In November 2007, the Federal Open Market Committee (FOMC) announced several changes to
the process that it uses to make and report economic projections.¹ One thing that has not changed is that the
Fed will continue to report two ranges of forecasts: (i) the full range, encompassed by the high and the low fore-
casts; and (ii) the central tendency range, encompassed by
the high and the low of the group after the three highest
and three lowest forecasts are deleted. The Fed does not
release the individual forecasts or a single statistic, such
as the mean or median, which are commonly used meas-
ures to summarize the consensus in surveys of individual
forecasts.

A common method for determining the consensus of
the FOMC is to take the midpoint of the central tendency
range. The question is how this measure of consensus
compares with more traditional statistics, such as the
mean and median.

We can gauge the reliability of the FOMC’s central
tendency as a summary of the consensus of individual
forecasts by using the Survey of Professional Forecasters
(SPF) as a proxy. The SPF is conducted four times per
year by the Federal Reserve Bank of Philadelphia, which
maintains a database of the results, including the individual
forecasts. Here, we construct a central tendency range for
the SPF and then compare it with the mean and median of
the SPF respondents. Because the SPF often includes more
than 19 forecasts (the maximum number possible for the
Fed policy group), we compute the central tendency by
eliminating two outliers (one high and one low) for every
six forecasts. For a group the size of the FOMC, this is
comparable to eliminating the top and bottom three fore-
casts.

The chart displays the midpoint of the SPF’s central
tendency range of the February forecasts for output and
inflation as well as the mean and median of these same
forecasts. Here the output and inflation measures are those
reported by the Bureau of Economic Analysis, which
switched from GNP to GDP in 1992. The left panel shows
that, over the past 25 years, the midpoint of the central
tendency range for the SPF output forecasts is almost iden-
tical to the mean and median. The right panel displays simi-
lar results for the inflation forecasts. Therefore, we may
conclude that the midpoint of the SPF central tendency is
a good approximation of the conventional measures of
consensus like mean and median.

—William T. Gavin and Geetanjali Pande

¹ See last month’s cover page, “Can You Hear Me Now?” by Kevin L. Kliesen
for a description of these changes.