An evaluation of automatized econometric forecasts (AIF) for Norwegian core inflation for the period 2004q2-2008q3.

Automatized econometric inflation forecasts have been published twize a year, starting in July 2004. The forecasts are automatized, with a minimum of intervention after the econometric specification of the forecasting mechanism is completed. Therefore these econometrically based forecasts have been dubbed Automatized Inflation Forecasts forecasts (AIF for short).

Nymoen (2005) gives an evaluation of how the forecasting model underlying AIF performs relative to Norges Bank’s inflation forecasts in 2002 and 2003. Here, we evaluate the true ex-ante forecasts based on forecast errors for the period 2004q2-2008q1. The forecasted variable is the annual rate of inflation.

The graphs in the upper panel in the figure show the mean forecast errors, MFE. And second panel of the figure shows the mean squared forecast errors, MSFE.

A negative MFE means that the inflation forecasts are on average higher than the actual inflation rates in the period. For example, a horizon of four quarters the AIF forecasts are on average 0.2 percentage points too high. The biases of the AIF forecasts are smaller than Norges Banks bias for all horizons except the 10 quarters horizon.

Figure 1: First panel: Mean forecast errors, MFE, for core inflation (annual rate of change in CPI-ATE). Moneyeatry Policy Report forecasts in red, and AIF forecast in blue. Second panel: Mean squared forecast errors, MSFE. Source: Inflation Report/Monetary Policy Report 2/04 - 1/08 and AIFs published at http://folk.uio.no/rnymoen/forecast_air_index.html