Demand for Rapid Estimates from a Policy Perspective

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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)
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

- Repurchase rate
  - Commercial bank rates
  - Bond, equity & real-estate prices
  - Expectations

- Nominal exchange rate
- Import/export prices
- Import spending
- Export receipts

- Bank lending effect
- Balance sheet effect
- Net wealth effects
- Volume of business
- Future price & wage changes

- Trade balance
- Expenditure & investment

- Total demand
- Inflation rate
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#.V8WETk1f2Ul


- 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
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