

Is There Less Agreement About Inflation?

The Blue Chip forecasts for inflation come from a panel of forecasters who, each month, predict inflation for the current year and 1 year ahead. The size of the panel and its membership change over time; however, since 1993 the panel has never been smaller than 33 or larger than 54 members. The range of these forecasts—the highest forecast minus the lowest—is a measure of the level of agreement among panel members about future inflation. It is not a good measure of inflation uncertainty, though. In fact, greater inflation uncertainty could cause members' forecasts to converge, thereby making the range smaller, not larger.¹

Charts A and B show the ranges of the panel's monthly CPI inflation forecasts for the past 15 years (1993-2007): The lighter shading shows the area between the largest and smallest forecast ranges over the entire sample for that particular month of the year. (For example, the smallest range in January, 1.3 percentage points, occurred in both 1998 and 2000, and the largest range, 3.7 percentage points, occurred in 1997.) The darker shading shows the area after the two largest and two smallest ranges have been deleted, which removes the effect of extreme observations. The darker area in chart A slopes down because, in each successive month, members have more information with which to forecast the current year's inflation.

The dashed line shows the monthly ranges for 2008. Agreement about current-year CPI inflation for 2008 began to deteriorate about midyear. Indeed, the July, August, and September ranges were higher than in any comparable months in the previous 15 years; and the November range is at the maximum for the entire period.

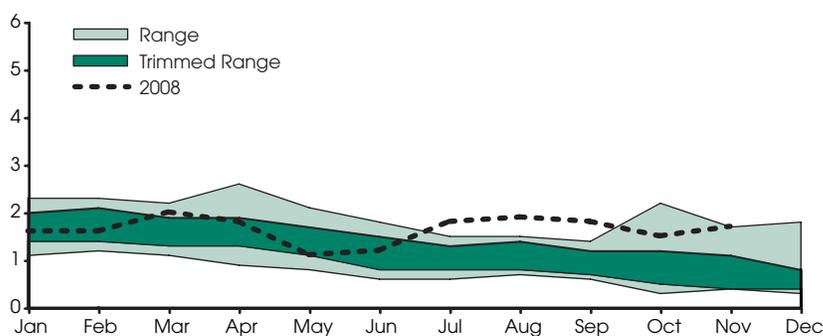
The 2008 ranges for the 1-year-ahead forecasts are also high, relative to the past 15 years. As with the current-year forecasts, disagreement about 2009 inflation appears

to have increased about midyear. Interestingly, the range of forecasts for November 2008 is much larger than in any November during the prior 15 years. This marked increase for 2009 inflation reflects the significant markdown made by many forecasters. For the 44 forecasters who participated in both the October and November panels, the average reduction for inflation is 1 percentage point. Moreover, several members are now forecasting deflation and a few anticipate significant deflation in 2009.

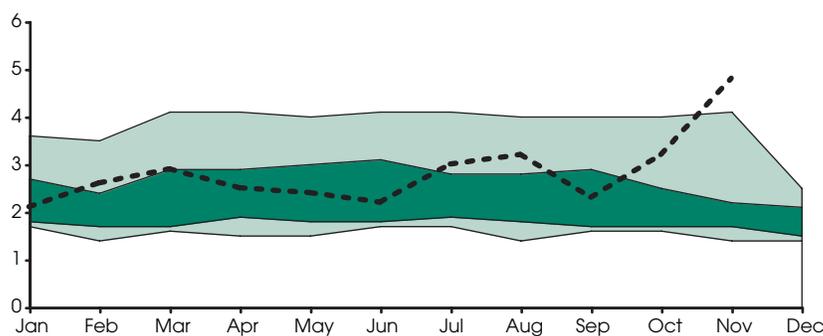
—Daniel L. Thornton

¹ See D'Amico, Stefania and Orphanides, Athanasios. "Uncertainty and Disagreement in Economic Forecasting." Finance and Economic Discussion Series, No. 2008-56, 2008; www.federalreserve.gov/pubs/feds/2008/200856/200856pap.pdf.

A. Ranges of Forecasts for Current-Year CPI Inflation



B. Ranges of Forecasts for 1-Year-Ahead CPI Inflation



Views expressed do not necessarily reflect official positions of the Federal Reserve System.