# Chapter 4 Judgmental forecasts

Forecasting using judgement is common in practice. In many cases, judgmental forecasting is the only option, such as when there is a complete lack of historical data, or when a new product is being launched, or when a new competitor enters the market, or during completely new and unique market conditions. For example, in December 2012, the Australian government was the first in the world to pass legislation that banned the use of company logos on cigarette packets, and required all cigarette packets to be a dark green colour. Judgement must be applied in order to forecast the effect of such a policy, as there are no historical precedents.

There are also situations where the data are incomplete, or only become available after some delay. For example, central banks include judgement when forecasting the current level of economic activity, a procedure known as nowcasting, as GDP is only available on a quarterly basis.

Research in this area[3] has shown that the accuracy of judgmental forecasting improves when the forecaster has (i) important domain knowledge, and (ii) more timely, up-to-date information. A judgmental approach can be quick to adjust to such changes, information or events.

Over the years, the acceptance of judgmental forecasting as a science has increased, as has the recognition of its need. More importantly, the quality of judgmental forecasts has also improved, as a direct result of recognising that improvements in judgmental forecasting can be achieved by implementing well-structured and systematic approaches. It is important to recognise that judgmental forecasting is subjective and comes with limitations. However, implementing systematic and well-structured approaches can confine these limitations and markedly improve forecast accuracy.

There are three general settings in which judgmental forecasting is used: (i) there are no available data, so that statistical methods are not applicable and judgmental forecasting is the only feasible approach; (ii) data are available, statistical forecasts are generated, and these are then adjusted using judgement; and (iii) data are available and statistical and judgmental forecasts are generated independently and then combined.

We should clarify that when data are available, applying statistical methods (such as those discussed in other chapters of this book), is preferable and should always be used as a starting point. Statistical forecasts are generally superior to generating forecasts using only judgement. For the majority of the chapter, we focus on the first setting where no data are available, and in the last section we discuss the judgmental adjustment of statistical forecasts. We discuss combining forecasts in Section 12.4.

---

3. Lawrence, Goodwin, O'Connor, & Önkal (2006)↩