

Forecasting the future

Today I am publishing another piece with no reference to the UK or the election. I will resume normal posts tomorrow when national campaigning starts again.

Events, dear boy, events. Policy makers, governments and companies need to forecast the future as they shape their policies and decide what to do to serve their citizens or customers better. In recent years the main international forecasters like the IMF and World Bank, the ECB and the US authorities, have struggled to anticipate the banking crash of 2008-9 or the Euro crisis that followed. Many companies have expressed surprise at the turn of events from Tokyo to New York, and were not anticipating the election of Mr Trump.

As someone who tries to set out a view of what might happen next by way of important background to policy debate, it is important to think through how you can improve your chances of understanding the trends and the risks. You begin as most do by forecasting the "knowns". You can people your forecast with factual dates for future elections, Central bank rate setting meetings, publication of important results, dates of Budgets and the like.

You can then move from this easy bit, to trying to forecast the unknown element within these events. I know the Fed will consider interest rates at its June meeting. I do not know what it will decide to do, though with many others I expect it to raise rates by another 0.25% based on what I have read from the various statements and analyses put out by the Fed and its members. Sometimes your chances of success are high because the organisation has given a steer or clear briefings in advance. Sometimes the data they will consider is available and again it may be obvious what they have to decide. I did not know Mr Trump's budget, but a lot of what he is proposing was in his programme for government put out by candidate Trump, so it was not that difficult to guess. I did not know Mrs Merkel would decide to cancel all her nuclear power, but could see that might happen by watching the pressure she was under from the anti nuclear lobby.

There are then the unknown unknowns, as Mr Rumsfeld once famously said. No one could know that a Japanese nuclear power station would be badly damaged by a tidal wave, leading to a major change of energy policy. All you can do is adjust your view promptly if such a thing happens.

The reason some of the world institutions are so bad at forecasting economies is they have a vested interest in stability and come to believe their own reassurances. They missed the build up of excessive credit because they persuaded themselves that the world could suddenly handle levels of debt and gearing through derivatives that would have been dangerous before. Worse still, they then brought the whole structure down by lurching to too tough a stance, presumably because they did really believe all these positions were risk reducing! An outsider could see more clearly. Many of us saw the build of debt and gearing in the EU and US was excessive and said so. A few of us

saw the change of stance by the authorities was disastrous. If there is too much debt around the last thing you want to do is so tighten money that people cant afford to service their loans.

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