Forecasting

What forecasts can do, and the honest limits.

Economics

Practice and limits.

Good practice

- Test out of sample, not in sample
- Compare against a naive benchmark
- Publish intervals, not point estimates
- Record and review past errors
- Combine several models

Known limits

- Turning points are rarely predicted
- Structural breaks invalidate the model
- Feedback — forecasts change behaviour
- Longer horizons decay quickly

> A model that cannot beat 'next period equals this period' is not adding value, however sophisticated it looks.