R Notebook

# Criteria for evaluation : forecasting future inflation

The ability of the core inflation indicator to predict future headline inflation can be quantified by the following regression equation.

Here, x represents the headline inflation rate and core x represents some core inflation indicator, both year-on-year data. Parameter h is 12 (month) ahead in this case. For sufficiently large H, the core deviation, , should be inversely related to subsequent changes in inflation, . Moreover, in order for the candidate to satisfy equation (1), the coefficients in the regression, should satisfy and .