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The Economic Value of Business Cycle Forecasts for Potential Investors - Evidence from Germany☆

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Abstract

We examine the *economic* value of business cycle forecasts for potential investors of financial markets, as opposed to statistical measures of forecast accuracy. Taking Germany as an example, and based on annual data ranging from 1990 to 2016, covering 16 institutions and 18 different forecasts, we calculate performance measures of portfolios that actively react to business cycle forecasts and compare these values with the values of portfolios that are passively managed. We find that actively managed portfolios do not systematically outperform passively managed ones, while statistical measures suggest that forecasts are better than naive ones. Statistical and economic measures of forecast quality often do not point in the same direction, across forecasters. One main reason for the difference between the two views on forecast quality is that the economic value of a correct forecast changes with time. We check the robustness of our results by applying several trading rules referring to business cycle forecasts.

Keywords: Macroeconomic Forecasting, Forecast Error Evaluation,

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