

Biases in U.S. Government Forecasts

Neil Ericsson
Federal Reserve Board
George Washington University
GW Research Program on Forecasting

Abstract

Different agencies of the U.S. government produce forecasts of the U.S. economy. This presentation analyzes potential biases in specific agencies' forecasts: those by the CBO and OMB for gross federal debt, and those in the Fed's Greenbook for output growth, inflation, and unemployment. Standard tests typically fail to detect biases in these forecasts. However, impulse indicator saturation (IIS) detects economically large and highly significant time-varying biases, particularly in association with the business cycle. Biases differ across the different variables being forecast. IIS defines a generic procedure for examining forecast properties; it explains why standard tests fail to detect bias; and it provides a mechanism for improving forecasts.