Volume Title: Short-Term Economic Forecasting

Volume Author/Editor: Conference on Research in Income and Wealth

Volume Publisher: Princeton University Press

Volume ISBN: 0-870-14172-4

Volume URL: http://www.nber.org/books/unkn55-1

Publication Date: 1955

Chapter Title: Introduction to "Short-Term Economic Forecasting"

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Chapter URL: http://www.nber.org/chapters/c2899

Chapter pages in book: (p. 1 - 6)

Short-Term Economic Forecasting

INTRODUCTION

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SHORT-TERM FORECASTING, as considered in this Conference, refers to prediction for a period not more than one or two years into the future. It is to be distinguished from two related aspects: the forecasting of long trends, which the Conference on Research in Income and Wealth studied at a meeting in May 1951,[1] and the underlying trends or growth, studied from an historical standpoint, to which two other meetings have been devoted.[2]

One of the newest phases of short-term forecasting is the effort to measure expectations, in the shape of plans or commitments to be carried out in the near future. For businessmen relevant expectations may be anticipated capital outlays or sales, and for consumers, purchases of housing or other durable goods. In both cases information has been secured by sample surveys. As the following papers show, it is not deemed wise to draw the conclusion that such evidence automatically yields a reliable forecast. An intricate analysis of expectations over time and of the relation of the indicators of expectation to other variables is required.

While attention was thus focused at this Conference on the use of anticipatory data, other methods of forecasting were also discussed. V Lewis Bassie, in the opening paper, gives a general presentation of recent developments in the field, devoting some time to other methods such as the use of statistical indicators, econometric models, and "sound judgment." It is the only major presentation dealing mainly with general principles, the others being devoted to new quantitative results.

One of the most significant postwar developments in collecting anticipatory data has been the quarterly survey of business capital

[1] *Long-Range Economic Projection,* Studies in Income and Wealth, Volume Sixteen (Princeton University Press for National Bureau of Economic Research, 1954).

[2] The proceedings of these meetings do not appear in the Studies in Income and Wealth, as they were sponsored by the Universities–National Bureau Committee for Economic Research rather than by the Income Conference. The first meeting was held in November 1948 and the mimeographed papers were made available for limited circulation in a volume entitled "Problems in the Study of Economic Growth"; the second was held in November 1953, the topic being Capital Formation and Economic Growth. The proceedings of the second conference are being prepared for publication.

expenditures conducted jointly by the Securities and Exchange Commission and the Department of Commerce. Although intentions data collected in these surveys are based to a great extent on firm commitments, there are numerous possibilities for discrepancy between expected and actual values, aspects which are taken up in the paper by Jean Bronfenbrenner and Irwin Friend.

Simultaneously with the development of capital expenditure surveys in the United States, a similar project was undertaken in Canada. O. J. Firestone explains, in his paper, the Canadian postwar experience with investment forecasting. His informative analysis not only presents an appraisal and description of the use of investment-intentions data, but also covers the forecasting problem for the whole economy. His paper affords an excellent basis for an independent judgment in this country of the success of investment surveys. The paper stands by itself as an analysis of factors shaping investment decisions and making for realization of intentions. It is also appealing as a study in international comparison of investment forecasting.

Intentions expressed in sample survey investigations are by no means the only anticipatory data used in short-run forecasting. For many years the Shippers' Advisory Boards of the Association of American Railroads have published quarterly regional forecasts of freight carloadings. The results are studied by alternative methods of time-series analysis in a paper by Franco Modigliani and Owen Sauerlender and in another by Thor Hultgren. Neither study passes a favorable judgment on these anticipatory data as reliable forecasting series. Modigliani and Sauerlender also examine the performance of the business surveys by *Fortune* magazine and by Dun & Bradstreet. In addition they suggest models of behavior involving production, inventories, and expectations, which are applied to the historical records of the cement industry and to the business surveys of Dun & Bradstreet.

Anticipatory data for consumers, also a new field of inquiry, were likewise examined. The joint paper by John Lansing and Stephen Withey and the final contribution by Irving Schweiger report their experience with the Surveys of Consumer Finances made by the Survey Research Center for the Federal Reserve Board. Lansing and Withey take up the problems involved in using anticipatory data to predict consumer behavior. Their data are essentially different from those of Bronfenbrenner, Friend, and Firestone in that consumers' intentions to purchase durables are less firmly tied by commitments than the corresponding intentions of businessmen. Lansing presents a scheme for using anticipatory data from a time-sequence of independent samples, while Withey analyzes the results of a unique field experiment in which identical respondents were interviewed on two successive occasions. Withey's material is valuable in judging the factors making for or against fulfillment of anticipation. Schweiger's paper appraises the forecasting record of the Surveys of Consumer Finances from 1948 to 1951.

At the Conference meetings there was lively discussion on many issues—methodology, theory, and interpretation of recent events. There were an air of enthusiasm and a sense of achievement, a feeling that the papers revealed distinct progress in transforming the fine *art* of forecasting into a *science.*