

Federal Reserve Bank  
of Minneapolis

Fall 1989

# Quarterly Review



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Forecaster's Holy Grail** (p. 3)

Lawrence J. Christiano

**The U.S. Economy  
in 1990 and 1991:  
Continued Expansion  
Likely** (p. 19)

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Current-Quarter GNP** (p. 27)

Terry J. Fitzgerald  
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Vol. 13, No. 4    ISSN 0271-5287

This publication primarily presents economic research aimed at improving policymaking by the Federal Reserve System and other governmental authorities.

Produced in the Research Department. Edited by Preston J. Miller, Kathleen S. Rolfe, and Inga Velde. Graphic design by Barbara Birr and Phil Swenson, Public Affairs Department.

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## *In This Issue*

### A Handle on Inflation?

In “*P\**: Not the Inflation Forecaster’s Holy Grail” (p. 3), Lawrence J. Christiano critically examines a new method to forecast inflation trends. The method, called *P-Star* (*P\**), was introduced last summer by the Board of Governors of the Federal Reserve System as an improved way to get a handle on inflation’s likely changes over the next few years. In his article, Christiano describes the *P\** method, discusses some economic developments that could lead it astray, and assesses how well it forecasts, compared to eight other methods. He finds that *P\** is not significantly more accurate than any of those methods.

### The Key to the Outlook?

In “The U.S. Economy in 1990 and 1991: Continued Expansion Likely” (p. 19), David E. Runkle reports an optimistic forecast of output and inflation trends over the next two years. This forecast is generated by essentially the same large-scale model used for annual forecasts in previous outlook articles published in the *Quarterly Review*. While the model’s forecast is more optimistic than a consensus forecast for both inflation and real growth, Runkle sees its greater optimism for real growth as the most controversial difference. The key to this difference, he finds, is the model’s forecast of stronger consumer spending. Runkle defends the relatively strong real growth and consumption forecasts by examining historical precedents and comparing the track records of the model and consensus forecasts. Although this evidence tends to support the model’s forecast, Runkle points out that the model’s measures of uncertainty and other special factors suggest the forecast should be taken with caution.

### A Lock on GNP?

In “A Simple Way to Estimate Current-Quarter GNP” (p. 27), Terry J. Fitzgerald and Preston J. Miller describe a method they developed to predict the advance (first) estimate of inflation-adjusted gross national product (real GNP) using hours-worked data. Fitzgerald and Miller find their method surprisingly useful in putting a lock on advance real GNP. It also has interesting implications about how real GNP data are constructed and how models designed to predict current-quarter data in

real time (based on information available at the time) should be built. The pattern of the model's forecast errors suggests that the early estimates of real GNP rely on the hours-worked data heavily, but later estimates rely on them less and less. A comparison of the model's errors with those of the Minneapolis Fed's large-scale model suggests that real-time forecasting accuracy is helped by using data reported with little delay and revised by small amounts.

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