ECONOMIC FORECASTING FOR BUSINESS: Concepts and

Concepts and Applications

John J. McAuley

Vice President
Economic Research Department
Chemical Bank
and
Adjunct Assistant Professor
Fordham University

TECHNISCHE HOCHSCHULE DARMSTADT		
Forbbereich 1		
Gesomtbibliothek		
Betriebswirtschoftslehre		
Investor-Nr. : 38, 150		
Abstoll-1'1. : A 13/372		
3aungebiete: 1.4.5.3.4		
1.6.8.2.6		
\$4 \$47777 \$ \$400000000000000000000000000		

CONTENTS

face	хi
RT I: CONCEPTS	
Overview: Why, What, How, and for Whom Business Economists Forecast	1
Why Business Economists Forecast 3 What Business Economists Forecast 3 How Business Economists Forecast 5 For Whom Business Economists Forecast 7 Questions for Review and Research 7	
Theoretical Models: The Foundation of Economic Forecasting	9
Introduction 10 I. A Macroeconomic System 10 Equilibrium in the Goods and Money Markets: The Determinants of Aggregate Demand 11 The Goods Market 11 The Money Market 16	
	Overview: Why, What, How, and for Whom Business Economists Forecast Why Business Economists Forecast 3 What Business Economists Forecast 3 How Business Economists Forecast 5 For Whom Business Economists Forecast 7 Questions for Review and Research 7 Theoretical Models: The Foundation of Economic Forecasting Introduction 10 I. A Macroeconomic System 10 Equilibrium in the Goods and Money Markets: The Determinants of Aggregate Demand 11 The Goods Market 11

		Aggregate Demand: The Effect of Price Changes 20 Aggregate Supply: Equilibrium in the Labor Market 22 Summary 24	
	11.	The Microeconomics of the Firm: Demand and Supply 26	
		Market Demand 26 Market Supply 27 Static Equilibrium and Demand and Supply Curve Shifts 28	
	III. Que	Theory Is the Basis for Forecasting 30 stions for Review and Research 31	
3	3 Economic Data: The Raw Material of Forecasting		33
	I.	National Income and Product Accounts: Concepts 34	
		GNP as Product and Expenditure 36 GNP as Income 42 GNP Measured in Current (Market) and Constant Prices 46	
	II.	Less Aggregate Measures of Economic Activity 48	
		Employment, Income, and Consumer Spending 49 Orders, Production, and Sales 54 Capital Spending Measures 56 Prices and Costs 59 Cyclical Indicators 62	
	III.	The Construction of Gross National Product 65	
		Personal Consumption Expenditures 66 Gross Private Domestic Investment 67	
	IV.	Financial and Foreign Exchange Market Measures 69	
		Monetary Aggregates and Their Components 69 Financial Instruments and Interest Rates 76 Federal Funds and the Discount Window 77 Short- and Long-term Money Market Instruments 78 Bank Loans and Deposits 79 The Flow of Funds 79 Foreign Trade and Finance 80	
Qι		estions for Review and Research 81	
4	Stat	tistical Methods: The Tools of Forecasting	82
	I.	Looking At Data Over Time 84 Time Series Forecasting 104	
	II.	Regression Analysis 116	

Multiple Regression Analysis 127

	RT II: APPLICATIONS: INDICATOR FORECASTING	
5	Indicator Forecasting: Employment, Income, and Retail Sales	144
	Uses of Short-term Indicator Forecasting 145 A Structural Approach 146 Labor Market Measures 148 Personal Income 169 Retail Sales 180 Summary 188 Questions for Review and Research 190	
6	Indicator Forecasting: Inflation	193
	 I. Monetary Approach 195 II. Expectations/Momentum Approach 201 III. Factor Input Costs Approach 205 IV. Stage of Processing Approach 215 Questions for Review and Research 217 	
7	Indicator Forecasting: Inventories, Housing, and Production	219
	Business Inventories 220 Housing Starts 226 Industrial Production 233 Structural and Spot Forecasting: The Use of Judgment 238 The Structural Approach 238 Spot Forecasting 240 Questions for Review and Research 242	
	RT III: APPLICATIONS: COMPREHENSIVE CONOMIC FORECASTING	
8	Medium-term Macroeconomic Forecasting	244
	Introduction 245 Aims and Limitations 246 Forecast Approach: Econometric or Consensus 247 An Eclectic Approach to GNP Forecasting 249	
	Real GNP Forecast: Product (Expenditure)	

III. Error Analysis and Forecast Evaluation 138 Summary 142 Questions for Review and Research 142

	GNP Forecast: National Income Approach 281 Personal Income, Disposable Personal Income, Consumption, and Savings 281 Corporate Profits 285	
	Summary 288 Questions for Review and Research 289 APPENDIX: Adapting the Real GNP Model for Solution	
	with a Micro-Computer 293 Suggested Additional Readings for Chapter 8 303	
9	Financial Forecasting	304
	Introduction 305 An Overview of the Financial Economy and Key Concepts 306	
	Financial Market Overview 307 Financial Instruments 315 Composition of Interest Rates 319 Demand and Supply of Money and the Role of Monetary Policy 327	
	Summary 333 Three Approaches to Financial Forecasting 334 A Financial Forecasting Methodology 338	
	An Indicative Interest Rate Forecast Model 339 Deriving an Array of Interest Rate Forecasts 348 The Role of Judgment Summarized 352	
	Questions for Review and Research 352	
10	Long-term Macroeconomic Forecasting	355
	Overview 356 Long-term Macroeconomic Relationships 357	
	The Trend Rate of Production Growth 358 Labor as a Factor of Production 359 Capital as a Factor of Production 364 Production Costs and Output Prices 368	
	Summary 373 A Long-term Forecasting Model 375 A Note on Cyclical Behavior 384 Questions for Review and Research 384	
PAF	RT IV: APPLICATIONS: BUSINESS FORECASTING	
e11	Economic Forecasting at the Firm and Industry Level	386
	Introduction 387 I. Purposes and Scope of Business Forecasting 387	

ix **CONTENTS**

II.	
	An International Petroleum Company 391
	An Integrated Paper Company 394
	A Carpet Manufacturer 396
	A Toothpaste Marketing Firm 398
	An Electric Utility Company 400
	Private Charitable Contributions to Not-for-Profit
	Organizations 402
III.	, 8
	The Attractions of Economic Forecasting 408

ivame index		409
	•	
Subject Index		412