual specializing in recent developments in econometric techniques as applied to problems in economics, finance, marketing, and forecasting.

His recent research interests include stable seasonal pattern models, threshold cointegration, outlier and intervention analysis, and change point problems. Professor Fomby has served as a Research Associate to the Federal Reserve Bank of Dallas and has consulted with the U.S. Treasury Department, the Federal Reserve Bank of St. Louis, and various corporations including Blockbuster Video, Texas Instruments, KPMG, and Fireman's Fund Insurance Company.



**José M. Quintana**, Bayesian Enhanced Strategic Trading, NJ, and Nikko Securities International, NY, USA.

"Bayesian Prediction in Finance"

José Quintana, Ph.D., Chairman of BEST-Bayesian Enhanced Strategic Trading LLC, which he founded in November 2001 as a licensing company for investment models. Concurrently, Mr. Quintana is Executive Vice President, Head of the Global Dynamic Asset Allocation (GDAA) Group with The Nikko Securities Co. International, Inc. (NSI). He joined NSI in March 2002 together with his team from CDC Investment Management Corporation where he was a Managing Director and co-Head of the Global Dynamic Asset Allocation Group. Prior to this, he was Vice President of Quantitative Research for the Strategic Asset Allocation team in the Global Investment Management Group of Bankers Trust Company; Vice President in the Global risk Management Sector of Chase Manhattan Bank; Vice President at Chase Investors Management Corporation's Indexing and Hedging Group; Staff Supervisor for AT&T's Market Analysis and Forecasting Directorate. Mr. Quintana's research interests are Bayesian Forecasting and Optimal Decision Making in the Investment Management context.

## Symposium Venue

The Symposium will be held at the Hotel Fiesta Americana Mérida, located on the main avenue, Paseo Montejo, in Mérida, the capital city of the Mexican State of Yucatán. Founded in 1542 by the conquistador Francisco de Montejo on the Mayan City of T-hó, Mérida is one of the most interesting cities of México. Its remote Mayan roots, colonial monuments and the splendor of its XIX century architecture has made Mérida and its surroundings a captivating mixture of cultural influences. For more information, go to http://www.isf2003.org.

## Registration Payment Issue

If you use a credit card for ISF2003 registration online and the charge is declined, call your credit card company to see if the transaction was flagged. Visa frequently does this to avoid fraudulent use of your card, and so do other credit card companies. For example, I had used my credit card here in Virginia a few hours before registering for ISF2003, so when a charge for several hundred dollars came in from Mexico, Visa flagged it and declined payment until I gave approval. They did that last year too, when I charged my travel plans through the conference organizers in Dublin. So, if your charge does not go through, the problem probably is your credit card company's security procedures — not the ISF2003 site, which works quite well! **RLP**

# World Forecasts and Issues

The World Bank and IMF meetings April 12-13, 2003 provide extensive information about world development issues and policies. Some of these policies are creating structural shifts that forecasters will need to incorporate into their models. For example, the debt relief initiative for heavily indebted poor countries launched in 1996 already is having a substantial impact in 26 countries. A good place to start in reviewing the issues is the Spring Meetings Briefing Center webpage, at http://worldbank.org/springmeetings/.

Prior to the meetings, the IMF released its April 2003 World Economic Outlook (WEO), with the theme Growth and Institutions. Chapter 3, Growth and Institutions, provides a quantitative analysis of the impact of institutional reform on economic growth. Chapter 4, Unemployment and Labor Market Institutions: Why Reforms Pay Off? offers the same for labor market reforms.

Chapter 1 and the WEO April 2003 databases at http://www.imf.org provide data and forecasts for the world's countries through 2004, the latest global forecasts available during this period of changing outlooks. We bring you an overview from the press conference on April 9.

## Opening remarks of Kenneth Rogoff, Economic Counsellor and Director of the IMF Research Department, World Economic Outlook Press Conference April 9, 2003:

For the past three months, concerns over conflict in the Middle East have weighed heavily on the global economy, through oil prices, through confidence effects and through financial markets. As near-term uncertainties over the conflict recede, the question of the hour is whether present sputtering global growth will suddenly lunge ahead into an immediate strong recovery. Perhaps, but our baseline here is for subnormal growth of 3.2 percent (1.1 trillion dollars) in 2003, rising to 4.1 percent in 2004. This baseline assumes a tepid global recovery with normal growth only resuming sometime during the first half of 2004. It is possible things could turn around more quickly, if war jitters have indeed been single-handedly forestalling the recovery, if oil prices turn out to be significantly lower than our baseline, and if global productivity growth turns out to be even more robust than we project. Overall, the chances of such an outcome are higher than they were just a month or two ago. But, in our view, it is not just the war — a number of other risks weigh on the outlook. These risks include the continuing unwinding of the equity price bubble, the emerging risk of a housing price bubble in some regions (see WEO Chapter 2), financial imbalances around the globe including the present patently unsustainable constellation of current accounts, structural weaknesses in Japan and Europe (especially Germany; see Box 1.3 and Chapter 4) continuing security concerns that put sand in the wheels of globalization, as well as a variety of sundry further risks including fragilities in emerging markets and SARS. While projected 2003 growth is distinctly sub-normal, there is still a reasonable amount of padding above the near recession levels of growth reached in 2001.

Across the major regions, the United States, which accounts for just over 1/5 of global GDP, is projected to have 2.2 percent growth in 2003 — not yet enough to make a meaningful dent in unemployment — and 3.6 percent growth in 2004. Growth in the euro area (roughly 1/6th of global GDP) is again lackluster at 1.1 percent in 2003 and 2.3 percent in 2004. Japan remains mired in a slump at 0.8 percent growth for 2003 and 1.0 percent for 2004. Emerging Asia is in fact the strongest growing region of the world at 6.0 percent for 2003 and 6.3 percent for 2004, though we do not view this recovery as self-sustaining if the rest of the world slumps. Moreover, the effects of the incipient SARS epidemic are likely to have an adverse impact (of perhaps about 0.4 percent if the epidemic lasts for one quarter).

Our core assessment of global prospects is laid out in the World Economic Outlook, which you have before you. Let me add only a couple points here.

First, even if near-term war-related uncertainties are abating, one has to recognize the distinct possibility that perceptions of the global security situation may not return to pre-September 11 levels for decades to come, implying higher costs for insurance, weaker confidence, higher trade costs, and a slower pace of global economic integration. True, we do not see the adverse effects of heightened insecurity nearly offsetting the benefits of the 1990s global technology revolution originating in the United States (see WEO Box 1.2). However, heightened security risks may still have long-term insidious effects that could ultimately reduce our notion of "normal" global growth from 4 percent to, say, 3.75 percent. It should be noted that good policies, such as broad-based structural and institutional reforms, could counteract this effect many times over; see, for example, Chapter 3 of the WEO on the potential for institutional reform to promote growth in Africa, the Middle East and Developing Asia. Absent such reform, however, some markdown seems appropriate. All in all, after the events of September 11, we appear to be witnessing at least a partial rollback of the peace dividend of the 1990s.

Second, we do not agree with observers who say that monetary policy has reached its limit, but a change in communication strategies is needed. Surely the time has come for the ECB, the BOJ and the Fed to be more transparent about their inflation objectives. More transparency on inflation would risk little while greatly enhancing central banks' capacity to fend off deflation, which is already present in Japan, and at least an outside risk in Europe and the United States (see Box 1.1 of the WEO).

In Japan, more aggressive quantitative easing—still sorely needed—would be considerably more effective if anchored by a communication strategy stating that the BOJ intends to eliminate deflation in the near term, and has the capacity to do so. Of course, the risks to this strategy would be reduced, and the benefits magnified considerably, if determined monetary easing were accompanied by comprehensive bank and corporate restructuring. In Europe, it would be desirable to move to an inflation target that is at once more transparent and more symmetric. As the ECB reconsiders its monetary strategy, it should also consider adopting a higher central target inflation rate of, say, 2.5 percent. A higher central inflation objective would reduce the likelihood of deflation prospects in weaker economies, currently Germany. If and when accession countries join the euro, economic divergence will be even greater, and an even higher central inflation rate might be contemplated. Finally, even acknowledging the consistent outstanding performance of the United States Federal Reserve, it is hard to see the arguments for remaining less than completely transparent about the Fed's broad medium-term inflation goals. In the admittedly unlikely event deflation were to set in, having a communication strategy already in place would make reversing the process far easier, and substantially alleviate the need for the kind of exotic measures now being vetted. In addition, more transparency on inflation would alleviate anxiety over any eventual transition to a post-Greenspan era. (A transition I, for one, hope does not come for a long time.) Overall, across the three regions, one can only surmise that some central banks view enhanced inflation transparency as placing them on a slippery slope towards rigid inflation targeting—which would indeed be a less than ideal arrangement—but on balance, the risks do not seem so great as to justify persisting with current communication strategies.

Finally, on fiscal policy: all the major industrialized countries face serious aging problems over the coming years, with pension and health care sustainability problems arising in the very near term in Japan and in many countries across Europe. Given current low birth rates, it is just not possible for people to go on indefinitely living longer and retiring earlier, happy as that thought may be. (For many industrialized countries, age-related government expenditure is expected to rise by 5-10 percent of GDP by 2040, a number that swamps much current budget arithmetic.) Raising the age of retirement has to be one piece of any solution, and implementing such a policy is as important as any measure most industrialized countries could take towards achieving medium term fiscal sustainability.

With this, I conclude and am happy to take your questions.

# From Your IIF President, Robert Fildes

## Certification?

Since last the *Oracle* discussed certification the Institute has made progress. After agreement in principle was reached at last year's Directors' Meeting in Dublin, Keith Ord and I have moved ahead to devise both a provisional syllabus and a procedure for setting up a forecasters' certification programme. But before I summarise these recommendations, let me rehearse the arguments in favour of developing such a programme. They are:

- To improve forecasting practice
- To raise the profile of the forecasting activity within organisations
- To support career training needs in forecasting and to develop new skills
- To provide individual recognition of the implementation of successful forecasting practices.

Certification then is seen as supporting individual career development while at the same time meeting the often expressed organisational need to improve forecasting practice. It will be relevant to both the forecaster and the employer. Because of the focus on practical forecasting problems a bureaucratic structure of entry requirements, course attendance and assessment would be inappropriate. Organisations in both the US and elsewhere do not (perhaps unfortunately) have the luxury of allowing their staff much time away from their desks developing themselves, however much they would benefit in the long term. The Institute therefore needs to offer considerable flexibility in any approved training programme if it is to be successful. What we therefore suggest is that within some broad guidelines on course depth (and therefore study hours), topics covered and assessment, institutions (usually universities) from around the world be encouraged to make their own proposals to the Institute. A small 'Certification Working Party' would then agree the proposed certificate. Successful students would receive a certificate awarded jointly between the university and the Institute.

What type of forecaster would benefit from a certificate programme? The easy answer is 'everyone with forecasting responsibilities' and it's true that most forecasters have little formal training in the area. Even a degree in econometrics or statistics does not necessarily include much of the material we see as necessary to a rounded training in forecasting. But a pre-requisite for any student must be some work experience of the practical problems of organisational forecasting.

What should a forecaster study? This is where controversy may creep in. Europe and the US both share a common view as to what constitutes a post-experience certificate – around 500 hours in total of study and assessment. But we don't have pre-conceived views as to the details of how those 500 hours should be spent. Topics we have identified as relevant include introductions to marketing and economics, knowledge of statistics (some would already have gained this knowledge whilst others would need some formal input). Of course forecasting techniques would be at the heart of most certificate programmes, including both econometrics and time series methods. Some forecasters might however want to specialise, for example in sales forecasting management. These different mixes could be offered through the use of various options. Finally, there might need to be lectures and workshops that considered forecasting issues specific to the organisation.

How would these various courses and options be assessed? That would be up to the supplier (the university). The Institute would only be interested in ensuring a reasonable level of rigour and coverage. Our preference would include projects carried out in-house that demonstrated knowledge of the principles of forecasting, both technical and organisational. Only elementary material would be assessed by examination. But the Institute's attitudes are unlikely to be prescriptive. Our hope is that we can interest the business and government communities in what we see as a useful and exciting initiative to get more professionalism into the forecasting activity.

A detailed plan will be presented to the Board of Directors for consideration at their annual meeting in association with the International Symposium on Forecasting at Merida in June. We encourage you to comment on this development before then to guide those discussions. After that meeting, we will provide an update on progress.

*Ed. Note: This will be posted on the IIF web site and readers are encouraged to give their own views on what sort of certificate would be most valuable.*

Robert Fildes

# From Your IIF Membership Secretary, Geoff Allen

## Your missing journals . . .

. . . are still missing. They should begin to appear very soon. However, the back issues will probably not appear all at once and will probably arrive out of sequence. Part of the problem is that some of the back issues are out of print and are being reprinted. If the information I am given is correct, by the beginning of May you should have received volume 18 number 3 (if you have not received it already), volume 18 number 4, and volume 19 number 1. If you have not received all these issues by the end of May please let me know which ones you are still missing (allen@resecon.umass.edu). I do not have the dispatch date for volume 19 number 2, but I would expect that to appear soon also.

I apologize for this unsatisfactory state of affairs and am hopeful that problems of this kind are behind us. Reed Elsevier, owner of Elsevier Science, our publisher, on its way to taking over the entire publishing industry, acquired the Harcourt Company about two years ago. The only reason for bringing up this business item is that Elsevier has decided to reorganize its liaison with professional associations and is at this moment transferring those operations from New York to the former Harcourt operations in Orlando, Florida. The reason, according to an employee of Elsevier is that Harcourt was "much better" at society liaison than Elsevier. Although this is not setting a terribly high standard, at this point I am inclined to agree, having spoken to someone in what remains of our former contact office in New York, and to our new liaison in Orlando. Our new liaison person seems to have a way around whatever problems caused this series of delays and intends to start shipping all copies of our journal that are in stock as soon as possible.

## Election time

I am about to send you the ballot for the election of Directors of the IIF. We are using electronic voting provided by Campus-vote.com. Returning a paper ballot is also possible and the system is set up with a randomly assigned code to ensure that voting more than once is not possible. Voting is easy! Please do it so that we get a good representation from the membership. All votes must be received by April 30.

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# Forecasting Comments and Working Papers

**We asked members to send us thoughts about forecasting and information about working papers, and got quite a few responses. This section will be a regular feature in the future, so please email us about your views and research in progress.**

## Why We Argue About the War on Terrorism: Bad Forecasts and How to Avoid Them, by J. Scott Armstrong

There is broad agreement on the objective in the war on terror: We would all like a safe world. The arguments and rancor over the invasion of Iraq arise because people around the world have made different predictions about what might happen, given various strategies. For example, will the war in Iraq reduce terrorism in the future, or will it increase it?

In general, people are using unaided judgment, to make these forecasts. Research on judgmental forecasting has shown that this is not a good way to make such predictions. For example:

* Those with high expertise in the area (e.g., people with Nobel Peace prizes) are no more accurate than those with little expertise (people who follow the situation in newspapers or on television);
* Beyond a minimal level, the collection of more information does not improve accuracy; and
* The strength of conviction (e.g., "I will quit my job!") is unrelated to accuracy.

These findings, although well supported, are contrary to common beliefs, which is probably why people cling to the use of unaided judgment.

For the past 17 years, Scott Armstrong of the University of Pennsylvania has been involved with research on how to make forecasts for conflict situations. He and his colleague, Kesten Green of Victoria University of Wellington in New Zealand, have done much to advance what we know about such methods. They take actual situations and disguise them (checking to be sure people do not recognize the situations). They then list some plausible outcomes (there are usually three or four) and ask people to forecast the decisions by the groups in conflict.

Surprisingly, unaided judgments by college students were no better than chance. But when they asked experts (clever people like those you see on TV), they were no more accurate than the students. Based on the research to date, then, discussions about what to do in situations such as in Iraq, are based on worthless forecasts!

But it is possible to make good forecasts. Armstrong and Green have been doing comparative research on simulated interaction. This involves role playing the interactions between the competing parties (e.g., between Saddam Hussein and George Bush). This provides a realistic way to examine the possible interactions. The forecasts are not perfect but, in their studies using undergraduate student role players, the error rate was halved compared to that of experts using unaided judgment. The researchers expect the forecasts would be even more accurate if experts were involved in the simulated interactions. The U.S. military has used simulated interactions in the past. Dr. Armstrong commented, "I have heard rumors that they are using them in the current situation involving Iraq. My guess is that Saddam Hussein did not do so."

In addition, Kesten Green has found the use of "structured analogies" to produce accurate forecasts. He asked a variety of experts to individually write descriptions of analogies and to rate their similarity to the current situation. For example they might think of Churchill just before WWII as an analogy for Iraq. The outcomes of the analogies are then used as the forecasts. Interestingly, when allowed to apply their judgment to the analogies, accuracy decreases.

The simulated interaction and structured analogies procedures allow us to make better forecasts. If we can make better forecasts, then we should be able to make better decisions and save lives. To aid this process, Green has summarized the procedures, along with the evidence, under "What's New" at http://www.forecastingprinciples.com While the benefits are expected to be greatest if all parties would use these procedures, improvements in conflict resolution are expected even if only one party uses them. Meanwhile, I certainly hope that the U.S. and Britain are using simulated interaction and structured analogies to assess different strategies.

## Do we make better forecasts these days? A survey amongst academics, by Philip Hans Franses

Econometric Institute Rotterdam, Econometric Institute Report 2003-06, February 17, 2003. Full text available at http://www.eur.nl/WebDOC/doc/econometrie/feweco20030220122808.pdf

**Abstract**

This paper presents the results of a survey held amongst all editorial board members of six journals. These journals in part focus on the development of models and methods for forecasting. The key question was whether one believes that the forecasting discipline has made progress in the last three decades. Amongst various results, the most important one is that modest progress has been made, although the profession seems far from satisfied. This progress appears to be mainly due to the increase in computing power and the fact that we are better able to incorporate important data features in our models. Additionally, progress could have been faster if we somehow were to include the opinions of experts. These last two findings define two important topics on the research agenda.

**The Survey**

Between December 24 and 31, 2002, e-mail messages were sent out to editorial board members of six journals. These journals are the *International Journal of Forecasting*, *Journal of Forecasting*, *Journal of Econometrics*, *Journal of Applied Econometrics*, *Studies in Nonlinear Dynamics and Econometrics* and the *Journal of Business and Economic Statistics*. It took a while to obtain all the correct e-mail addresses, but in the end the message was well received by a total of 220 possible respondents. The final amount of useful questionnaires is 76, which amounts to a rather acceptable response rate of 34.5 per cent.

### Conclusion

The results of the survey discussed in this paper suggest various conclusions. First, the survey shows that the respondents represent a part of the academic community, which in general has a positive attitude towards their profession and to various aspects of life. Next, they are interested in their object of research, the economy, and they spend quite some time on research during the week. Progress is also experienced, in terms of being able to generate better forecasts these days, and this general progress correlates with various factors like densities, evaluation criteria and the quality of models. The stated progress is not due to the personal traits. The positive change in quality is mainly attributed to the increase in computing power and the fact that we are better able to incorporate the salient data features in the models. However, it seems that we could have made even more progress if we would have explicitly included the opinion of experts and not just relied on a single model. This survey points towards two marked topics on the future research agenda. The first is that we should keep on striving for developing models and methods, which incorporate the relevant features of the data. This aspect was seen as an important underlying factor of the positive progress. The second is that we should somehow try to explicitly incorporate the opinion of an expert into a forecasting model and to use more than just one model. This last issue is perhaps more difficult than one might think. At present there are many studies, which deal with the combination of expert opinions, but there are not many illustrations of how one can precisely incorporate such opinions into an available model.

## Forecast Uncertainty, its Representation and Evaluation, by Kenneth F. Wallis

Department of Economics, University of Warwick, Coventry CV4 7AL, UK

Published in *Boletin Inflacion y Analisis Macroeconomico*, Universidad Carlos III de Madrid, Special Issue No 100 (January 2003), pp.89-98. Updated 23 January 2003. Full text availabele at http://www2.warwick.ac.uk/fac/soc/economics/staff/faculty/wallis/publications/fcastuncert230103.pdf.

### Abstract

This article first describes various methods of communicating information about forecast uncertainty, and then presents some statistical techniques for assessing the reliability of such information. Qualitative descriptions of forecast uncertainty include variant forecasts and forecast scenarios. Quantitative descriptions include interval and density forecasts. The article concludes with an analysis of the first four-and-a-half years' forecasting experience of the Bank of England's Monetary Policy Committee. It is found that their density forecasts of inflation significantly overstated forecast uncertainty. Despite these shortcomings, improved communication of forecast uncertainty is a welcome development, and other forecasters should be encouraged to adopt the methods described.

## Rational expectations and fixed-event forecasts: an application to UK inflation, by Hasan Bakhshi, George Kapetanios and Anthony Yates

Bank of England: Working paper number: 176. Full text is available at http://www.bankofengland.co.uk/workingpapers/wpabst03.htm#wp03.

**Abstract**

This paper tests a version of the rational expectations hypothesis using 'fixed-event' inflation forecasts for the UK. Fixed-event forecasts consist of a panel of forecasts for a set of outturns of a series at varying horizons prior to each outturn. The forecasts are the prediction of fund managers surveyed by Merrill Lynch. Fixed-event forecasts allow tests for whether expectations are unbiased in a similar fashion to the rest of the literature. But they also permit particular tests of forecast efficiency to be conducted - whether the forecasts make best use of available information - that are not possible with rolling event data. The results show evidence of a positive bias in inflation expectations. Evidence for inefficiency is much less clear cut.

## On the selection of forecasting models, by Atsushi Inoue and Lutz Kilian

European Central Bank: Working paper number: 214, full text available at http://www.ecb.int/.

## Forecasting Principles special interest group pages

The http://forecastingprinciples.com site is in the process of adding special interest group pages. To date these are:

**Crime Forecasting Research**

Crime forecasting is an emerging application area for forecast research. While there have been isolated papers in the literature, it is only recently that there has been major interest and thus research programs in the area.

This section is maintained by Wilpen L. Gorr

**Forecasting Decisions in Conflicts**

A resource for managers, practitioners, and researchers concerned with forecasting the decisions of parties in conflict. Forecasting decisions in conflicts is forecasting for: industrial disputes, corporate takeovers, inter-communal conflicts, political negotiations, diplomatic and military confrontations, and other similar situations. **A new addition is forecasts on the war in Iraq.**

This section is maintained by Kesten Green.

**Weather Forecasting**: In process.

**Contact Scott Armstrong if you would like to start a new SIG page.**

# Books

## Books Recently Received for Review in the *International Journal of Forecasting*

Please contact Paul Goodwin (mnspg@bath.ac.uk) if you are interested in reviewing any of the following books:

1. Chatfield, C.(forthcoming) *The analysis of time series: an introduction.* (6th Edition) London: Chapman and Hall./CRC Press.
For information on this book see: http://www.crcpress.com/shopping_cart/products/product_detail.asp?sku=C3170&parent_id=&pc=/

2. Knight, J. and Satchell, S. (Editors)(2002) *Forecasting volatility in the financial markets* (2nd Edition) Oxford: Butterworth-Heinemann.
For information on this book see the publisher's web site: http://www.bh.com/listing/uk/

3. Hanssens, D.M, Parsons, L.J and Schultz, R.L. Market Response Models (2001) (2nd Edition) Norwell: Kluwer Academic Publishers.
For information on this book see: http://www.wkap.nl/prod/b/1-4020-7368-2/

4. Beck M.B. (Editor) (2002) *Environmental foresights and models: a manifesto*. Amsterdam: Elsevier.
For information on this book see: http://www.elsevier.com/inca/publications/store/6/2/2/5/4/1/index.htt/

5. Golyandina, N., Nekrutlin, V. and Zhigljavsky, A. (2001) *Analysis of time series structure: SSA and related techniques*, London: Chapman and Hall.
For information on this book see: http://www.crcpress.com/shopping_cart/products/product_detail.asp?sku=C1941&parent_id=&pc=/

6. Train, K.E., (2003) *Discrete choice modelling methods with simulation*, Cambridge: Cambridge University Press,
This book includes applications on predicting decision-making and choice behavior. More information about it can be found on: http://titles.cambridge.org/catalogue.asp?isbn=0521017157

## Principles of Forecasting Web Site: Text and Trade Books Page

The Text and Trade Books page at the Principle of Forecasting site has been redesigned. You can access the page on: http://www-marketing.wharton.upenn.edu/forecast/books.html

The page aims to increase awareness of forecasting books that are available and to provide accessible and up-to-date information about these books for educators, researchers and practitioners. The page currently includes the following sections:

**Books relevant to forecasting published since1990**. For the books listed, you will find direct links to the book's page on the relevant publisher's web site and on Amazon.com. If the book has been reviewed in the International Journal of Forecasting a link to this review is also provided.

**New books received for review in the International Journal of Forecasting.** This also contains links to the publisher's web page for the book and to Amazon.com. Please look at the list if you are interested in writing a book review. If you have recently written a forecasting book that is not listed, please contact the Page Master.

**Full text, on-line versions of:**

1) Long Range Forecasting (2nd edition) (1985) by Scott Armstrong;

2) The Delphi Method:Techniques and Applciations (1975) by Harold A. Linsone and Murray Turoff (eds), 1975.

We are hoping to develop the page so that it will:

- provide a forum for discussion and debate about the content of forecasting books.
- enable authors to post notices about corrections, updates or new editions and how their books contribute to forecasting principles.
- enable authors to post full electronic versions of their books on the page, subject to obtaining necessary copyright and also subject to the agreement of the Page Master.

If you have any material that you would like to add to the page, or suggestions on how it can be developed further, please contact the Page Master, Paul Goodwin: mnspg@bath.ac.uk.

# Potpourri

## Principles of Forecasting Web Site Researchers Page

A new section has been added to the Researchers' page dealing with New Evidence on Principles. The first paper described is P. Goodwin (2002), "Integrating management judgment with statistical methods to improve short-term forecasts." Scott Armstrong would like to see full-text of papers that have some relation to the principles. They can be published papers or working papers. To list your paper there, please follow the Instructions link.

## Special Issue on Transportation Forecasting

The editors of the Journal of Transportation and Statistics are planning a special issue on Transportation Forecasting. We invite submissions relating to any mode of transportation, with an emphasis on forecasting models whose results would be of potential interest to policymakers. We are particularly interested in papers dealing with longer term forecasting, with an emphasis on safety, infrastructure, environmental, or economic issues, but we will consider other areas.

All papers will be peer-reviewed. Please refer to the journal or to the Web page (http://www.bts.gov/publications/jts/submit.htm) for submission requirements. Please send one hardcopy or an electronic copy of your paper to either of the editors of this special issue, to whom all inquiries should also be directed. Authors planning to submit papers are encouraged to send an abstract to the editors by **June 2, 2003**. The cut-off date for accepting completed manuscripts is August 1, 2003. The tentative publication date of this issue of the Journal is mid-2004.

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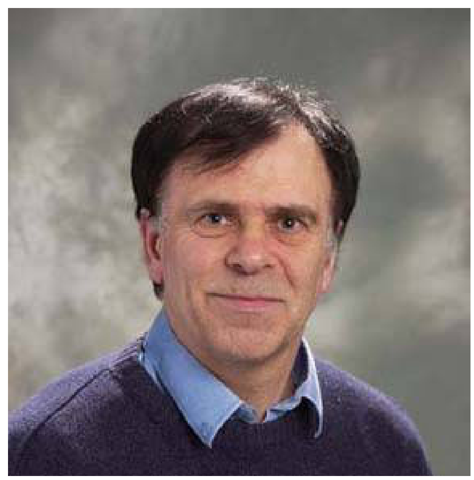
# The Co-Editors of the *Oracle of IIF*

Roy Pearson, your editor for the past four years, is very glad to let you know that commencing with this issue, he has a co-editor from the other side of the Atlantic, Paul Goodwin.

Members are encouraged to send either one of us personal as well as professional news, including titles, abstracts, and links to working papers, and short commentaries on forecasting applications (in words, with a minimum of formulas please) that they wish to share with the membership.

We take this opportunity to let you know a little about us, and include pictures so that you can put a face with names.



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**Roy Pearson** is the Chancellor Professor of Business at the College of William and Mary, where he has been teaching forecasting in the MBA program since 1974. From 1984 to 1998 as Director of the College's Bureau of Business Research he regularly published his quarterly two-year-ahead forecasts for Virginia and six of its metropolitan areas. He has served on the Governor's Advisory Board of Economists, responsible for reviewing the state's revenue forecasts and the forecasting methodology, under five Virginia governors. His research interests center on regional forecasting and on the measurement and interpretation of forecast error. He received a B.S. in Commerce and Ph.D. in Economics from the University of Virginia. His main recreation is scuba diving and underwater photography. His email address is roy.pearson@business.wm.edu.