Inflation forecasting: Approaching the calibration mirage

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The main requirement for probabilistic forecasts is that they should be calibrated. Unfortunately, it is unreasonable to expect this from admittedly imperfect forecasting models. How lenient, then, can we be and still be relied upon to issue meaningful probabilistic forecasts? This question will be explored with reference to Bank of England inflation forecasts and forecasts issued by the Survey of Professional Forecasters to the Federal Reserve Bank of Philadelphia.

Dr Reason L Machete is a Visiting Fellow in CATS from the University of Reading where he holds a research position. He is an expert in the mathematical theory of non-linear dynamics and its broad application to real systems. The overarching theme of his research is the quantification of model error and its role in probabilistic forecasting. Theoretical and practical issues of predictability of real systems are primarily his concern. His key aim is to minimise uncertainty subject to some degree of calibration. Until 2009, he was a mathematics lecturer at the University of Botswana.