

# Out-of-sample forecast of monthly growth rate IP

- Monthly growth rate IP much fluctuation, not easy to predict.
- Evaluation criteria: RMSE and MAE (see Lecture 3)  
SUM: sum of forecast errors  $\sum_{t=1}^{24}(y_t - \hat{y}_t)$
- Table shows forecast errors for the 24 months in 2006 and 2007.
- CLI improves the monthly IP growth forecast for 3-months ahead.

Model (lags)	AR(3-12)	AR(3)	ADL(AR 3, CLI 6)
RMSE ( $\times 100$ )	0.369	0.367	0.350
MAE ( $\times 100$ )	0.322	0.315	0.290
SUM ( $\times 100$ )	-1.916	-2.406	-1.193