NATIONAL INSTITUTE OF ECONOMIC AND SOCIAL RESEARCH:
PRESS CONFERENCE
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Opening remarks by the Director

Good morning. Welcome to the National Institute of Economic and Social Research for the release of our quarterly Economic *Review*. This morning we will concentrate on the outlook for the World and UK economy but also highlight a number of risks to the immediate outlook.

The projections presented in this Review suggest that the UK economy will undergo something of a slowdown in 2017 as the risks identified by NIESR from an exit in May and in August from the European Union start to materialise. The triggering of Article 50 represents considerable event risk and although the Prime Minister's speech represented a welcome statement of objectives we are still in a world of great uncertainty over future trade arrangements. We also note that although growth in the rest of the world remains fair, there are substantive risks as populist measures threaten the liberal consensus. Indeed we note that most of our forecasts portray significant downside risks.

Before turning to the forecasts I want to mention briefly the recent intense debate about the rationale behind economic prediction or forecasting, triggered by a sequence of forecast errors before and after the financial crisis and more recently by a 'surprisingly' buoyant economy after last year's referendum on the UK's membership of the European Union. Some economists argue that the value of a forecast is strictly related to its forecast accuracy. Others argue that what matters is less the forecast errors but the stories that are revealed by such errors. The former might be thought to relate the value of economic forecasting solely in terms of a statistical criterion and the latter to the need to concentrate on structural relationships between economic variables that will be subject to errors (or shocks) but which can be treated as stable.

One it tempted to say that economic forecasters ought to be thankful for pollsters otherwise they might look very bad indeed. The story that has frequently been repeated is that a recession was forecast in the event of a vote to leave the European Union and because there has been no recession, economic forecasters have let us down. This story is not quite the truth. For example, in May 2016 the National Institute Economic Review simply argued that growth would be broadly unaffected in 2016 by a vote to leave the European Union and projected to be almost 1 percentage point lower than the baseline in 2017; a baseline which assumed that the UK would stay in the European Union. The accuracy of the central forecast for 2016 was reasonable and we will all watch carefully what happens this year.

That said the substantive part of the economic impact of an exit from the EU single market story was fundamentally about the long run, what we might think of as the move from one pattern of trading relationships to a view about the new pattern of those relationships. This question formed the focus of most analysis because the empirical relationship between growth and trade is well established such that a reduction in overall trade seems likely to imply a reduction economic growth relative to the case when there is no change in the overall level of trade. Note that this is an example of a conditional forecast. No-one is saying that growth will be negative in the future without qualification. It is simply that compared to any other view we may hold about the future state of the economy, one with significantly less trade is likely to have lower economic growth, at least for a while. The unconditional forecast predicts the date at which you will die, the conditional one says that if you smoke you will die a number of years earlier.

I argue that the forecast process is inherently subject to large errors, and so is a hazardous exercise, but that does not by itself invalidate the exercise because both the producers and consumers of forecasts ought to understand that errors will occur. And this knowledge throws up a clear obligation for producers to explain errors before the fact by use of uncertainty or scenario plots and for consumers to treat the forecasts with caution.

Accordingly academic macroeconomic forecasting transformed following the financial crisis of the previous decade. Research produced a greater emphasis on model and data uncertainties, a push for more and better quality macroeconomic data, and consideration of new models better suited to gauging risk. Risk can be captured by the measurable. But by using surveys, digital web-scraping and measures of confidence researchers are also trying to get at what was previously unmeasured, the Knightian world. The production of forecasts now stresses risk and uncertainty. And within that risk and uncertainty we need to explain better the various scenarios, stories or states of nature, that add up to our measures of risk or uncertainty. The consumption of forecasts should now do so as well.

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