Norwegian inflation forecasts, January 2009

This is the tenth of a sequence of forecasts of the Norwegian rate of inflation, using a small scale econometric model to produce automatized inflation forecasts, AIFs. The methodological approach of this project is presented in Nymoen (2005).

The forecasted variable is the 4 quarter rate of change in the Norwegian consumer price index, adjusted for taxes and energy prices (CPI-ATE). The January 2009 AIF forecast is shown in the fan-chart below. The point forecasts are shown as a black line, and the 90% prediction intervals are indicated by the symmetric fans. The recent inflation history, from 2006(1) to 2008(4) is shown in the red line.

Inflation is projected to become 2.8% in the first quarter of 2009. In the following quarters, until late in 2010, the point forecast are a little above 2.5%. In the second part of the period, the model projects lower inflation.

The forecasting model does not make any special allowance for the extra uncertainty caused by the unfolding financial crisis and its consequences for macroeconomic variables. Actual forecast uncertainty is therefore even larger than the uncertainty presented in the graph.

The forecasting mechanism used (the AIF model) consists of an equation for the rate of inflation (CPI-ATE), and 8 equations which are needed to forecast the explanatory variables of inflation: the rate of unemployment, productivity growth, the nominal and the real exchange rates, foreign inflation (in foreign currency), domestic and foreign interest rates and oil prices.
The figure on this page shows the nominal 3-month interest rate (money market rate), which is forecasted together with inflation and the other variables in the AIF forecasting model.

Earlier forecasts, and the comparison of those forecasts with the Norwegian Central Bank’s Forecasts are available on this project’s webpage.