ECONOMIC Synopses

Professional Forecasters' Outlook for 2023 and Caveats Based on Past Performance

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Individuals, businesses, and policymakers plan for the future by looking at possible changes in the economy, including income, the labor market, and interest rates. They may also seek guidance from professional forecasters.

Currently, there is much debate as to how the U.S. economy will perform in 2023. But the general consensus of professional forecasters and FOMC participants is that economic growth will be slow and inflation will come down from its elevated 2022 rates. Forecasters also expect that the hot labor market from the past few years will begin to cool. However, there are many risks to the outlook: elevated global inflation, slower growth in China, and a cooling domestic housing market, to name a few.

The historical track record of forecasters indicates these economic projections are rarely fully correct, but they do contain useful information beyond what can be gained by simple projections. So how likely is it that the economy in 2023 will be in line with professional forecasts? And if they are wrong, as they have been in the past, how wrong will they be?

I look at the one-year-ahead projections reported in the December Blue Chip survey of about fifty professional economic forecasters. Although these projections are updated monthly, I use data in the December report for ease of interpretation. Each individual forecaster's projections are reported, but it is the "consensus," or average among all forecasters, that is historically the most accurate and garners the most attention. The disagreement among forecasters can also contain useful information about the relative risk to the outlook and the possible range of outcomes based on the information available.

The first three rows of the table report the Blue Chip projections for 2023 for four key economic indicators: real GDP growth, CPI inflation, the unemployment rate, and the 10-year Treasury yield.

The consensus outlook for real GDP growth in 2023 is 0.3%, which is the second-weakest outlook for real GDP growth since 1993. The only December forecast of real GDP growth under 1% was during the 2007-08 financial crisis.[1] But there is some optimism, as reflected in the following:

- The average of the top 10 GDP growth rate forecasts is 1.3%.
- The average of the bottom 10 unemployment rate forecasts is 3.9%.
- The average of the bottom 10 forecasts for inflation is 3.4% and for interest rates is 3.1%.

So, how likely is it that 2023 will unfold as these professionals expect?

Blue Chip Survey of Professional Forecasters

	Real GDP growth	CPI inflation rate	Unemployment rate	10-Year Treasury yield
2023				
Consensus (average)	0.3	4.0	4.4	3.8
Average of top 10	1.3	4.6	4.9	4.3
Average of bottom 10	−0.5	3.4	3.9	3.1
Historical performance (1993-2022)				
Accuracy (% of years in range)	46.7	50.0	40.0	36.7
Accuracy (MAFE, consensus)	1.0	0.7	0.5	0.6
Bias (MFE, consensus)	−0.1	0.0	−0.2	−0.5

NOTE: Real GDP and CPI inflation are percent change from 2022 to 2023. Unemployment rate and 10-year Treasury yield are the averages for 2023. The 2022 observed values were calculated with data through 2022:Q3. Mean absolute forecast error (MAFE) and mean forecast error (MFE) were calculated using the consensus forecast.

The bottom three rows of the table report on forecast performance over the period 1993 to 2022. The first measure is the percentage of years in which the actual data fell within the range of the bottom 10 and top 10 average forecasts: Actual values of real GDP growth were within this range of forecasts less than half the time (46.7%). This may seem like poor performance; but given the wide range of historical observations, this could be quite good. Actual real GDP growth since 1993 has ranged from −2.8% to 5.9%, a range of 8.7 percentage points. The forecast range for real GDP growth has historically been only 1 percentage point and is 1.8 percentage points for 2023. Based on historical performance, it is essentially a coin toss as to whether actual real GDP in 2023 will fall within this relatively narrow range of −0.5% to 1.3%.

The second measure is mean absolute forecast error (MAFE), which looks at the historical performance of the forecasts to predict the range in which the *actual* values should fall. This measure provides additional evidence that these forecasts are typically close to the actual values.

The MAFE for the real GDP growth forecast is 1.0%, which suggests that if the consensus forecast of real GDP growth is incorrect by its historical average, the actual real GDP growth value will fall within a band of 1% over and 1% under the consensus forecast: The consensus forecast for 2023 is 0.3%, so the actual value for 2023 should fall between −0.7% and 1.3%.

The final measure, mean forecast error (MFE), indicates whether the consensus forecast is biased—that is, whether it has historically missed in a certain direction. For most indicators, the MFE is near zero, indicating little to no forecast bias toward either overshooting or undershooting. However, the MFE on the 10-year Treasury yield forecast is −0.5%, indicating that forecasters have typically predicted higher interest rates by an average of 50 basis points. This result is in line with the fact that forecasters have consistently missed the long-run downward trend in interest rates since 1993.

In summary, the outlook for 2023 economic growth is much weaker than forecasters have historically predicted, with the possibility of a recession in the range outcomes. One may be hesitant to accept a recession prediction in the forecast because, historically, forecasters have not been successful in predicting when real GDP growth will be negative. Recessions tend to occur infrequently and arise from unexpected shocks. On the other hand, realized values have typically been within a percentage point in either direction of the consensus forecast, so these projections do have historic credibility. ■

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