



PRESS RELEASE

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For Immediate Release
July 29, 2009

NABE FORECAST AUCTION EXERCISE ESTIMATES GDP DECLINE OF 1.6% IN SECOND QUARTER

At 1:00 PM EDT on Tuesday, July 28, 2009, a group of 16 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 second-quarter real GDP growth. Seventy-two hours before the GDP report is to be released by the U.S. Bureau of Economic Analysis (BEA), this exercise resulted in a forecast of U.S. GDP for the second quarter of 2009. The exercise generated an estimate that GDP declined at a 1.6% pace in the second quarter, with a median estimate of -1.5%. Just shy of 50% thought that GDP declined by less than 1.5% or rose in the quarter.

Co-funded by the NABE Foundation and Caltech, the exercise tests an information aggregation tool applied to expert forecasts of U.S. GDP for the second quarter of 2009. This is the fifth such exercise this year. The tool is a 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 "forecast exercise has great potential to add value to the financial market participants because the results provide the entire probability distribution of possible outcomes rather than just a consensus snapshot." The chart on the next page shows that distribution as generated by yesterday's exercise.

"We are in the process of doing as many FAEs as possible to determine whether the results prove to be an accurate reading of the upcoming statistical release of actuals, and to learn whether market participants find value in knowing what forecasters assess to be the distribution of potential outcomes. 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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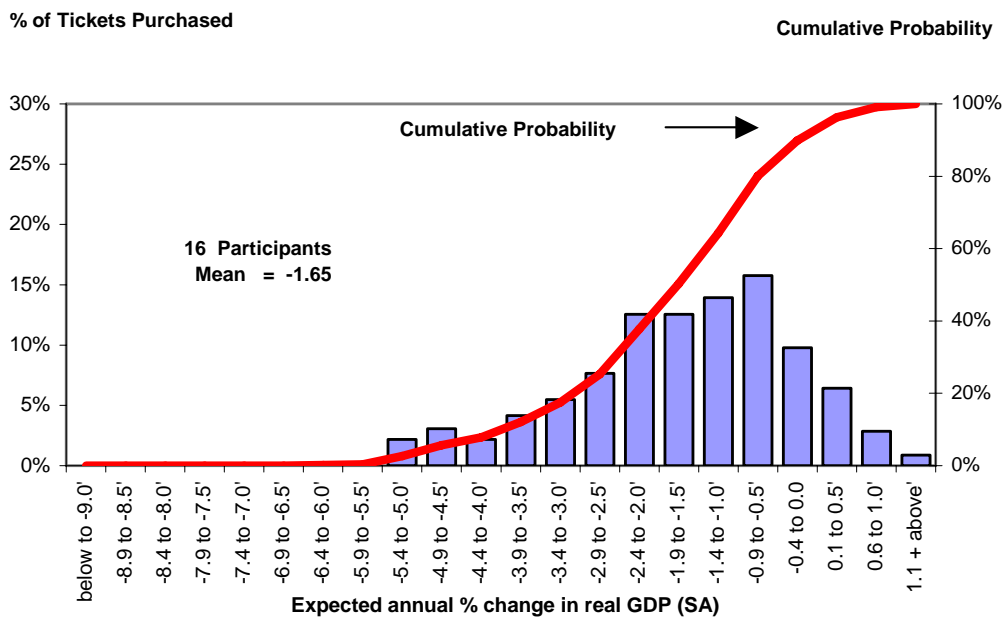
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In yesterday's exercise, the median expected GDP growth (the range within the cumulative probability crosses 50%) in the second quarter was -1.9% to -1.5%. The distribution of expected outcomes implies that the participants believed there was a 50% chance that GDP would decline 1.5% or more, also implying that there was roughly a 50% chance that GDP would decline by less than 1.4% or even increase. The balance of risks remains skewed to the downside with a longer and fatter tail to the left of the distribution's mean. While this suggests some caution in interpreting the mean and median estimates of our panel, it is also interesting to note the significant bunching of probability in the 0.0% to -1.9% range, which encompasses 52% of the probability. The Bureau of Economic Analysis will release the official estimate of second-quarter GDP growth at 8:30am ET on Friday, July 31.

The figures calculated for this FAE compared to a Bloomberg Consensus estimate of -1.5%.

NABE/Caltech Forecast Auction Exercise Q2 2009 Real GDP Growth



NABE has conducted FAEs since 2005 with the Laboratory for Experimental Economics and Political Science at Caltech under the direction of Professor Charles Plott. Yesterday's exercise is the final in a series of five 2009 FAEs co-funded by Caltech and the NABE Foundation. (The previous four FAEs in this series provided forecasts of the change in nonfarm payroll employment for April, May, and June 2009, and the monthly percent change in April 2009 core CPI.) NABE would like to expand the frequency and range of indicators covered by these exercises. Potential funding partners are invited to contact NABE for further information.

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