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IMF Working Paper

How Well Do Economists Forecast Recessions?

by Zidong An, João Tovar Jalles, and Prakash Loungani

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I N T E R N A T I O N A L M O N E T A R Y F U N D

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Research Department

How Well Do Economists Forecast Recessions?

Prepared by Zidong An, João Tovar Jalles, and Prakash Loungani*

Authorized for distribution by Chris Papageorgiou

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Abstract

We describe the evolution of forecasts in the run-up to recessions. The GDP forecasts cover 63 countries for the years 1992 to 2014. The main finding is that, while forecasters are generally aware that recession years will be different from other years, they miss the magnitude of the recession by a wide margin until the year is almost over. Forecasts during non-recession years are revised slowly; in recession years, the pace of revision picks up but not sufficiently to avoid large forecast errors. Our second finding is that forecasts of the private sector and the official sector are virtually identical; thus, both are equally good at missing recessions. Strong booms are also missed, providing suggestive evidence for Nordhaus' (1987) view that behavioral factors—the reluctance to absorb either good or bad news—play a role in the evolution of forecasts.

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Keywords: recession, bias, efficiency, information rigidity, forecast comparison

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