

# Macroeconomic forecasting: Debunking a few old wives' tales

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## Abstract

The forecasting profession, especially when producing forecasts intended to support economic policy, does not currently enjoy a good reputation. Complaints are sometimes voiced about its lack of scientific discipline, which in turn implies that the forecast results may be viewed as arbitrary. At other times, it is the excessively mechanical nature of the forecasting process which is criticised, on the grounds that it prevents a proper evaluation of any information concerning changes that alter the functioning of the economic system. Moreover, the use of structural models is often deemed superfluous, or even dangerous, and reduced forms are suggested as a preferable alternative. Drawing on the actual forecasting experience at the Bank of Italy, this paper argues that these views stem largely from a

biased perception of how forecasting works, what it consists of and which goals it pursues. In particular, forecasting does not simply amount to producing a set of figures: rather, it aims at assembling a fully-fledged view - one may call it a "hystory behind the figures" -- of what could happen: a story that has to be internally consistent, whose logical plausibility can be assessed, whose structure is sufficiently articulated to allow one to make a systematic comparison with the wealth of information that accumulates as time goes by. This implies that the forecasts are not the result of a black-box process that completely lacks discipline; neither are they the outcome of a purely mechanical process that cannot take new information into account. This paper tries to show that forecasting can be rigorous, not mechanical, informative, and useful even in the face of unprecedented situations.

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