



South African Reserve Bank

Demand for Rapid Estimates from a Policy Perspective

**UN Workshop on Rapid Estimates:
Copenhagen – 13 September 2016
by Iaan Venter (South African Reserve Bank)**

Outline

- **The SARB's monetary policy process**
- **MPC meeting frequency vs. National Accounts release frequency**
 - *Misalignment creates opportunity for rapid estimates to play a role*
- **The monetary policy transmission mechanism**
 - *Which rapid estimates could be most useful to monetary policy?*
- **Building credibility**
 - *With what degree of confidence can rapid estimates be used?*
- **Summary**

The SARB's monetary policy process

- **Duration and structure of MPC meeting (3 days)**
 - Tuesday: (60 attendees)
 - International economy presentation
 - **Domestic economy presentation**
 - Financial markets presentation (domestic & international)
 - Special topic presentation (on request from MPC)
 - Wednesday: (Morning – 20 attendees / Afternoon – 6 MPC members)
 - **Forecast model presentation** (morning)
 - Policy discussion (afternoon)
 - Thursday: (6 MPC members)
 - Policy discussion (morning)
 - Press conference to release MPC statement and announce decision

The SARB's monetary policy process

□ Monetary policy horizon

Transmission mechanism: 18 – 24 months ahead (have to rely on forecast)

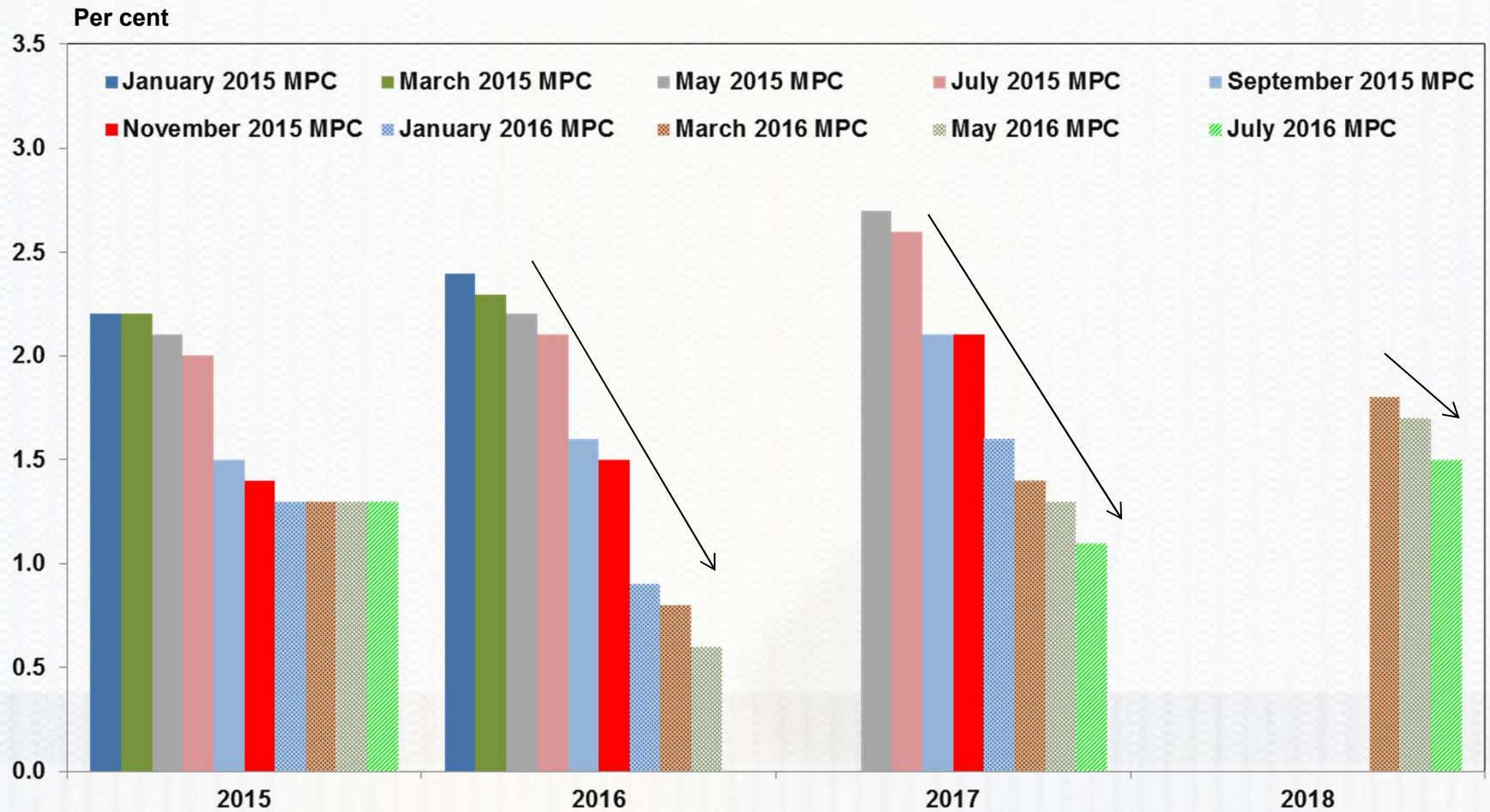
□ *Importance of assumptions to forecast*

(growth forecast over last 2 years – too optimistic on some assumptions)

□ *Importance of starting point to forecast*

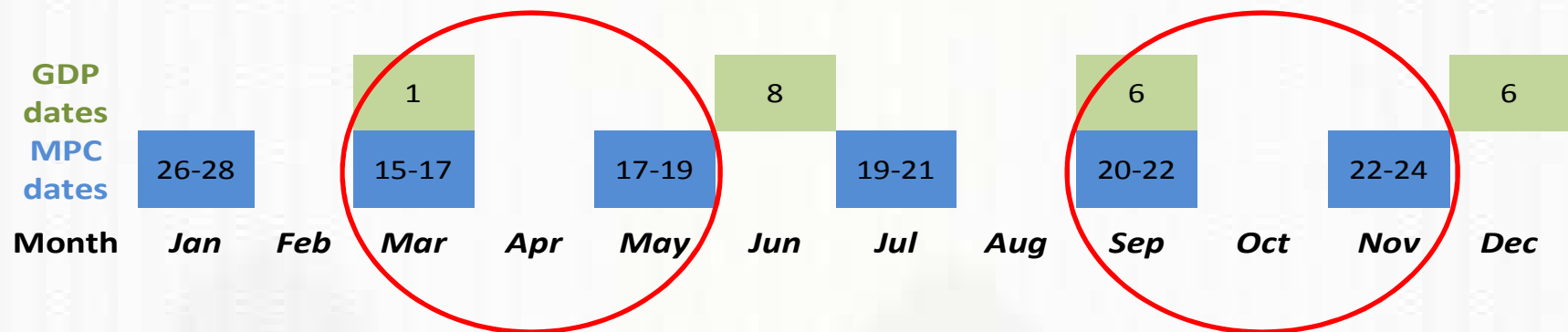
(growth forecast over last 2 years – consistently overestimated the starting point)

Evolution of the GDP forecast during 2015 and 2016



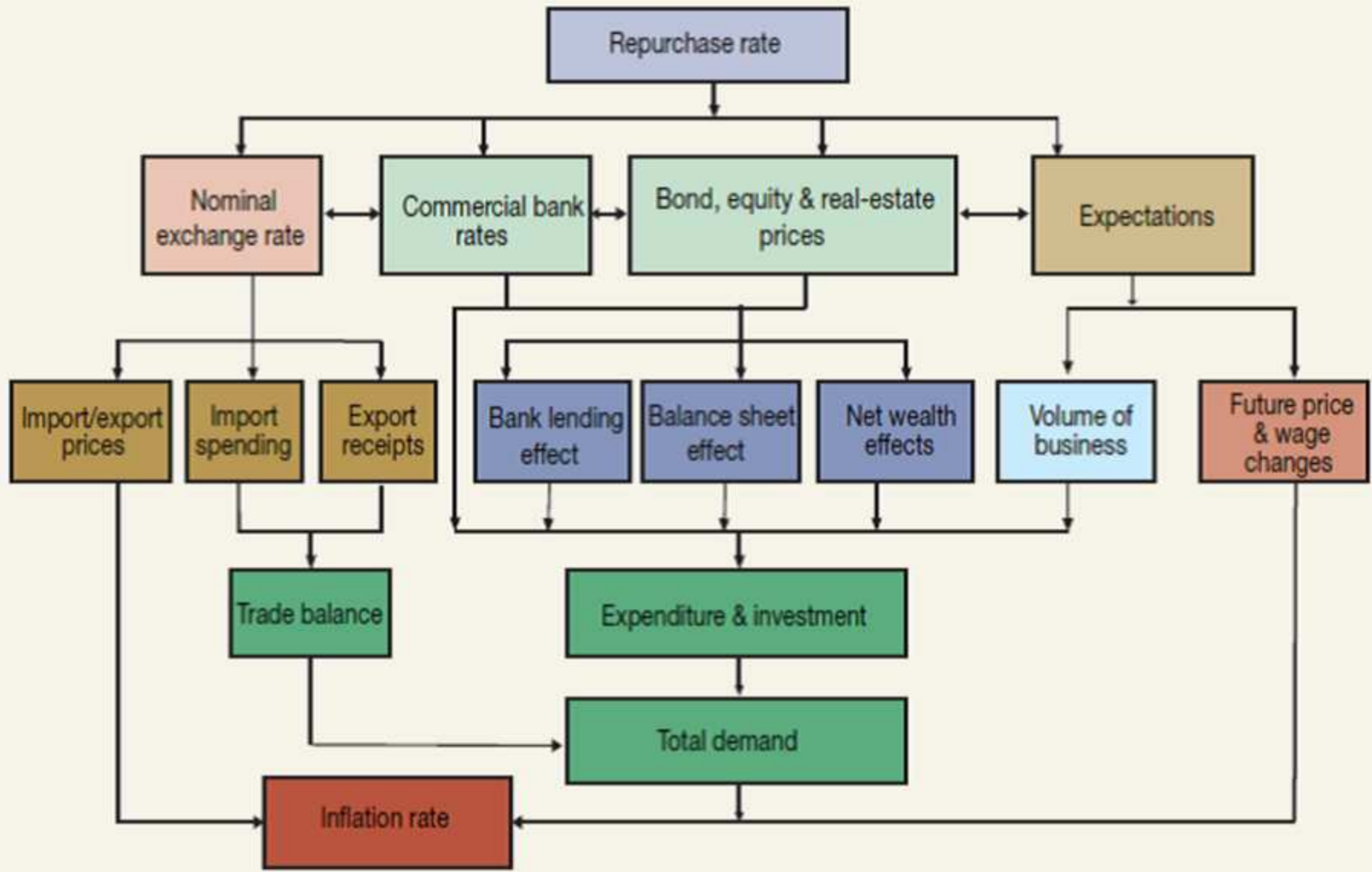
MPC meeting frequency vs. National Accounts release frequency

- Six MPC meetings a year (every 2 months)
 - Assumptions fixed 6 weeks before each MPC meeting
- Four National Accounts statistical releases (Quarterly)



Two MPC meetings with no updated national accounts statistics

The monetary policy transmission mechanism



Which Rapid Estimates could be useful to monetary policy?

- ❑ Total GDP
- ❑ Components of domestic expenditure
 - ❑ Household consumption expenditure
 - ❑ Investment (gross fixed capital formation)
- ❑ *Labour market indicators* (employment / wages)
 - ❑ Quarterly (in South Africa) with a one quarter lag

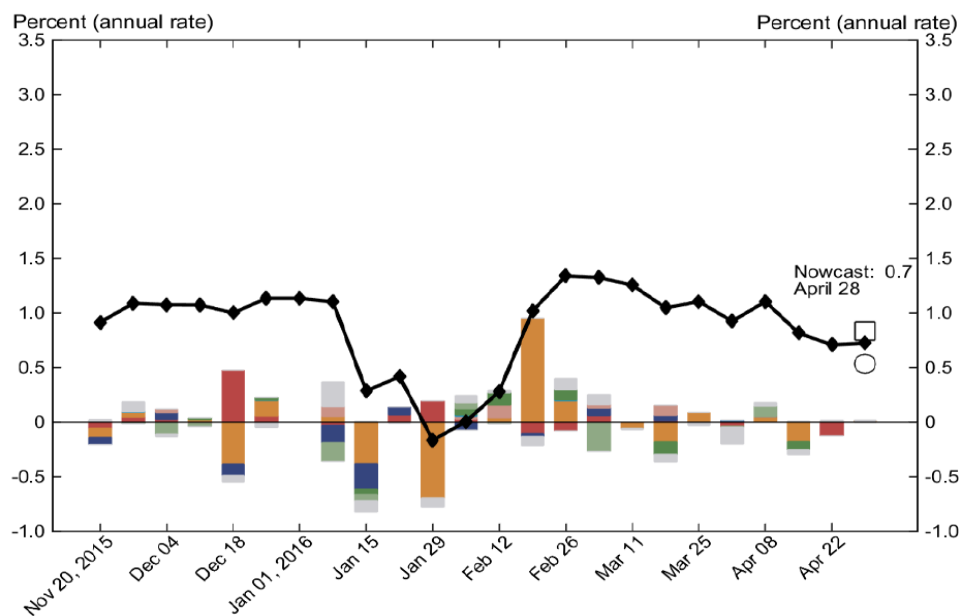
Building credibility and confidence in rapid estimates

To enhance confidence and build credibility in rapid estimates for use in policy decisions they will have to prove more (or at least equally) accurate as results produced by other economic forecasts:

“Overall, research findings suggest that nowcasting techniques produce results that are comparable to, and often more accurate than, those of the best human forecasters, with the added advantage of being automatic and free of judgment. This does not mean that nowcasting is always spot-on. The amount of noise in macroeconomic data is significant—even the official GDP release is revised twice before becoming “final.” As a result, the nowcast makes mistakes in any given quarter, like all economists’ forecasts do.”

<http://libertystreeteconomics.newyorkfed.org/2016/04/just-released-introducing-the-frbny-nowcast.html#.V8WETk1f2UI>

New York Fed nowcast of US GDP growth (2016:Q1)



- ❑ Will not always get the nowcast spot-on or this close
- ❑ For monetary policy purposes, it is more important to get the *direction* right, i.e. an acceleration / slowdown in the growth rate of GDP or household consumption expenditure

Summary

- ❑ **Rapid estimates can play a role in:**
 - ❑ The domestic economy MPC presentation (a better understanding of current state of the economy)
- *especially at MPC meetings where no new national accounts statistics are available*
 - ❑ The forecast prepared for the MPC (in terms of improving the starting point)

- ❑ **Useful rapid estimates to have for monetary policy purposes:**
 - ❑ Total GDP
 - ❑ Components of gross domestic expenditure (Household Consumption & Investment)
 - ❑ *In South Africa: Labour market indicators (Employment / Wages)*

- ❑ **The confident use of rapid estimates for policy:**
 - ❑ Will not necessarily depend on getting each quarterly estimate spot-on, but rather on consistently getting the *direction* of the growth rate correct over a sustained period of time (acceleration or deceleration in growth)

Thank you