



## PRESS RELEASE

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For Immediate Release  
May 13, 2009

### ***NABE FORECAST AUCTION EXERCISE GENERATES PREDICTION OF CHANGE IN APRIL CORE CPI***

At 11:00AM EDT on Wednesday, May 13, 2009, a group of 17 NABE Outlook Survey panelists participated in an innovative forecast auction exercise (FAE). Using a Web site designed by Professor **Charles Plott's** experimental economics laboratory at the California Institute of Technology, the panelists provided forecasts of the one-month percent change in the April core Consumer Price Index for all urban workers (CPI). The expected change in the core CPI was 0.091%, rounding to 0.1%. The BLS reports the changes to only one decimal of precision. While the mode of the forecast distribution was approximately 0.2%, with roughly 21% of the probability weight on this outcome, the probabilities are heavily skewed below this as will be discussed on the next page. The price data will be released by the Bureau of Labor Statistics (BLS) at 8:30 am (ET) on Friday, May 15.

Co-funded by the NABE Foundation and Caltech, the exercise tests an information aggregation tool applied to expert forecasts of the core CPI in April 2009. The tool is a competitive process in which participants spend a limited amount of the funding pool to purchase and place tickets on a range of possible outcomes. In describing the experiment, NABE President **Chris Varvares**, president of Macroeconomic Advisers, said that the "overall objective is to get a consensus view from the NABE Outlook panel of the entire probability distribution of possible outcomes rather than just an average of forecast modes." The chart on the next page shows that distribution as generated by today's exercise.

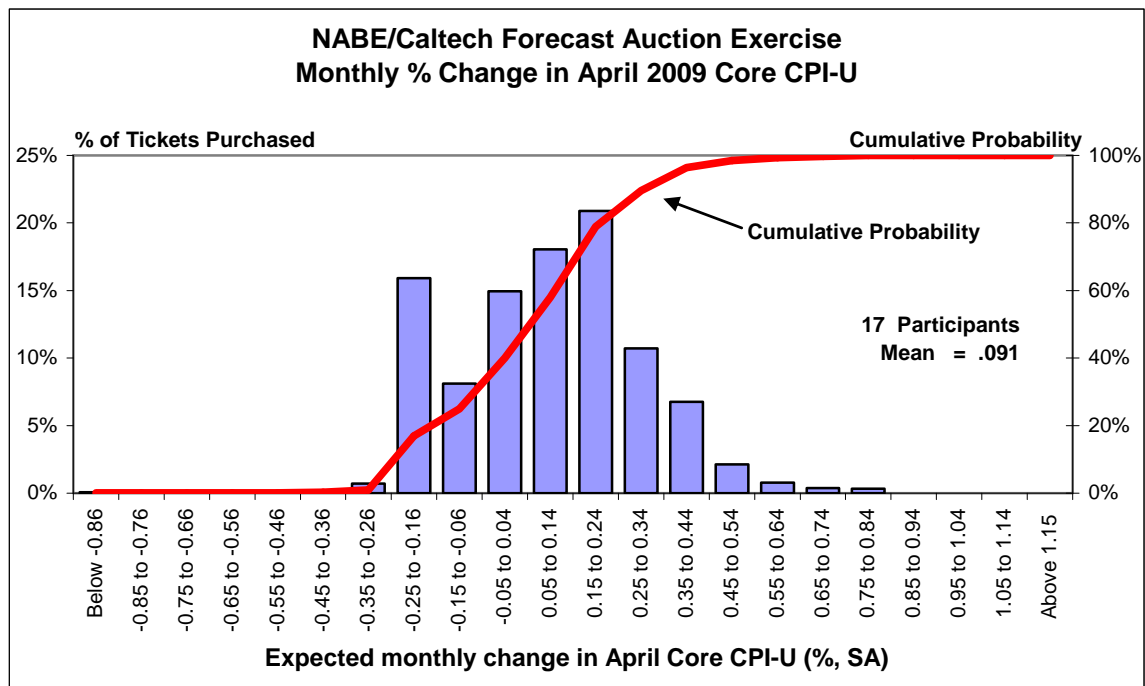
"We believe that this approach to forecasting is potentially a useful and valuable addition to the NABE Outlook Survey, our quarterly consensus macroeconomic forecast. Dr. Plott's FAE tool represents a significant contribution to the science of economic forecasting, and our long-term goal is to help move the FAE out of the laboratory and into the mainstream of forecast collection," said **Ellen Hughes Cromwick**, NABE past president and chief economist at Ford Motor Company.

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In today's exercise, the distribution of expected percent changes in the core CPI was skewed to the downside, as evidenced by the mean falling below the mode of the distribution. In addition, there was a significant probability associated with a roughly 0.2% decline. The median expected core CPI change in April (the range over which the cumulative probability crosses 50%) was the range of 0.05% to 0.14%, or the midpoint of this range, 0.095%. The distribution of expected outcomes implies that the participants believed there was roughly a 58% chance that the April change in the core CPI would be below 0.15%, and a 79% chance it would fall below 0.25%. The figures calculated for this forecast auction exercise can be compared to a Bloomberg consensus estimate of a 0.1% rise in the core CPI in April. The FAE distribution suggests roughly a 40% probability the actual will be below, and a 43% probability that it will be above, the Bloomberg consensus estimate.



This was the seventh such FAE that NABE has conducted with the Laboratory for Experimental Economics and Political Science at Caltech under the direction of Professor Charles Plott. NABE would like to expand the frequency and range of indicators covered by these exercises and has received enough funding to perform three additional FAEs between now and August 2009. The next FAE will collect the forecast distribution for the change in nonfarm payroll employment in May and will occur on June 3, 2009.

**ABOUT NABE:** NABE® is an association of professionals who have an interest in business economics and who want to use the latest economic data and trends to enhance their ability to make sound business decisions. There are approximately 2,300 members representing more than 1,500 businesses and other organizations from around the world. Since its founding in 1959, NABE® has continued to attract the attention of the most influential and prestigious economic leaders in business. Past presidents have included several former Federal Reserve governors, the former chairman of the Board of Governors for the Federal Reserve System, Alan Greenspan, and other senior business leaders. NABE's mission is to provide leadership in the use and understanding of economics.

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