



## PRESS RELEASE

For further information, contact:  
Chris Varvares, 314-721-4747  
Ellen Hughes-Cromwick, 313-248-7615  
Susan Doolittle, 202-463-6223

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### ***NABE Forecast Aggregation Experiment Generates Prediction of March CPI Data***

At 11:00AM EDT April 13, 2007, a group of 14 NABE Outlook Survey panelists participated in an innovative forecast aggregation experiment that predicted the monthly percent change in the March 2007 Core CPI-U that was reported in the BLS CPI Report at 8:30AM EDT today, April 17. Using a website designed by Professor Charles Plott's experimental economics laboratory at the California Institute of Technology, the panelists provided their forecasts of the monthly percent change in the Core CPI-U for March 2007.

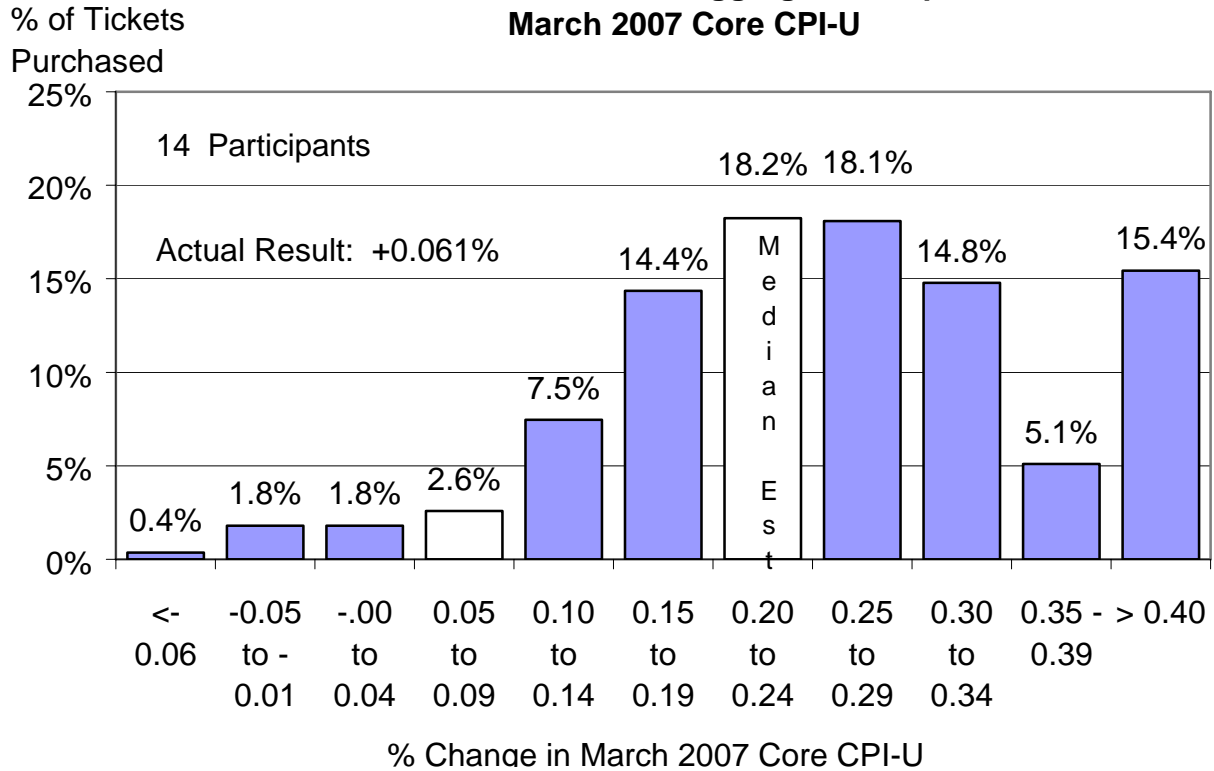
The experiment involved a type of "pari-mutuel" betting process in which participants spend a limited budget of "house money" to purchase and place tickets on a range of possible outcomes—in this case, the change in the core CPI. In describing the experiment, former NABE board member and president of Macroeconomic Advisers Chris Varvares 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 at distribution.

"We believe that this experimental approach to forecasting is potentially a useful and valuable addition to the NABE Outlook Survey, a quarterly consensus macroeconomic forecast of 50 NABE members," said Ellen Hughes-Cromwick, NABE vice president and chief economist at Ford Motor Company.

Participants in last week's experiment anticipated a median increase of 0.2% to 0.24% in the core CPI, with a 36% probability that the core CPI would represent an increase of 0.2% to 0.3% and a 28% probability that the outcome would be under 0.2%. "Today's CPI release, with the core CPI increasing just 0.06% in March, was a surprise. This forecast methodology allows us to gauge just how large was the surprise. The majority of forecasters were expecting a relatively large increase, with over a 71% probability of an increase of 0.2% or higher," said Chris Varvares, president of Macroeconomic Advisers LLC.

The NABE/CalTech experiments are studying the degree to which the number of participants affects the results of this and similar experiments. Previous experience suggests that an accurate picture of the expected distribution can be gauged from relatively few participants.

### NABE/CalTech Forecast Aggregation Experiment March 2007 Core CPI-U



The NABE/CalTech partnership will continue to establish a track record of experiments. The next one scheduled is for the first quarter real GDP release with the experiment to be conducted on Wednesday, April 25, 2007. Three additional experiments are scheduled for May 2007, including predictions for April employment and April Core CPI.

This was the third such forecast aggregation experiment 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 experiments, with the eventual goal of moving this “out of the laboratory” and into the mainstream of forecast collection. That will require a regular source of funding since each forecast aggregation procedure requires a sum of money that will be distributed to the participants in accordance with the percentage of tickets they hold in the range corresponding to the actual outcome. Interested parties are encouraged to contact the NABE office at [nabe@nabe.com](mailto:nabe@nabe.com).

**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 2,400 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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