

# Uncertain futures: what can we forecast and when should we give up?

Rob J Hyndman



[robjhyndman.com/uncertain\\_futures](http://robjhyndman.com/uncertain_futures)



# Outline

- 1 What can we forecast?
- 2 The statistical forecasting perspective
- 3 Forecasting PBS expenditure
- 4 Forecasting peak electricity demand
- 5 Forecasting post-pandemic tourism
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- 7 Assessing forecast uncertainty

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(Donald Trump, February 2020)

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“We’re going to be opening relatively soon ... The virus ... will go away in April.”

(Donald Trump, February 2020)

“We expect that Australians will be fully vaccinated by the end of October.”

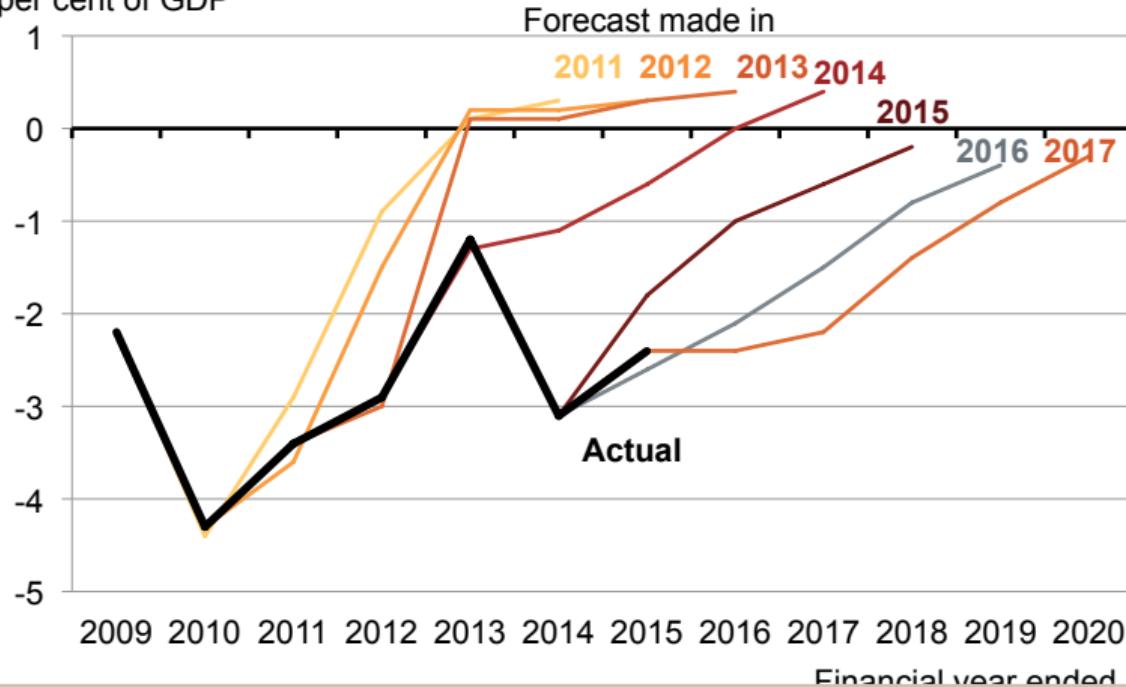
(Scott Morrison, December 2020)

# Forecasting is difficult

Commonwealth plans to drift back to surplus  
show the triumph of hope over experience

GRATTAN  
Institute

Actual and forecast Commonwealth underlying cash balance  
per cent of GDP



# What can we forecast?



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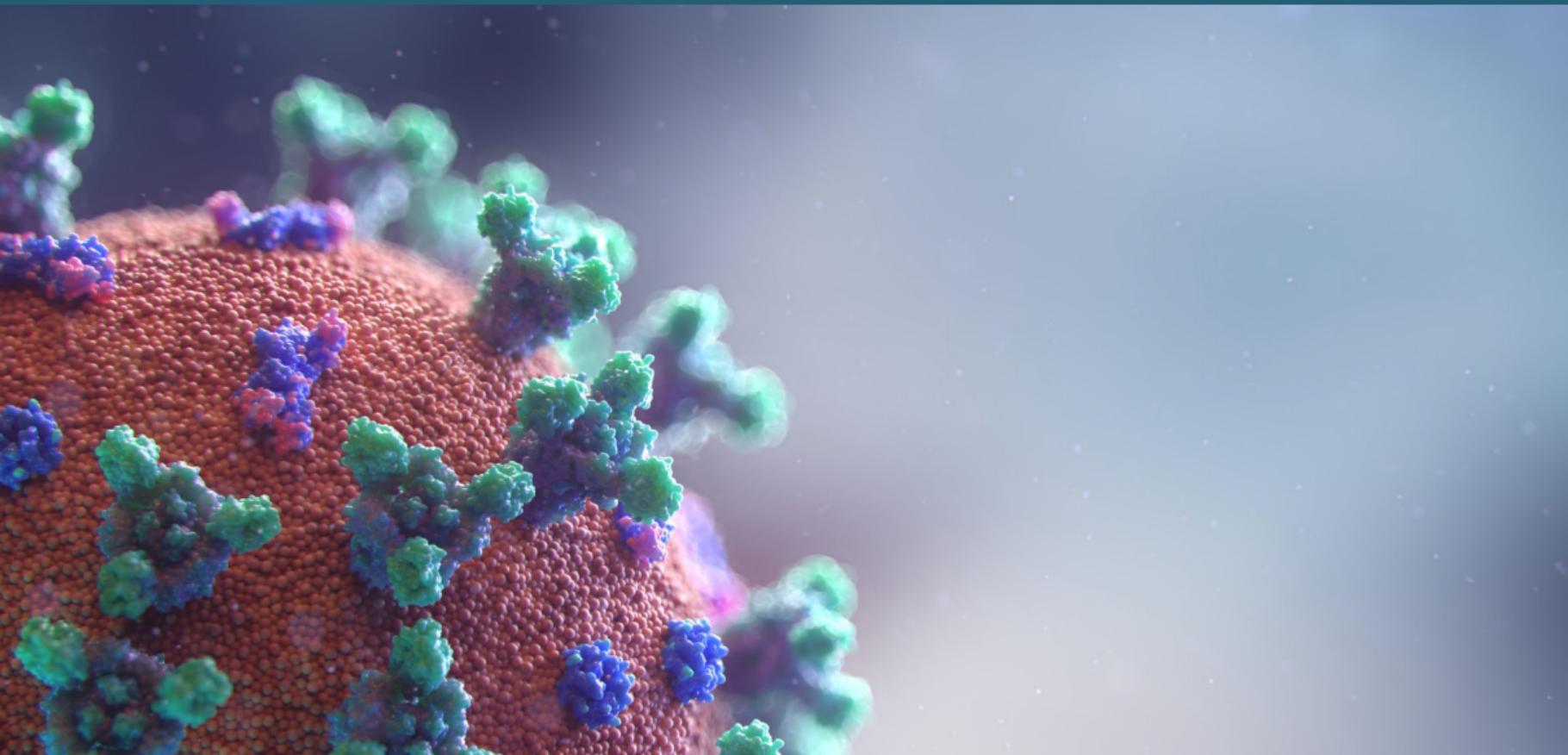
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# Which is easiest to forecast?

- daily electricity demand in 3 days time
- timing of next Halley's comet appearance
- time of sunrise this day next year
- Google stock price tomorrow
- Google stock price in 6 months time
- maximum temperature tomorrow
- exchange rate of \$US/AUS next week
- total sales of drugs in Australian pharmacies next month

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- how do we measure “easiest”?
  - what makes something easy/difficult to forecast?

# Forecastability factors

Something is easier to forecast if:

- 1 we have a good understanding of the factors that contribute to it, and can measure them.
- 2 there is lots of data available;
- 3 the future is somewhat similar to the past
- 4 the forecasts cannot affect the thing we are trying to forecast.

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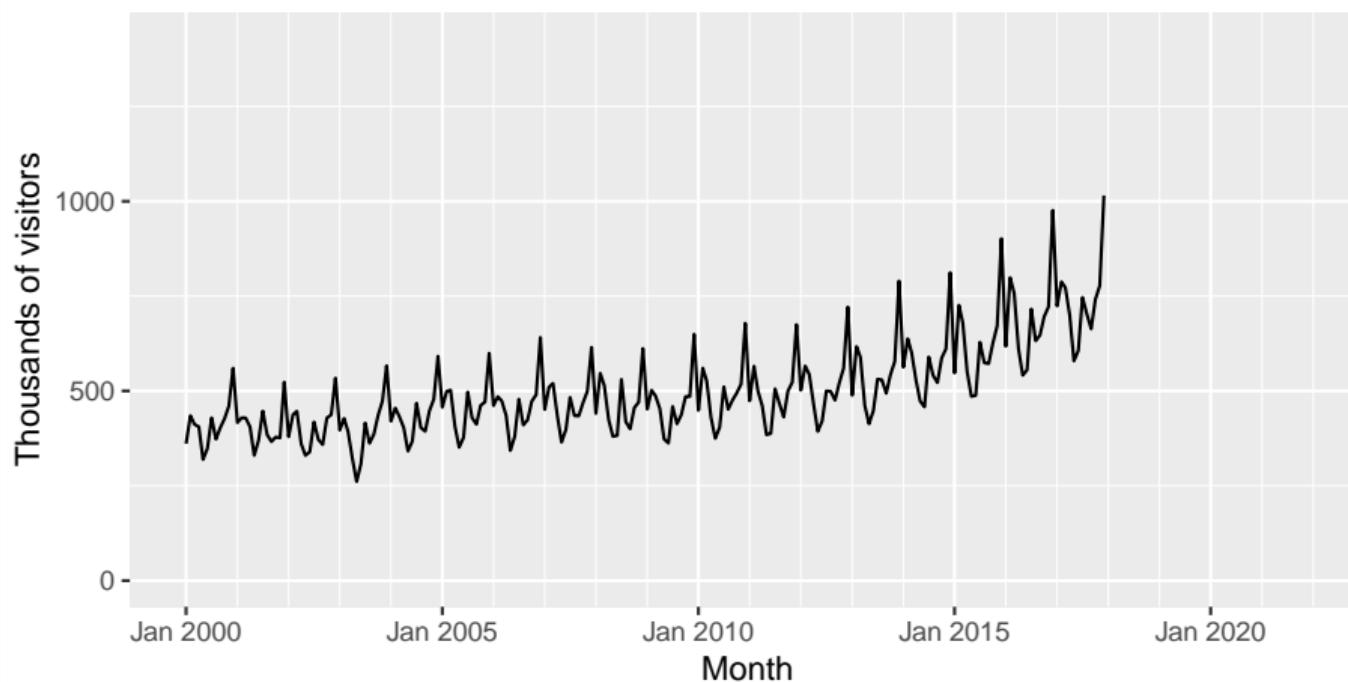
# Random futures

A forecast is an estimate of the probability distribution of a variable to be observed in the future.

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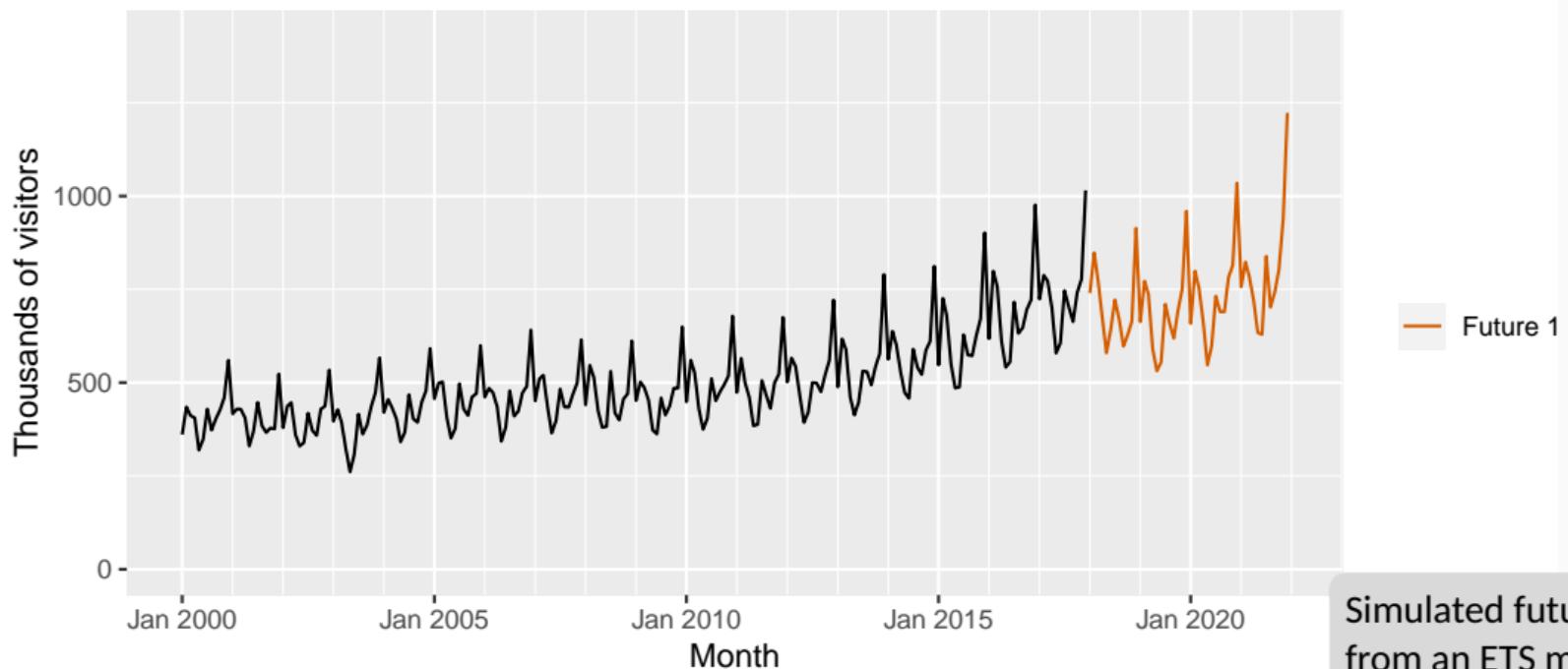
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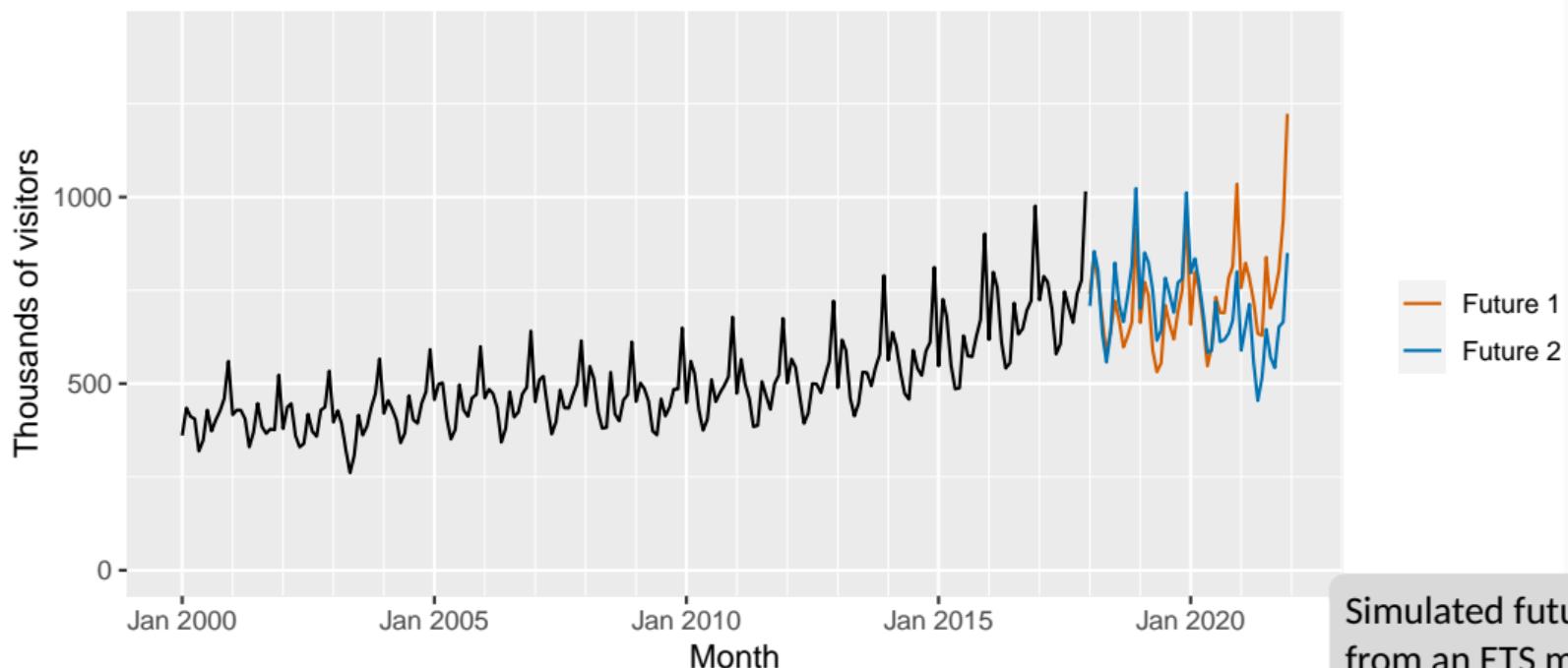


Simulated futures  
from an ETS model

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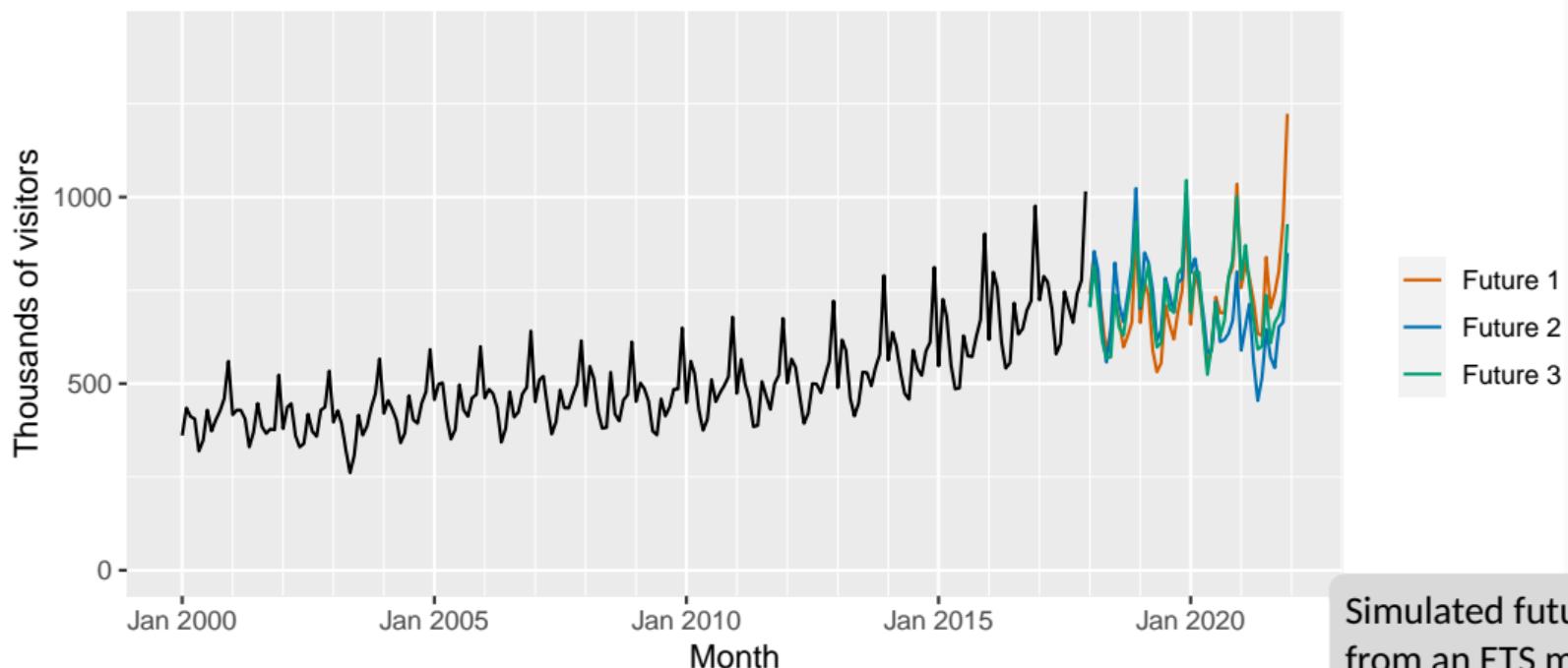


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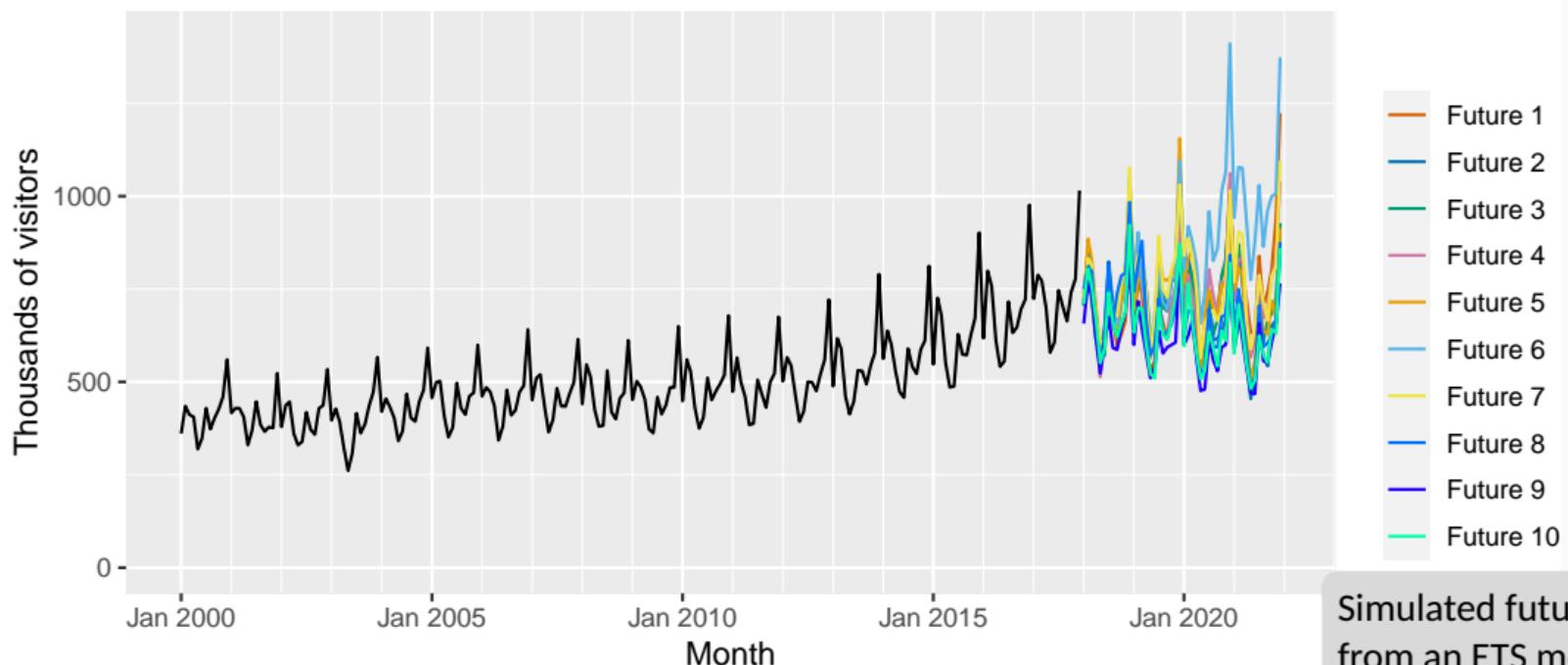


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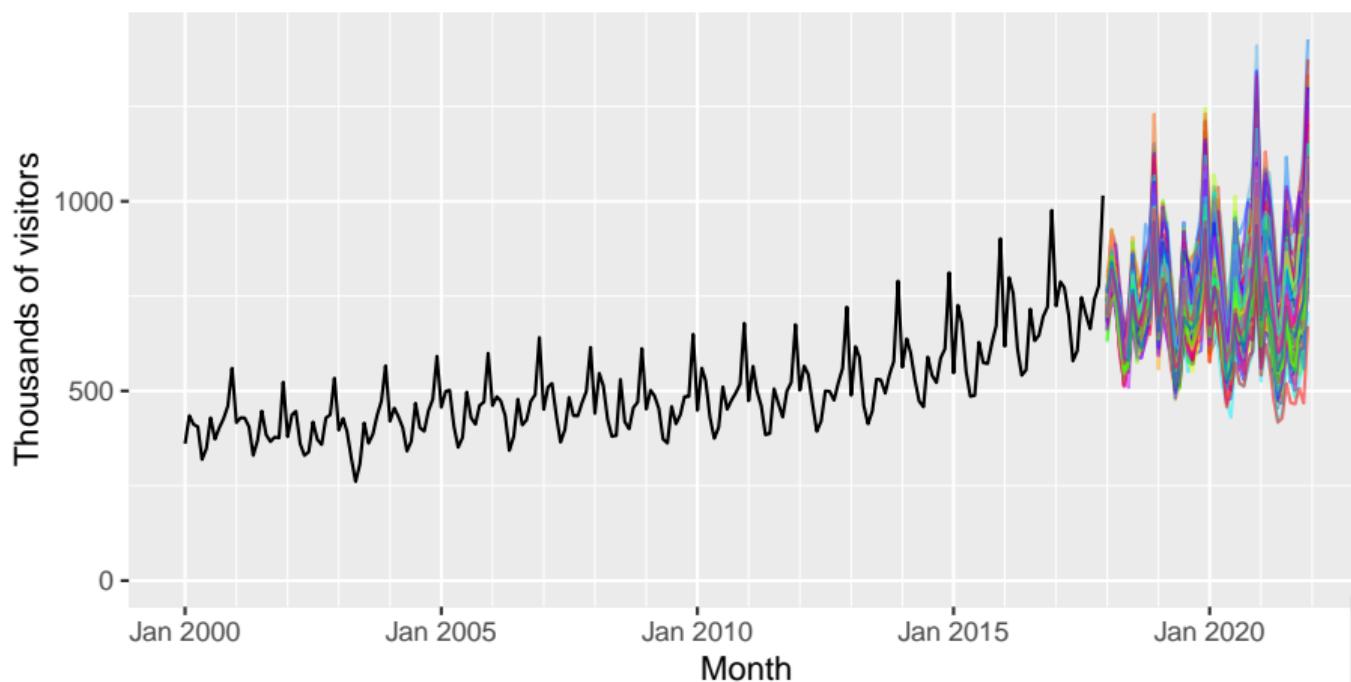
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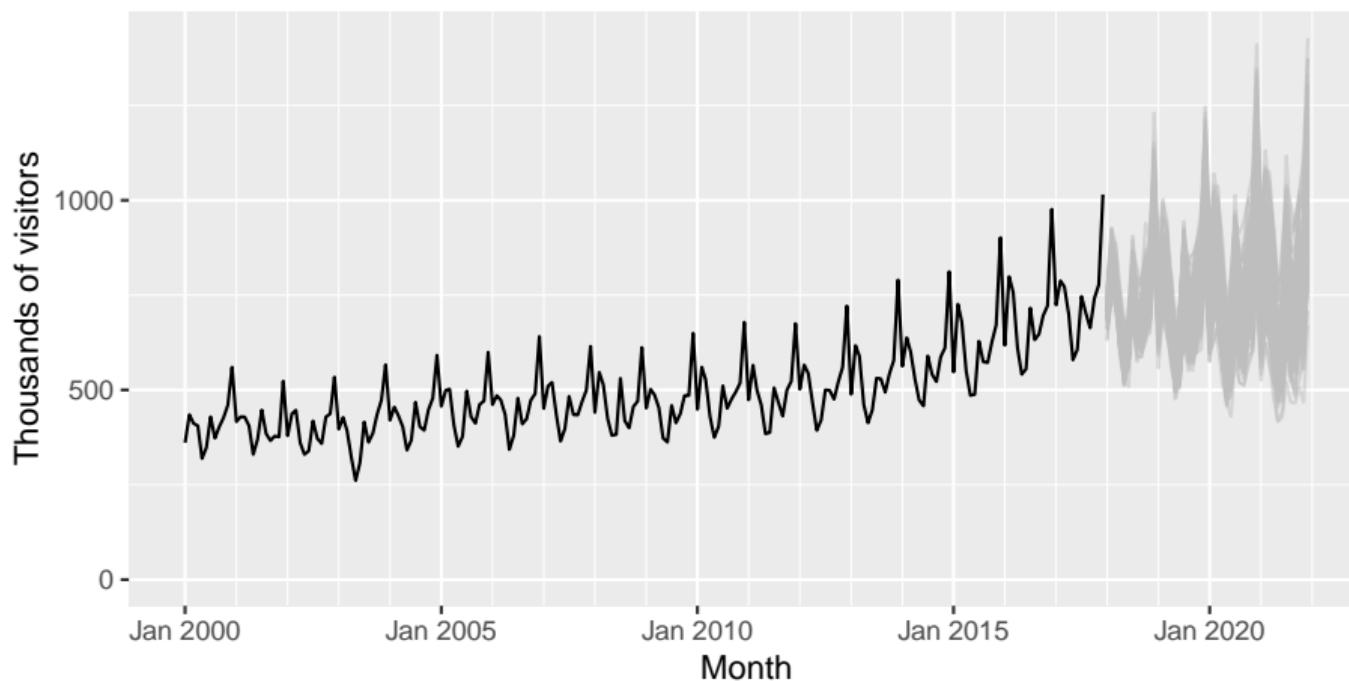


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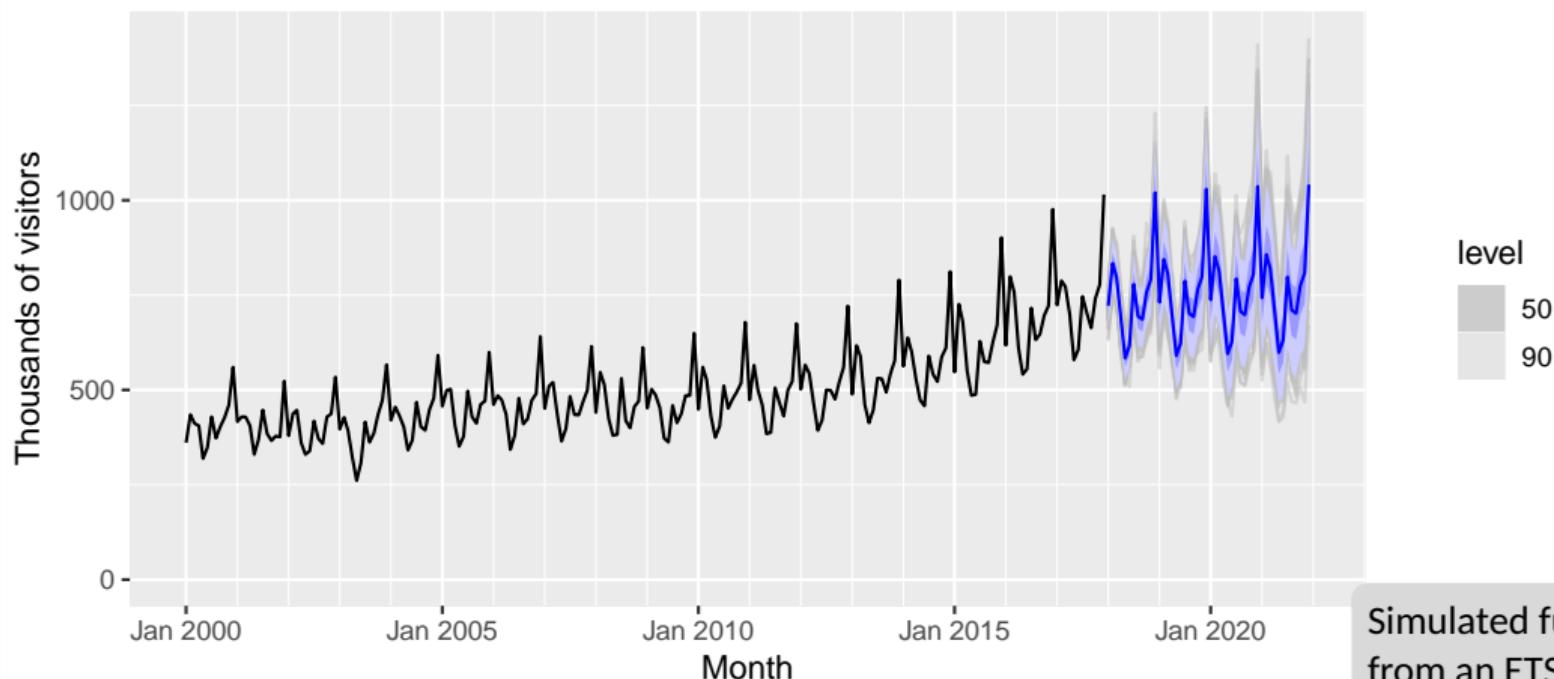
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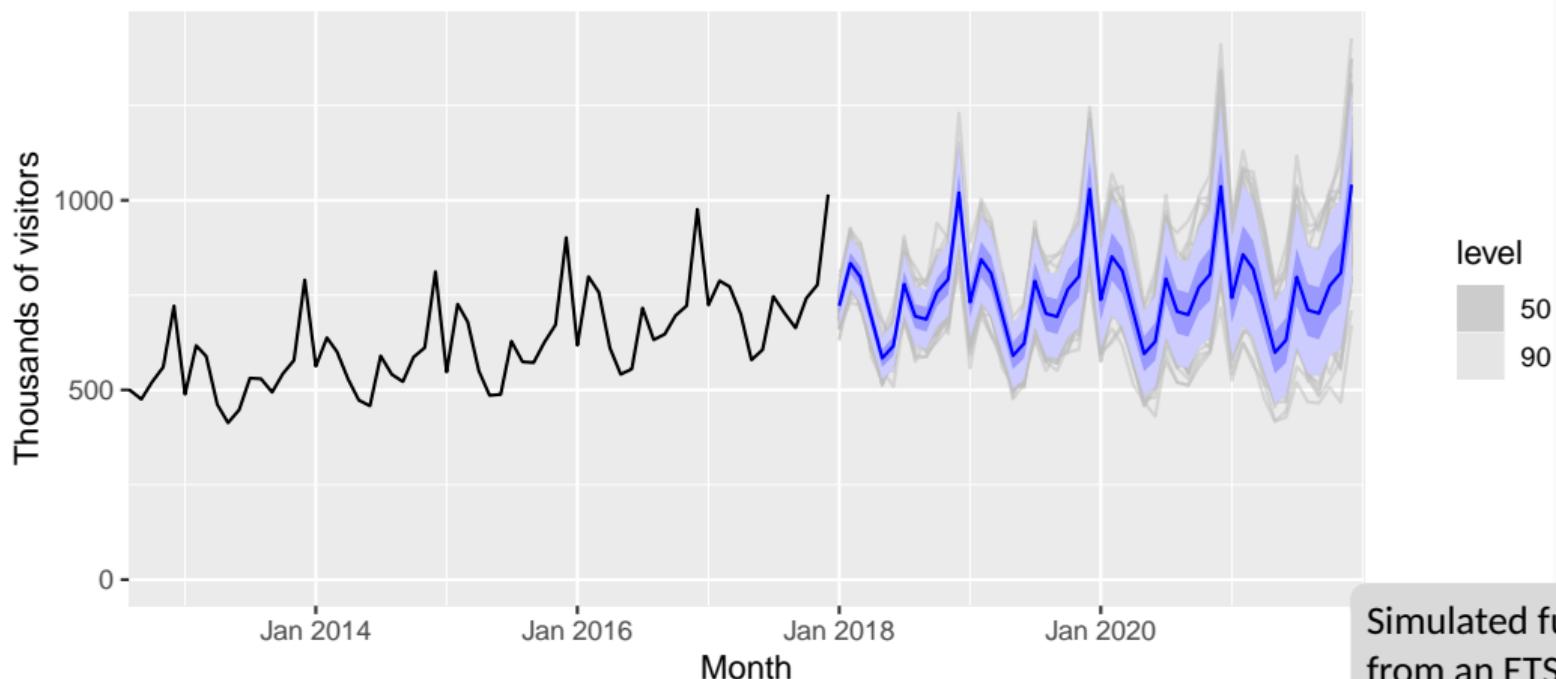
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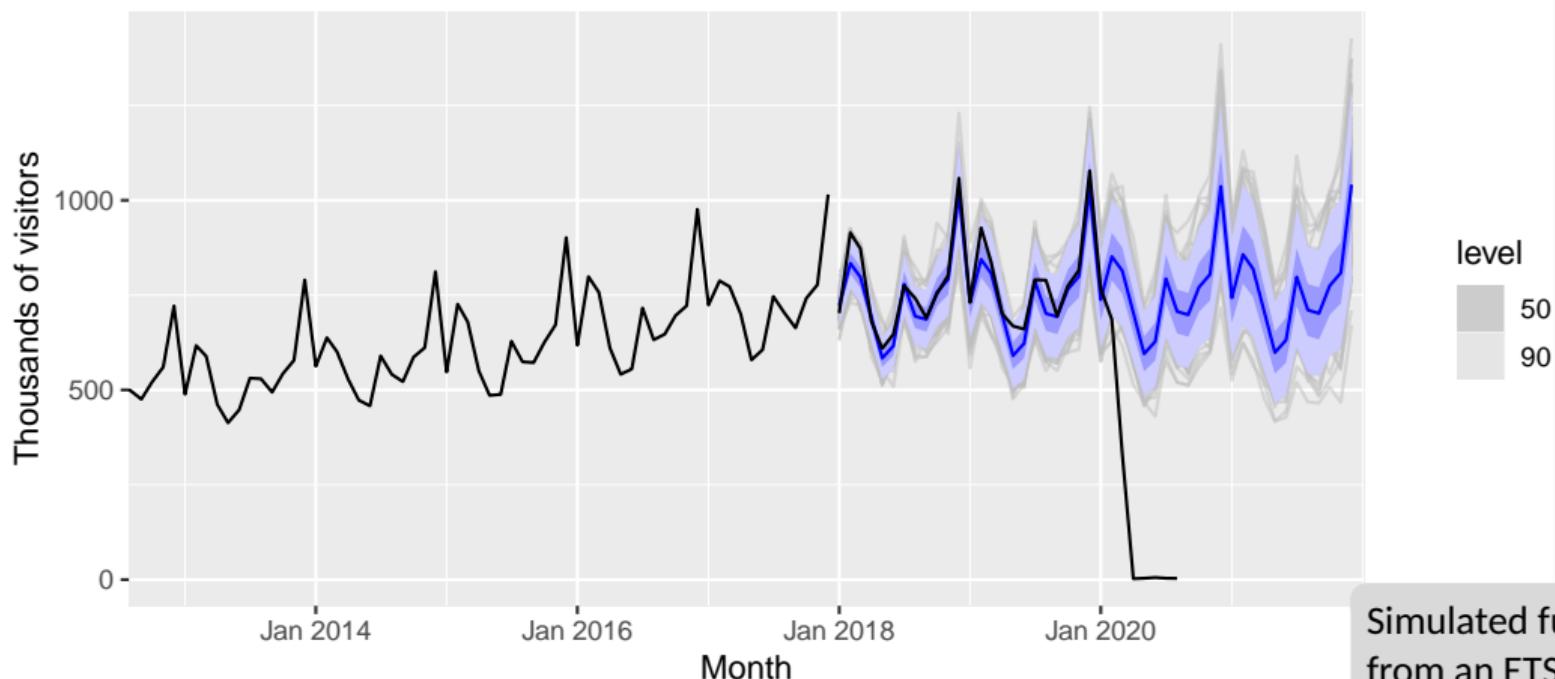


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# Forecasting PBS expenditure



# Forecasting PBS expenditure

**The Pharmaceutical Benefits Scheme (PBS) is the Australian government drugs subsidy scheme.**

- Many drugs bought from pharmacies are subsidised to allow more equitable access to modern drugs.
- The cost to government is determined by the number and types of drugs purchased. Currently nearly 1% of GDP.
- The total cost is budgeted based on forecasts of drug usage.

# Forecasting PBS expenditure

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POLITICS

## Opp demands drug price restriction after PBS budget blow-out

The Federal Opposition has called for tighter controls on drug prices after the Pharmaceutical Benefits Scheme (PBS) budget blew out by almost \$800 million.

The money was spent on two new drugs including the controversial anti-smoking aid Zyban, which dropped in price from \$220 to \$22 after it was listed on the

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Federal Election 2001

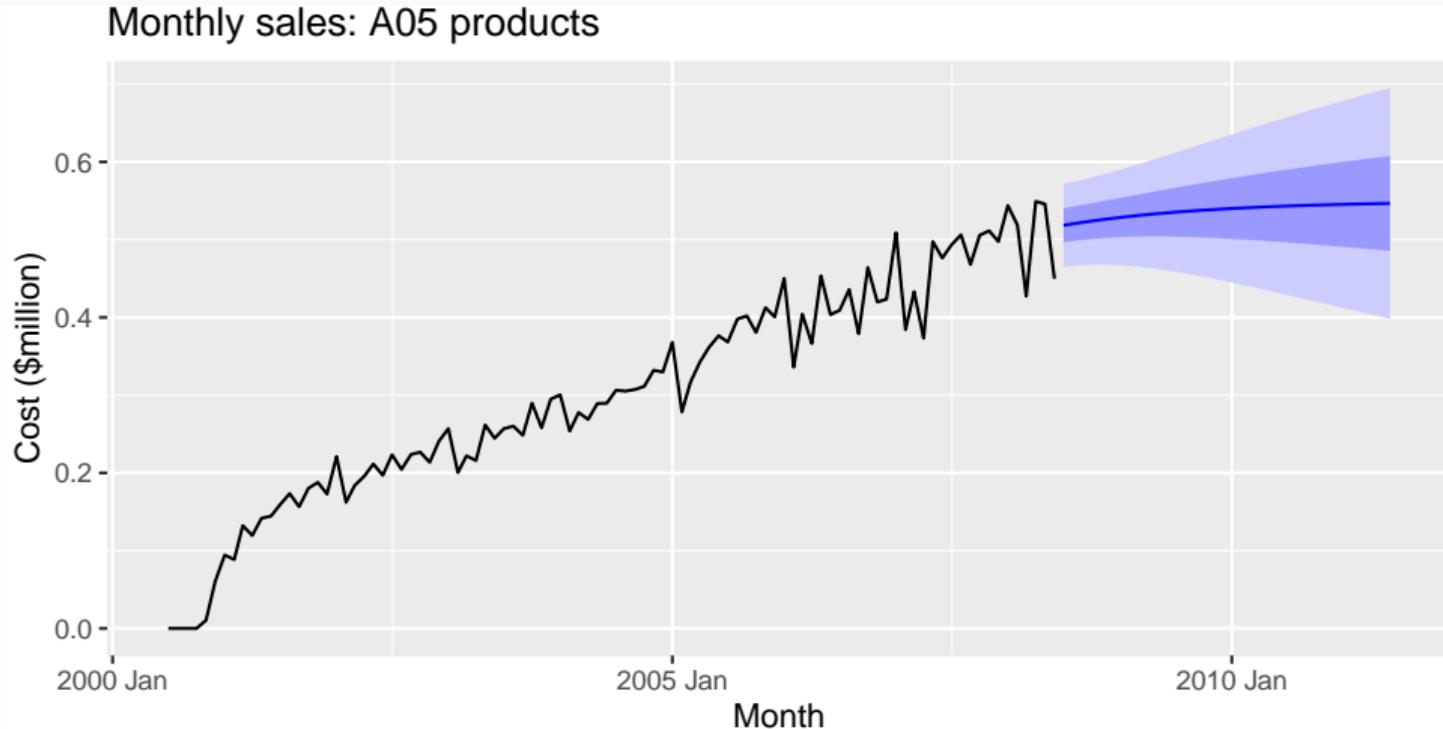
For a fresh perspective on the federal election, reach into ABC Online's campaign weblog, [The Poll Vault](#).

# Forecasting PBS expenditure

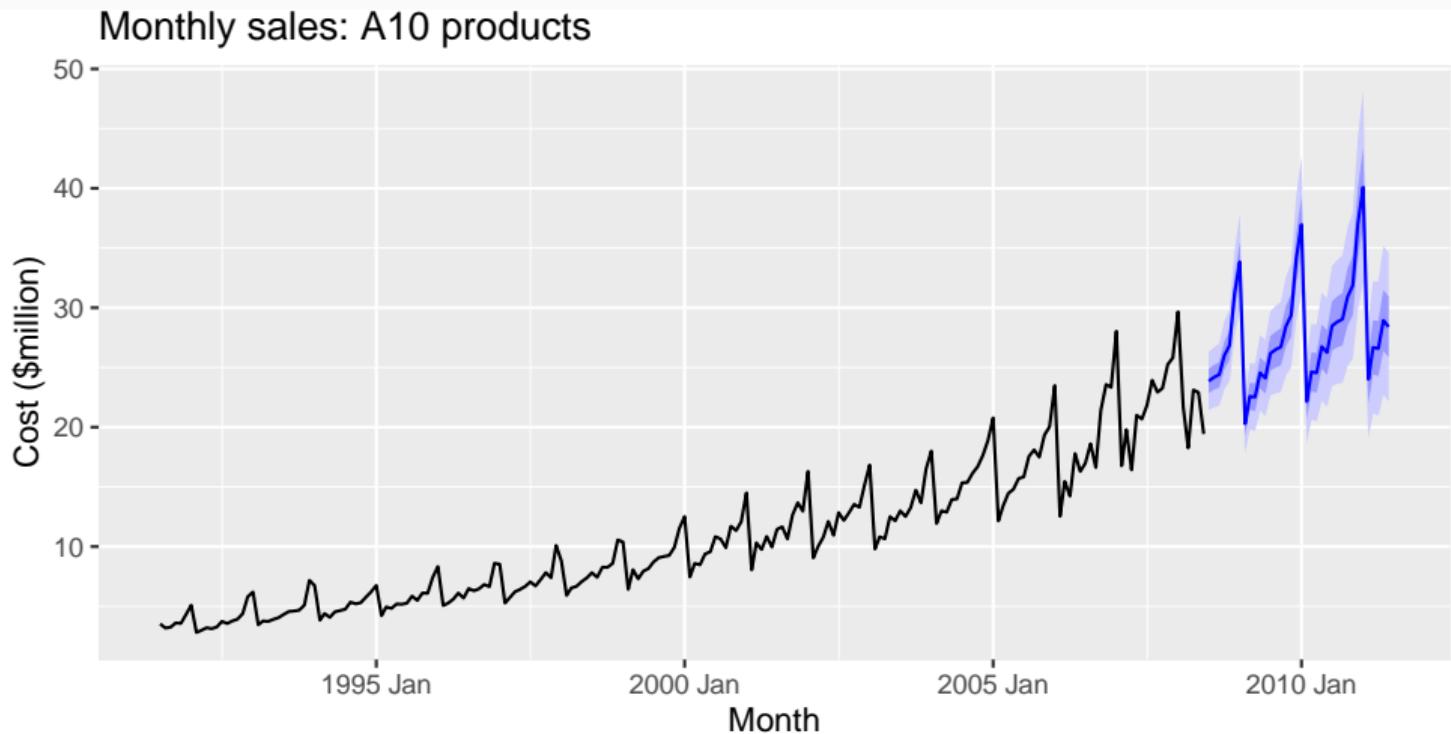
## The phone call (2001)

- \$4.5 billion PBS budget, under-forecasted by \$800 million.
- Thousands of products. Seasonal demand.
- Subject to covert marketing, volatile products, uncontrollable expenditure.
- Although monthly data available for 10 years, data are aggregated to annual values, and only the first three years are used in estimating the forecasts.
- All forecasts being done with the FORECAST function in MS-Excel!

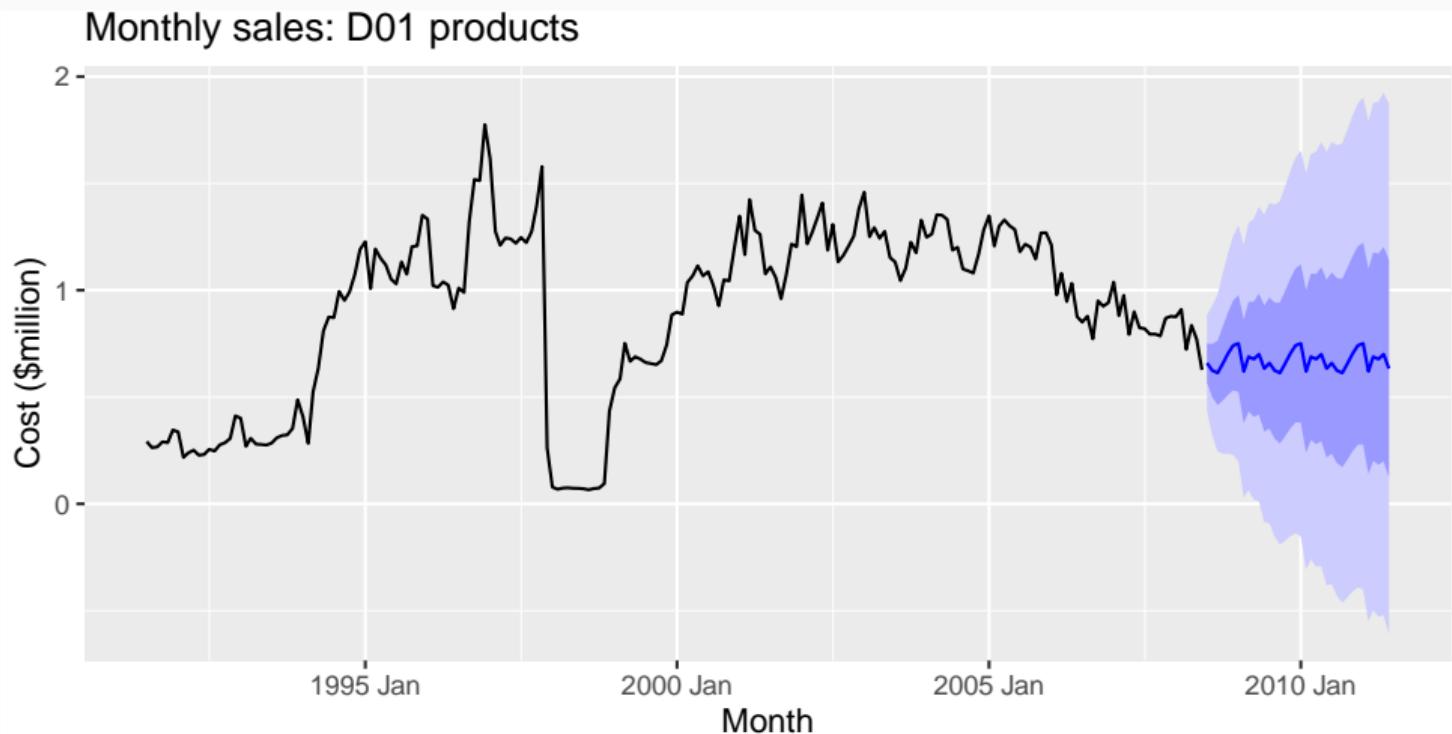
# ETS forecasts of PBS data



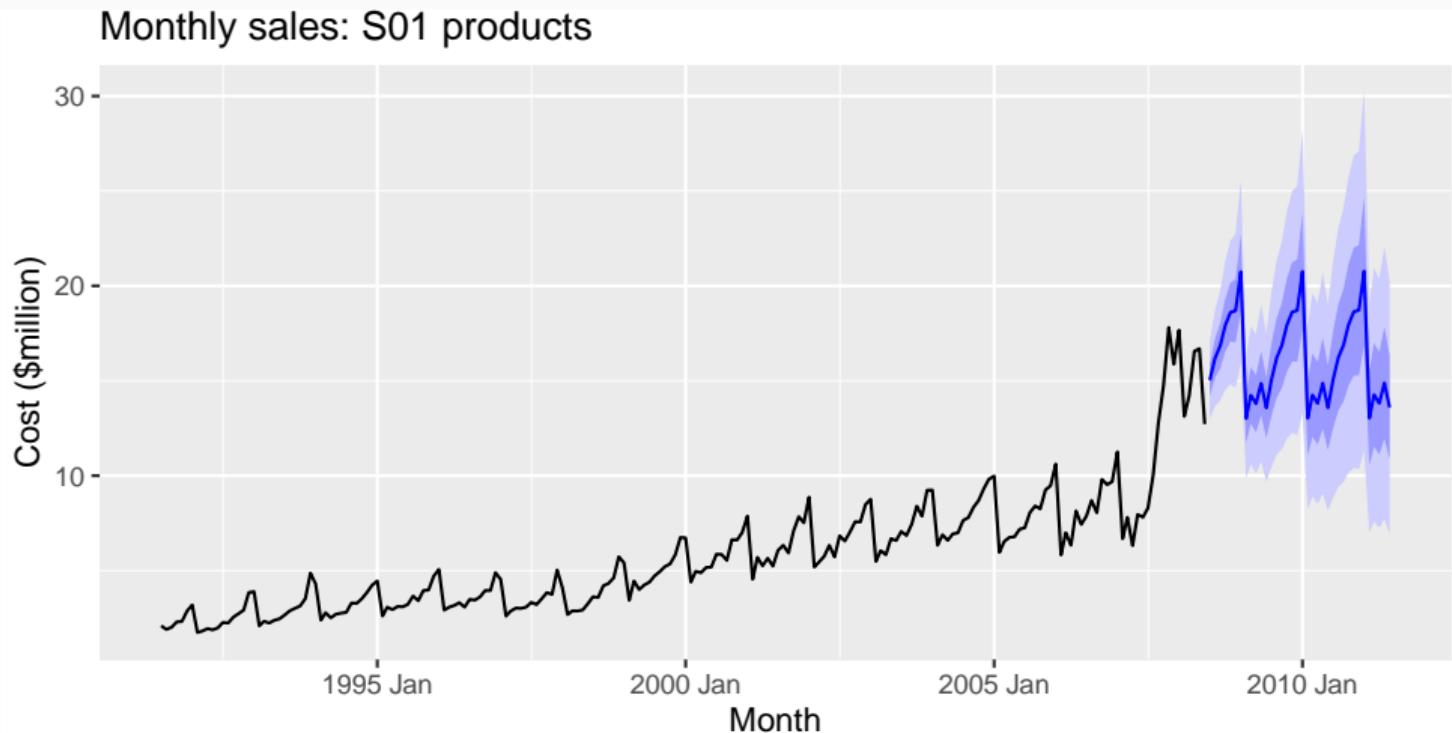
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# Forecasting PBS expenditure

- Developed an automatic forecasting algorithm for exponential smoothing state space models based on the AIC.
- Exponential smoothing models allowed for time-changing trend and seasonal patterns.
- Forecast MAPE reduced from 15–20% to 0.6%.
- State space models provide prediction intervals which give a sense of uncertainty.
- Theory and algorithm published as Hyndman et al (IJF, 2002).
- Now implemented in R as `ets()` in `forecast` package, as `ETS()` function in `fable` package, and in Tableau and elsewhere.
- NOT implemented in FORECAST.ETS function in MS-Excel.

# Forecastability factors

- 1 we have a good understanding of the factors that contribute to it, and can measure them.
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## The phone call (2006)

- We want to forecast the peak electricity demand in a half-hour period in twenty years time.
- We have fifteen years of half-hourly electricity data, temperature data and some economic and demographic data.
- The location is South Australia: home to the most volatile electricity demand in the world.

# Forecasting peak electricity demand

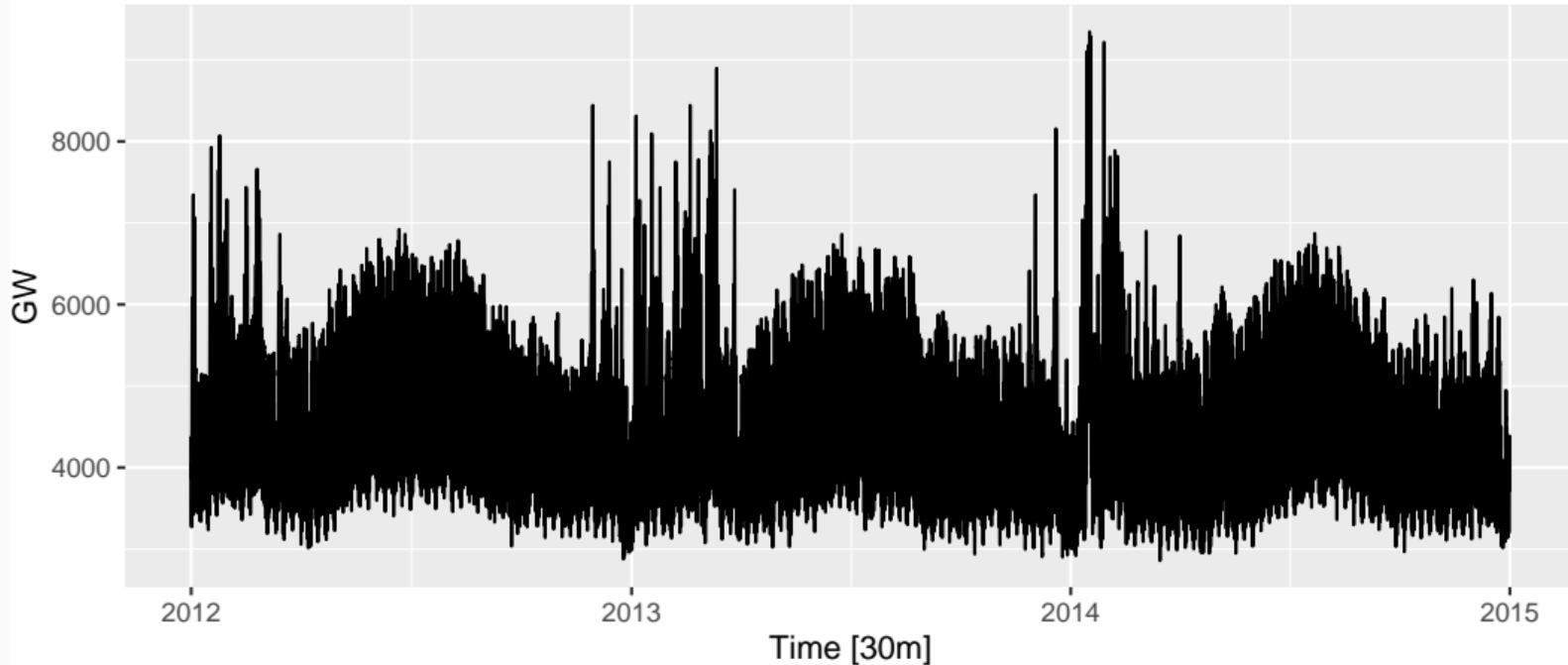
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Sounds impossible?

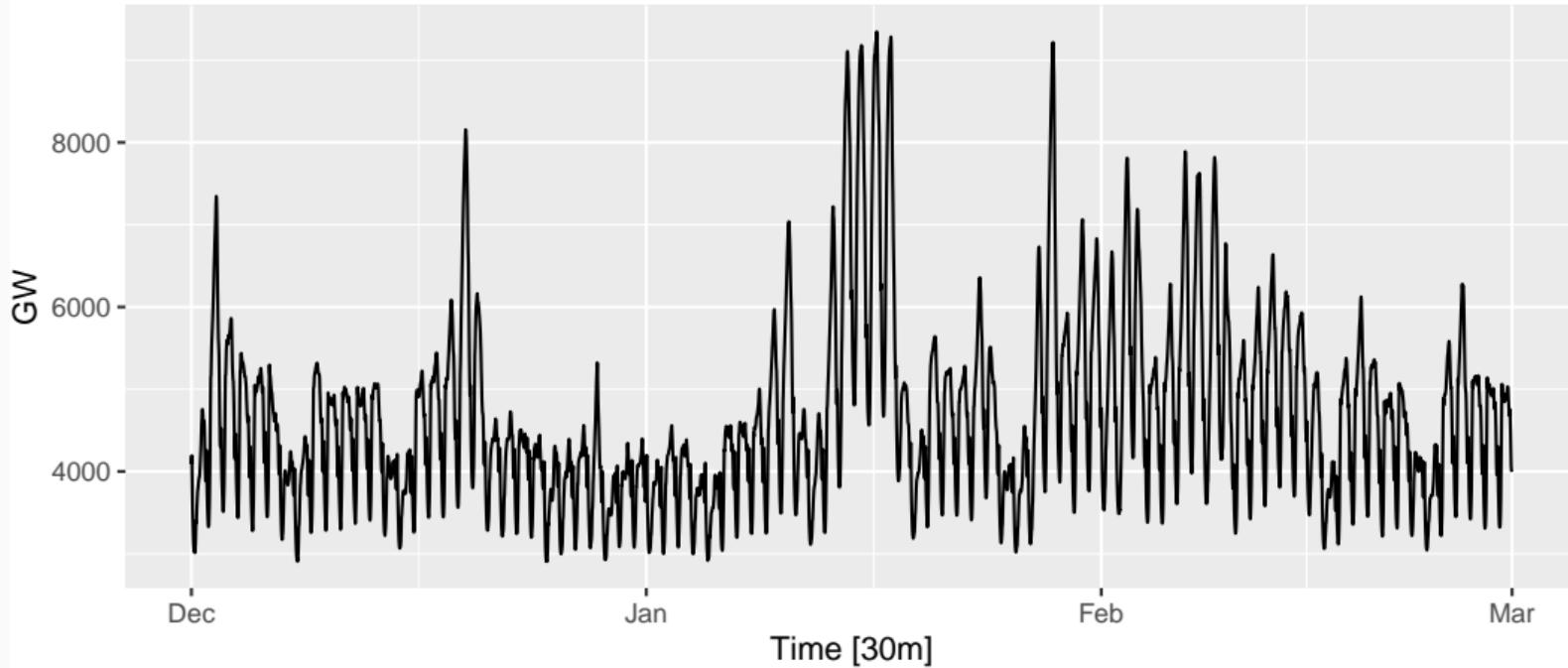
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VIC statewide demand

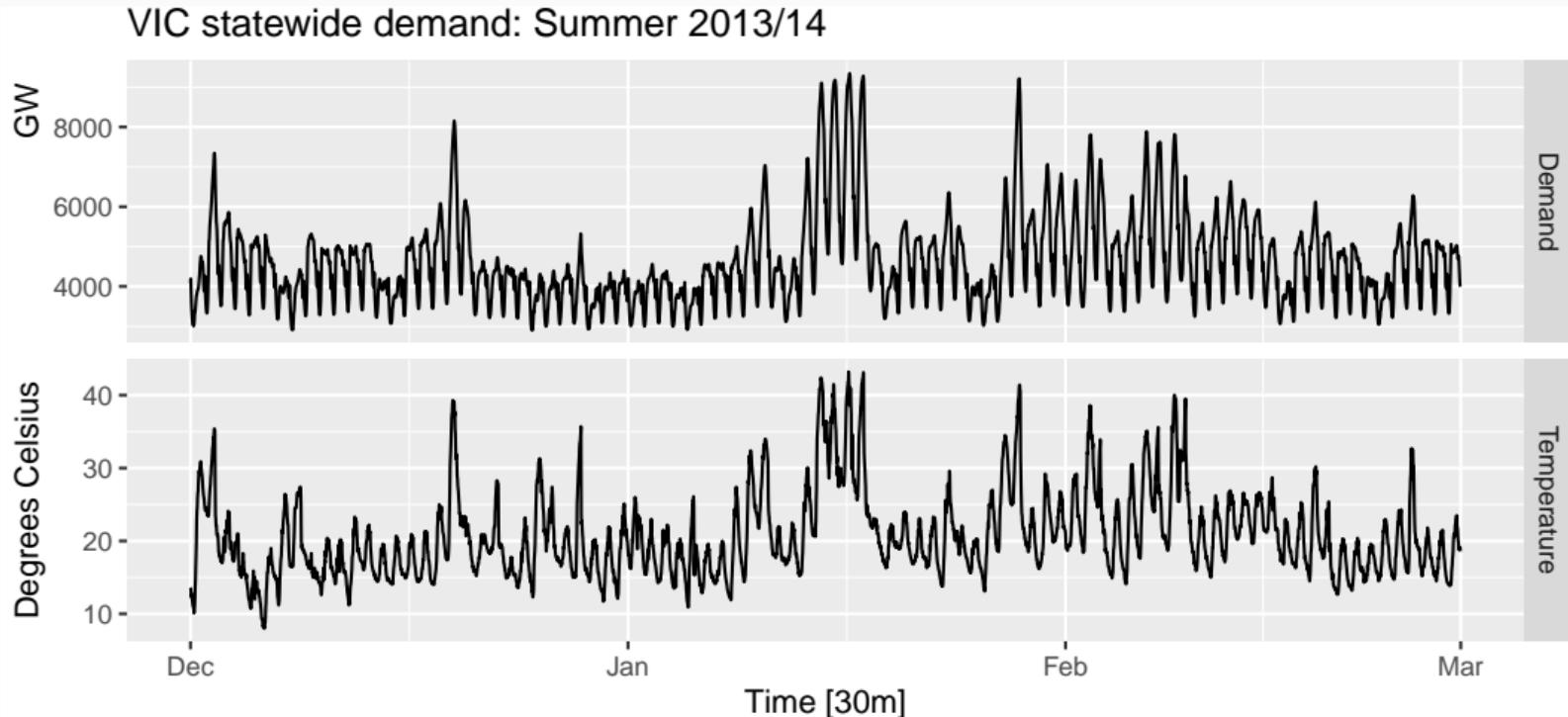


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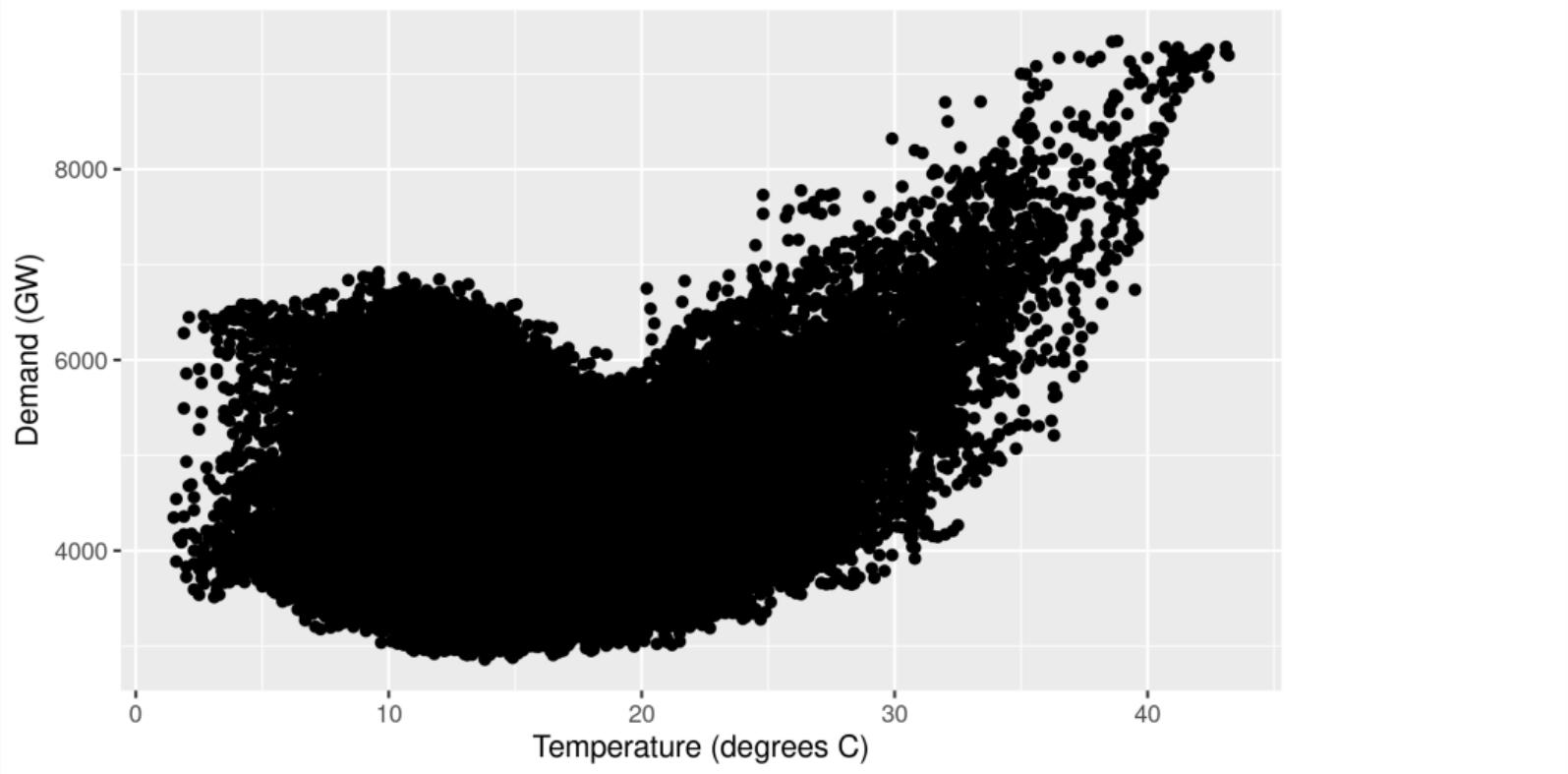
VIC statewide demand: Summer 2013/14



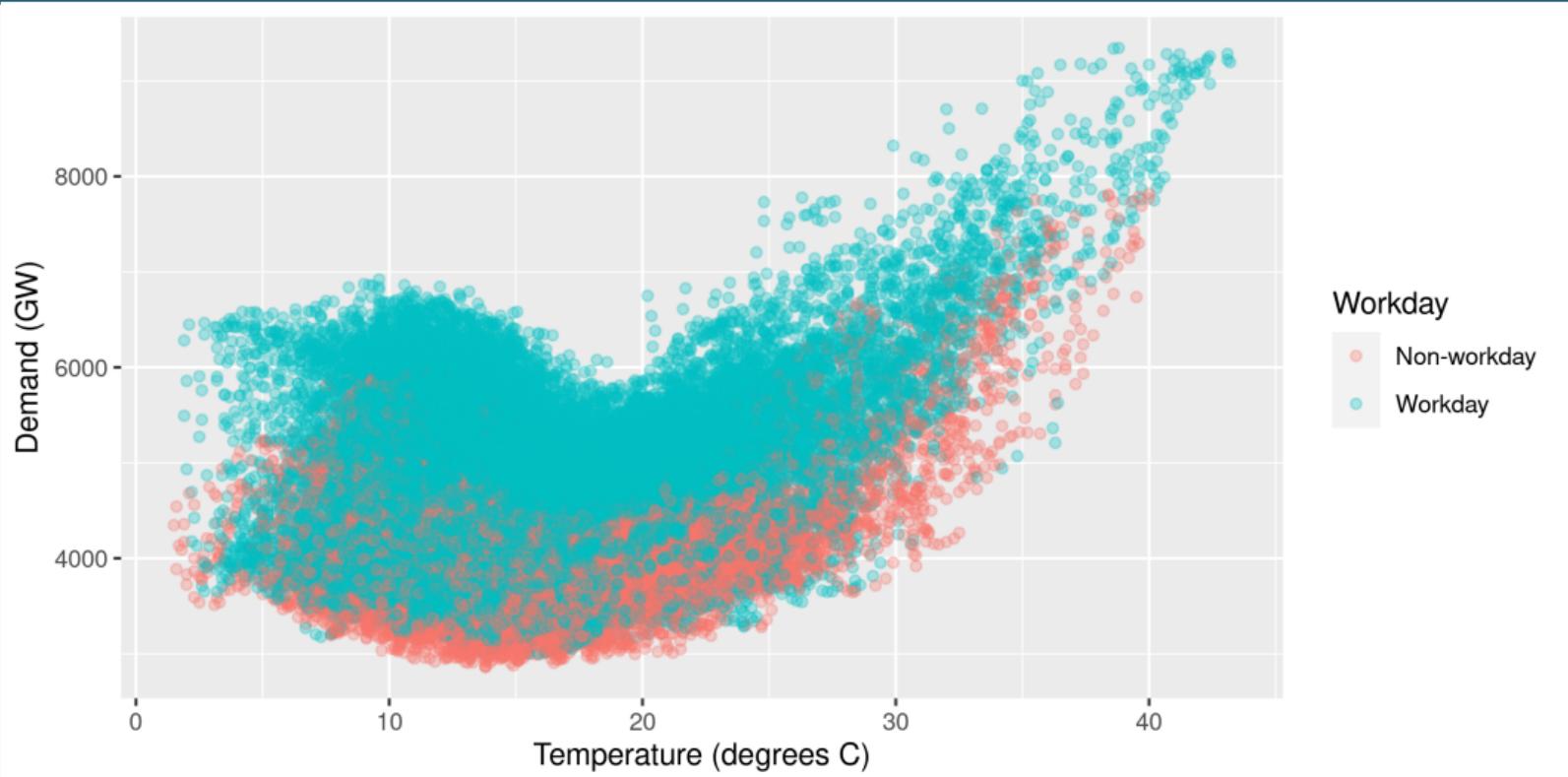
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## Predictors

- calendar effects: time of day, day of week, time of year, holidays, etc.
- prevailing and recent weather conditions
- climate change
- demand response incentives
- changing technology
- economic and demographic changes

We build a nonparametric stochastic model of demand as a function of these predictors.

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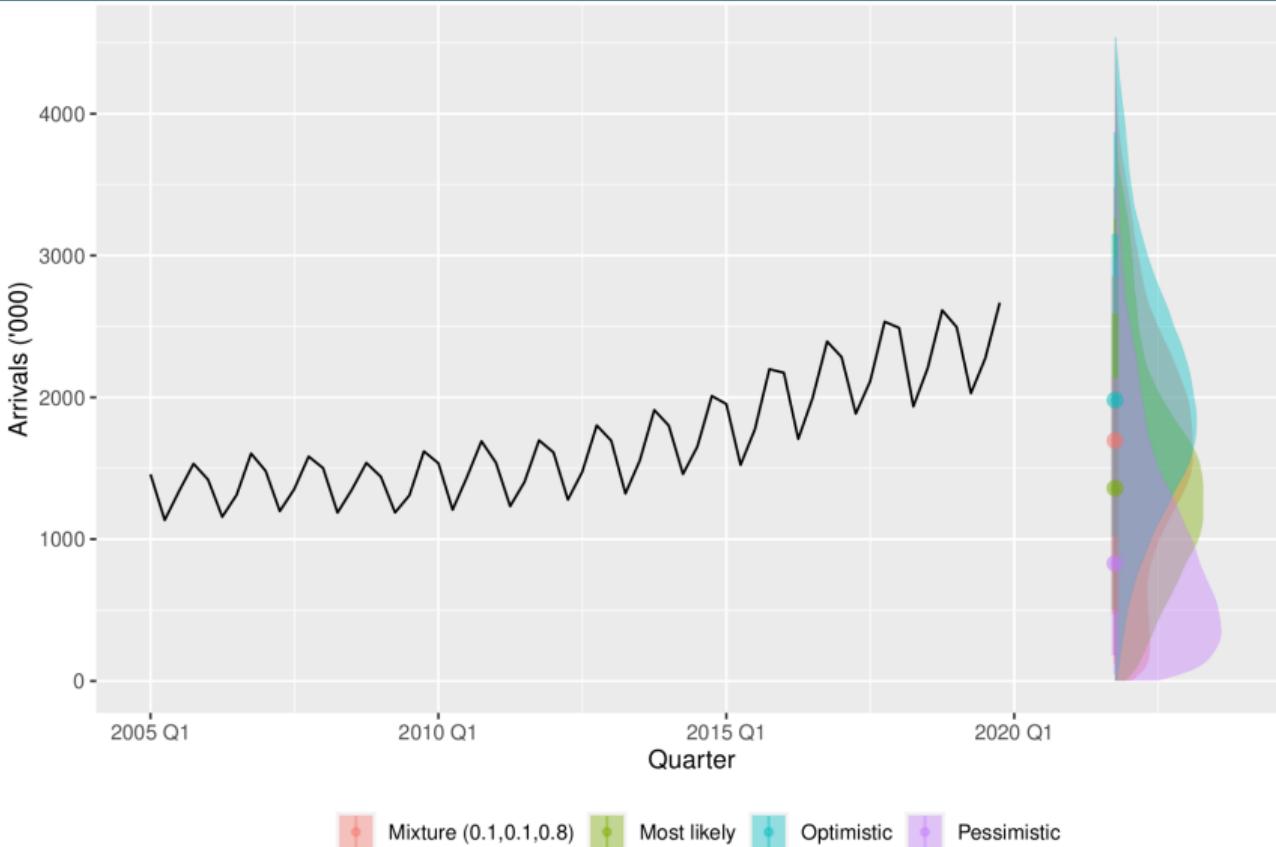
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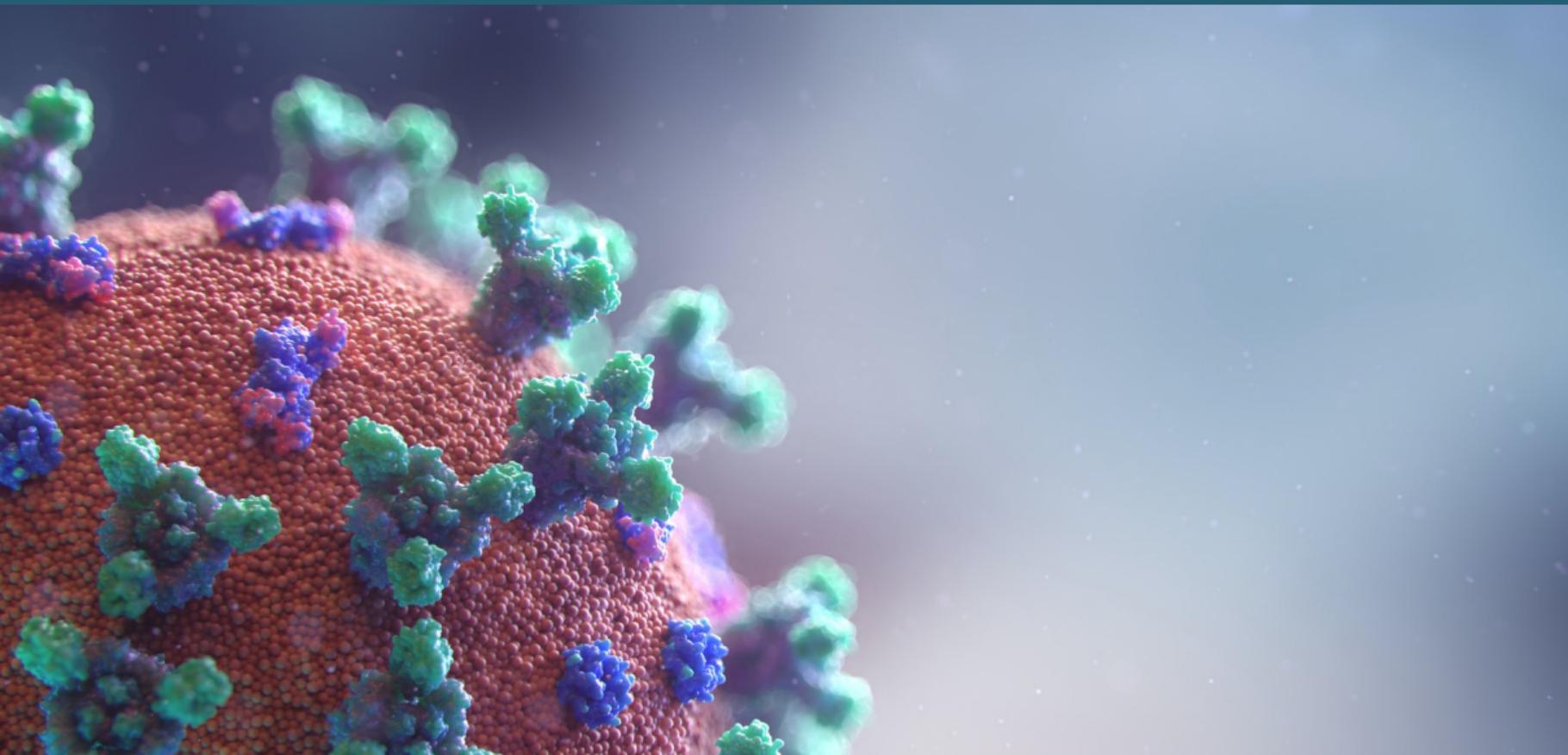
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# Forecasting COVID19 cases



# Australian Health Protection Principal Committee

The Australian Health Protection Principal Committee is the key decision-making committee for national health emergencies. It comprises all state and territory Chief Health Officers and is chaired by the Australian Chief Medical Officer.

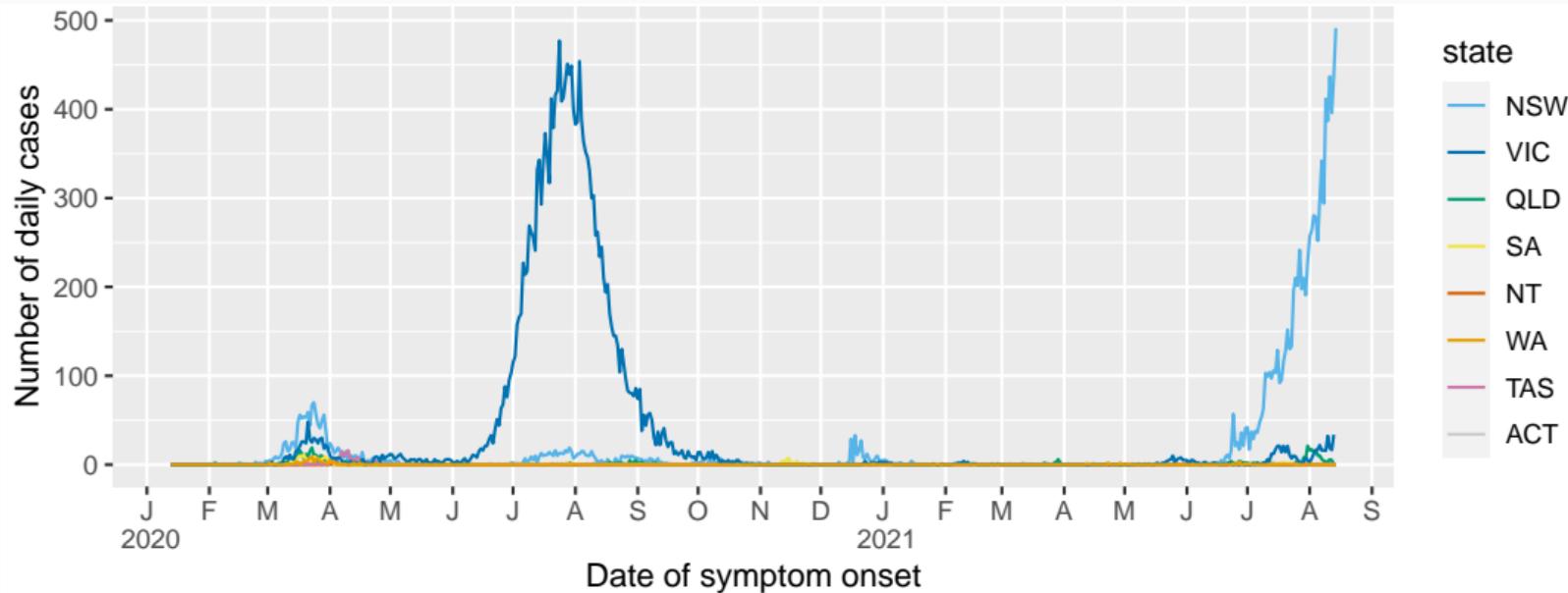
## COVID-19 forecasting group

- |                     |                        |                    |
|---------------------|------------------------|--------------------|
| ■ Peter Dawson      | ■ Jodie McVernon       | ■ Gerry Ryan       |
| ■ Nick Golding      | ■ Pablo Montero-Manso  | ■ Freya M Shearer  |
| ■ Rob J Hyndman     | ■ Robert Moss          | ■ Tobin South      |
| ■ Dennis Liu        | ■ Mitchell O'Hara-Wild | ■ Nicholas Tierney |
| ■ Michael Lydeamore | ■ David J Price        | ■ Ruarai Tobin     |
| ■ James M McCaw     | ■ Joshua V Ross        |                    |

# Data sources

- Case-level data of all positive COVID-19 tests: onset and detection times.
- Daily population mobility data from Google, Apple & Facebook
- Weekly non-household contact surveys
- Weekly behavioural surveys
- Daily case numbers from many countries and regions via the Johns Hopkins COVID-19 repository

# Case numbers



- Recent case numbers are uncertain and incomplete as date of onset is not known until symptoms show and a test is obtained.

# A model ensemble

## Model 1: SEIIR (Uni Melbourne/Doherty Institute)

- Stochastic compartmental model with time-varying effective reproduction number.

## Model 2: Generative model (Uni Adelaide)

- Simulation with three types of infectious individuals: imported, asymptomatic, symptomatic

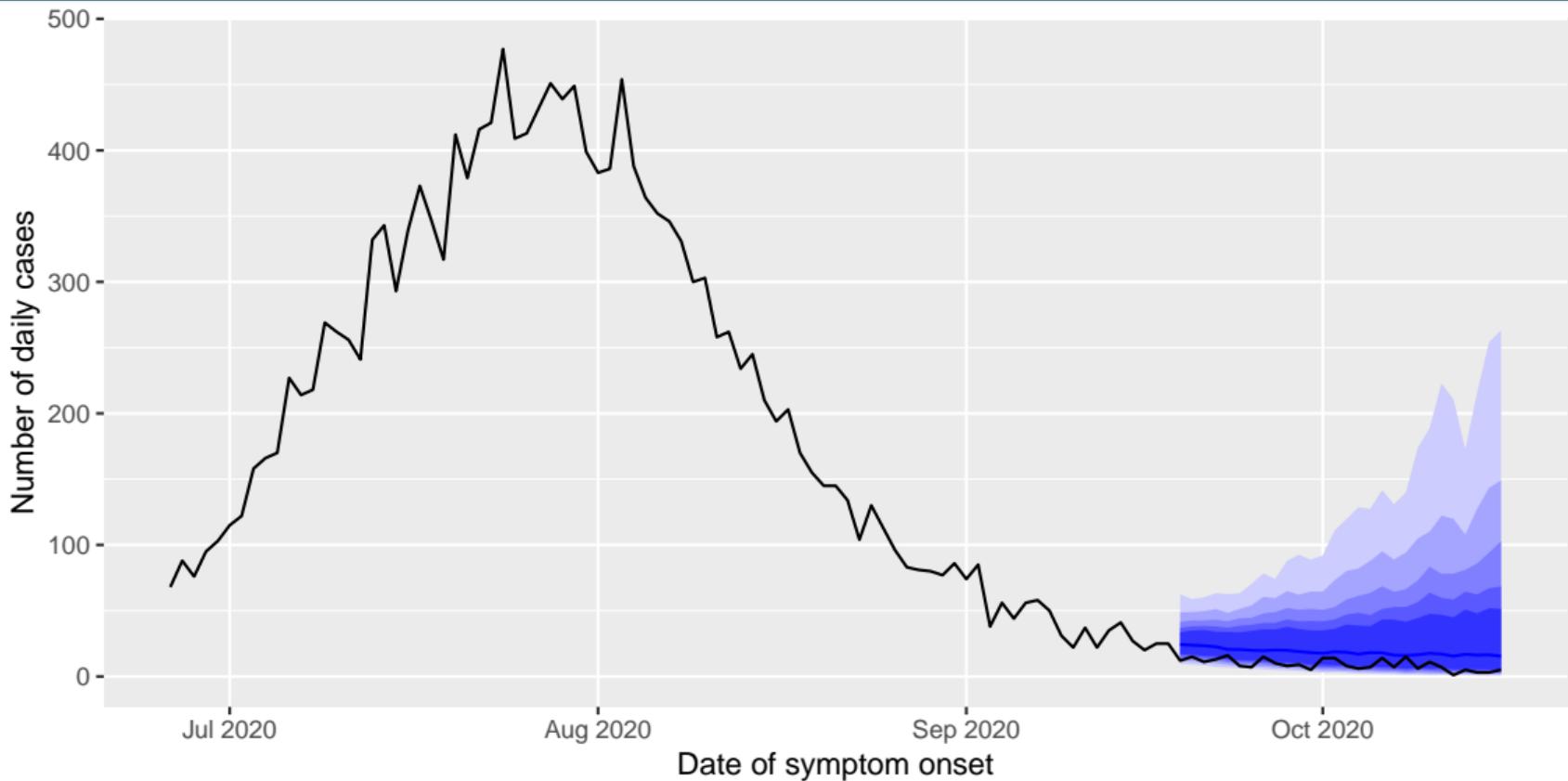
## Model 3: Global AR model (Monash)

- Single model fitted to all Johns Hopkins data from countries and regions with sufficient data.
- Series with obvious anomalies removed.

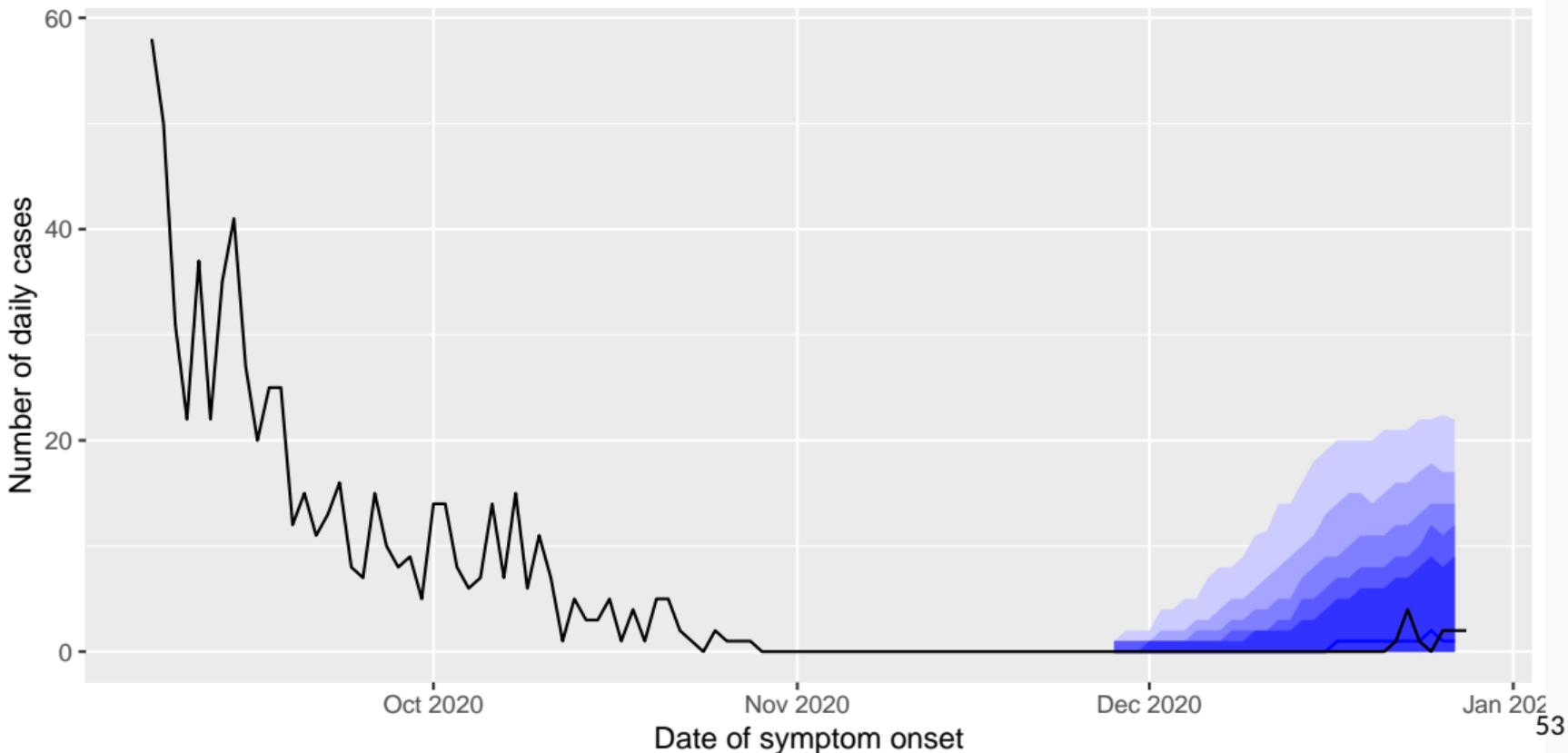
# Forecasting ensemble

- Forecasts obtained from a equally-weighted mixture distribution of the component forecasts.
- Also known as “linear pooling”
- Works best when individual models are over-confident and use different data sources.

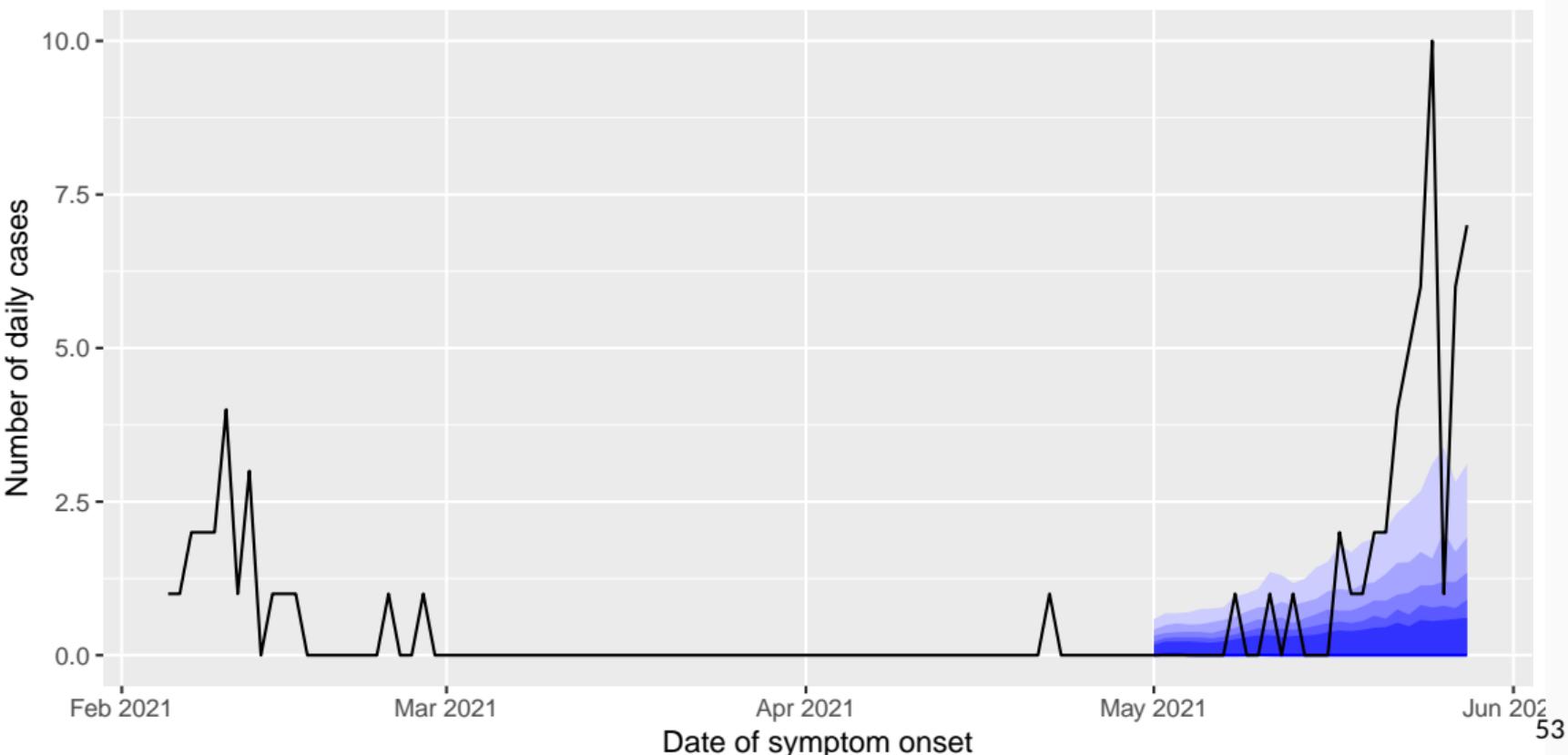
# Ensemble forecasts: Victoria



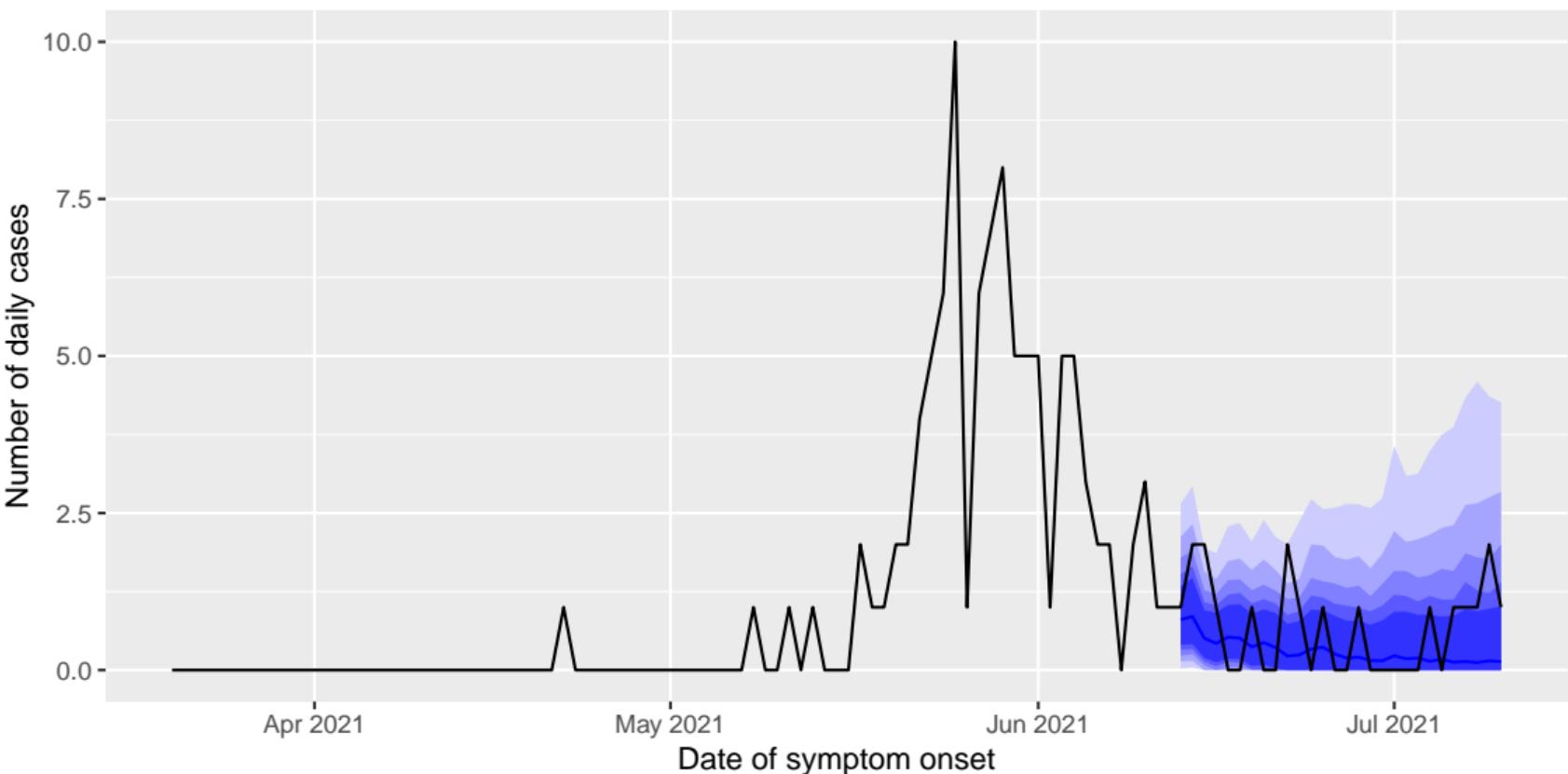
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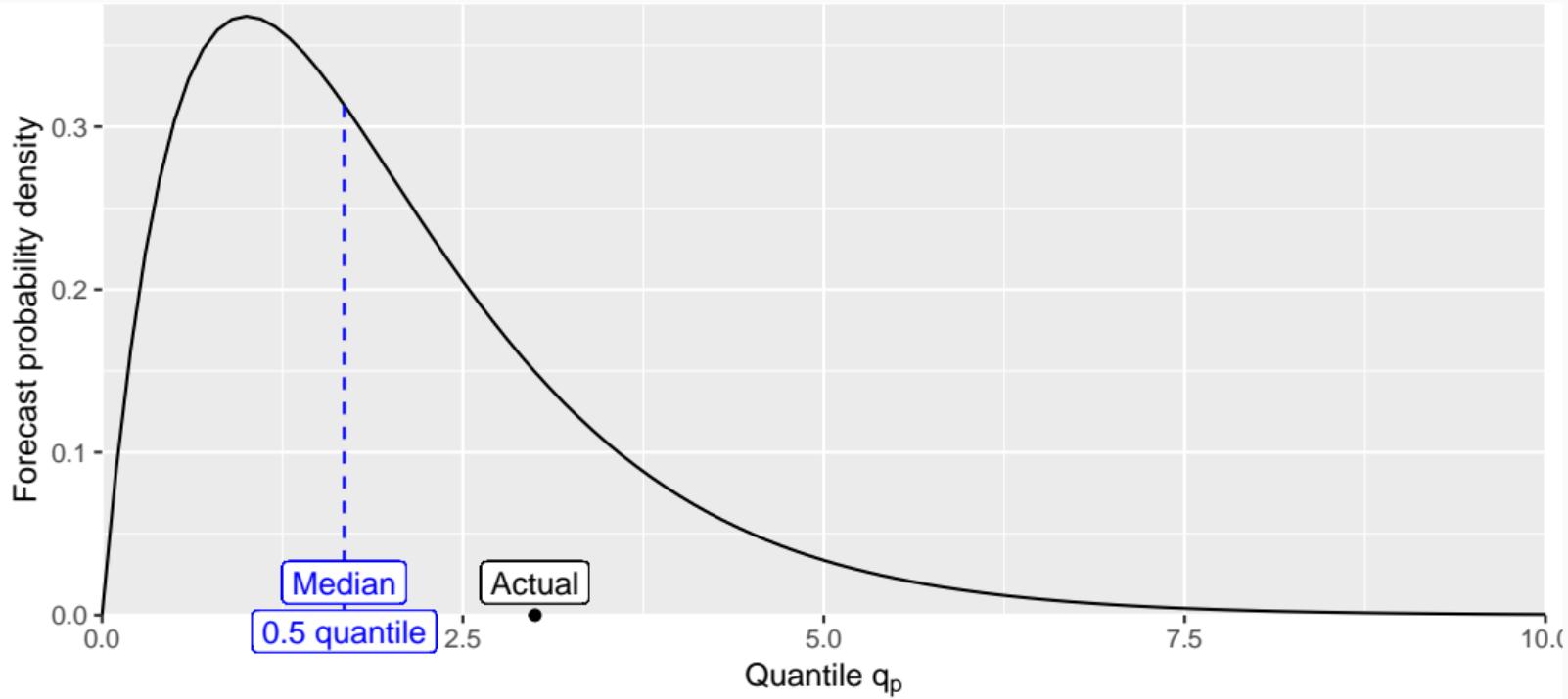
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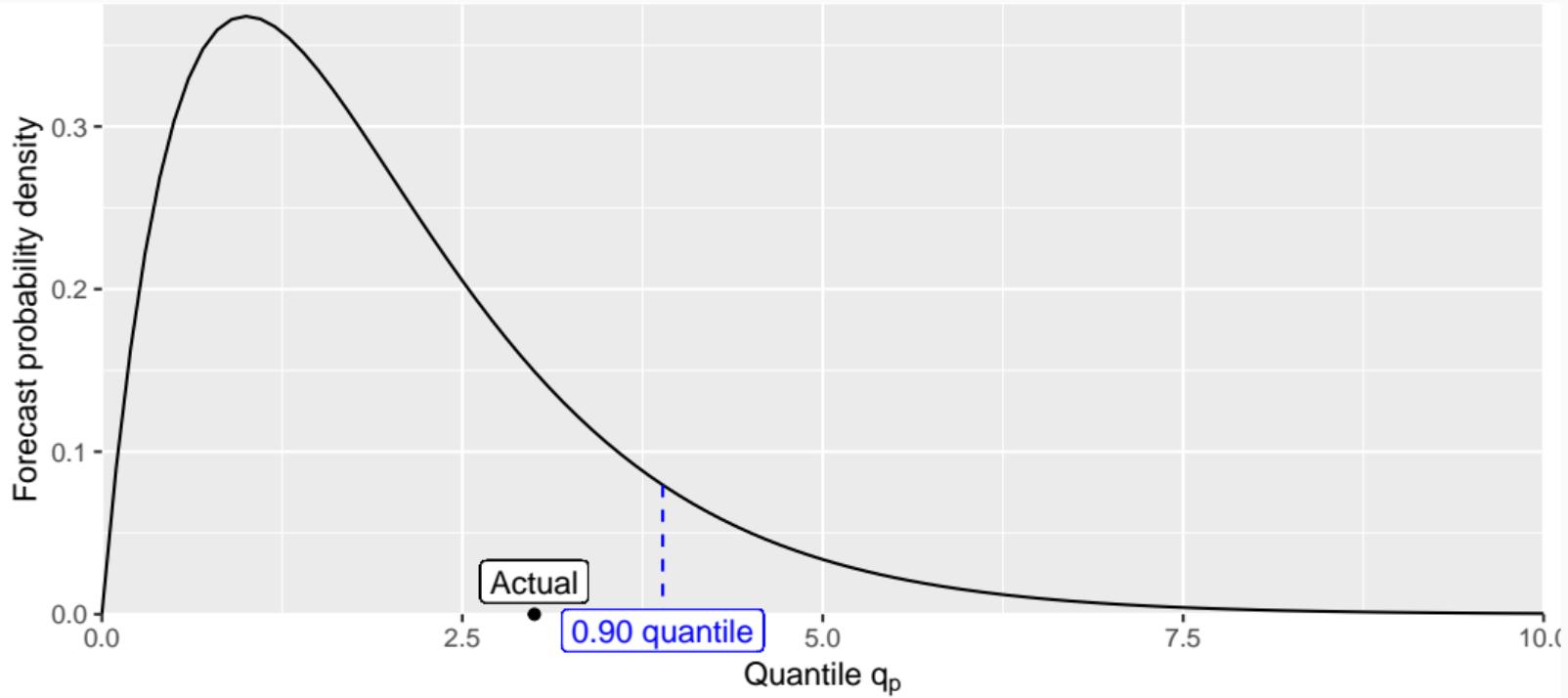
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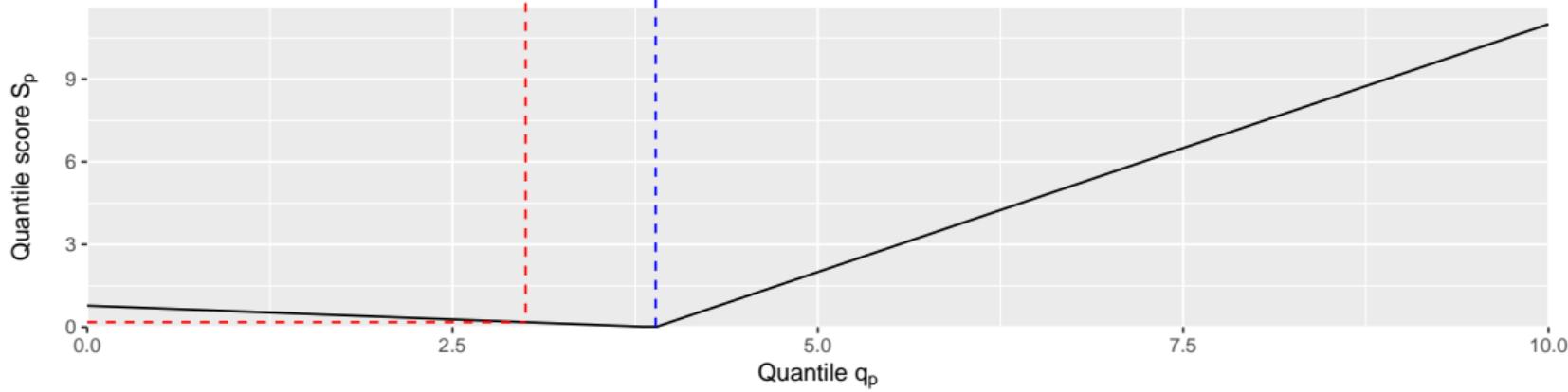
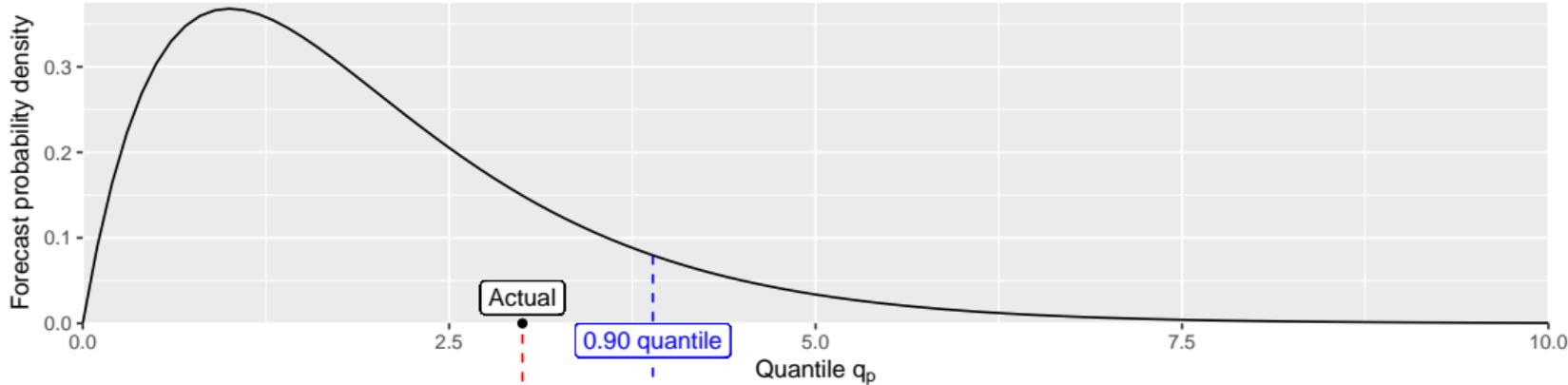
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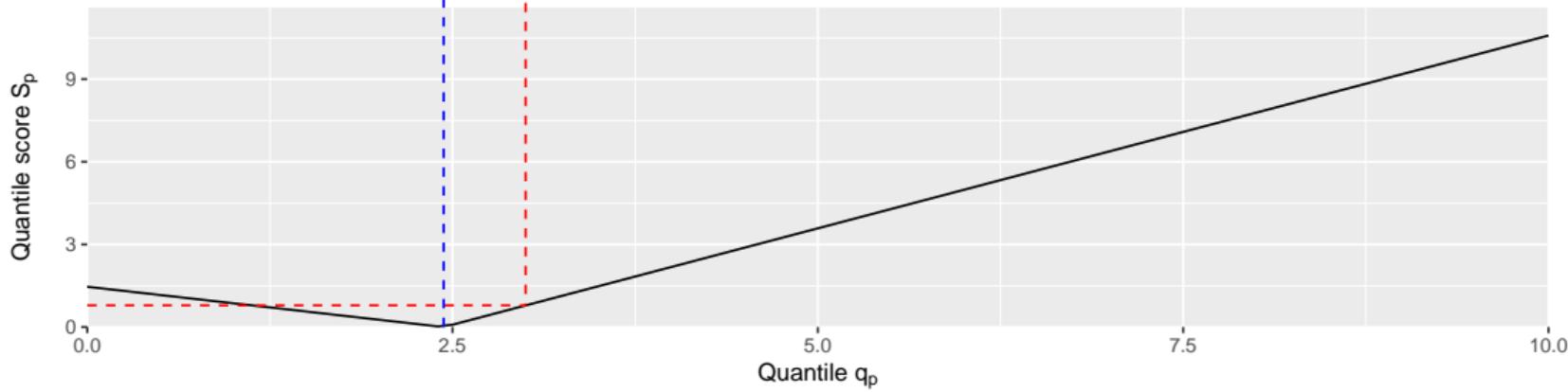
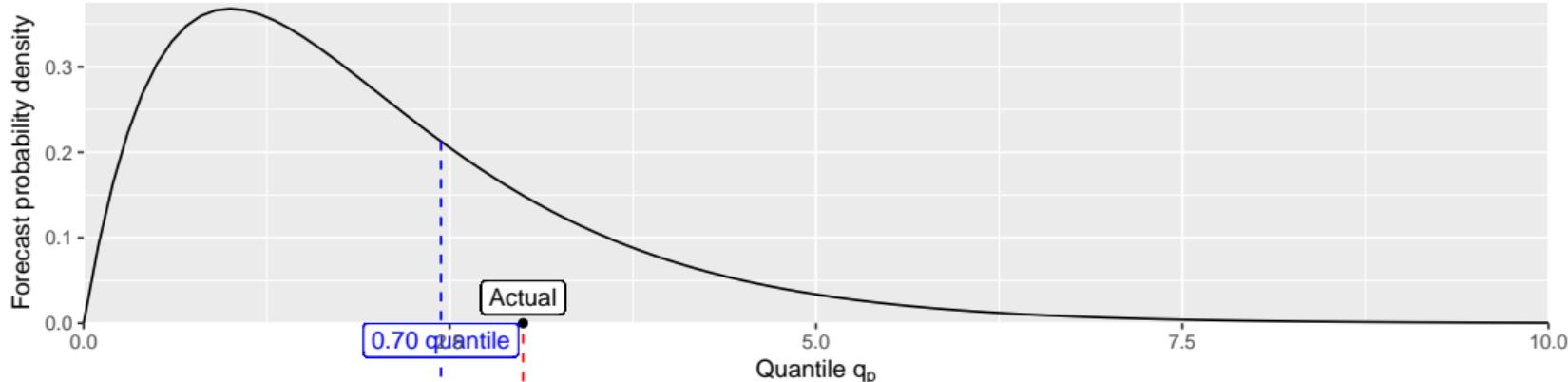
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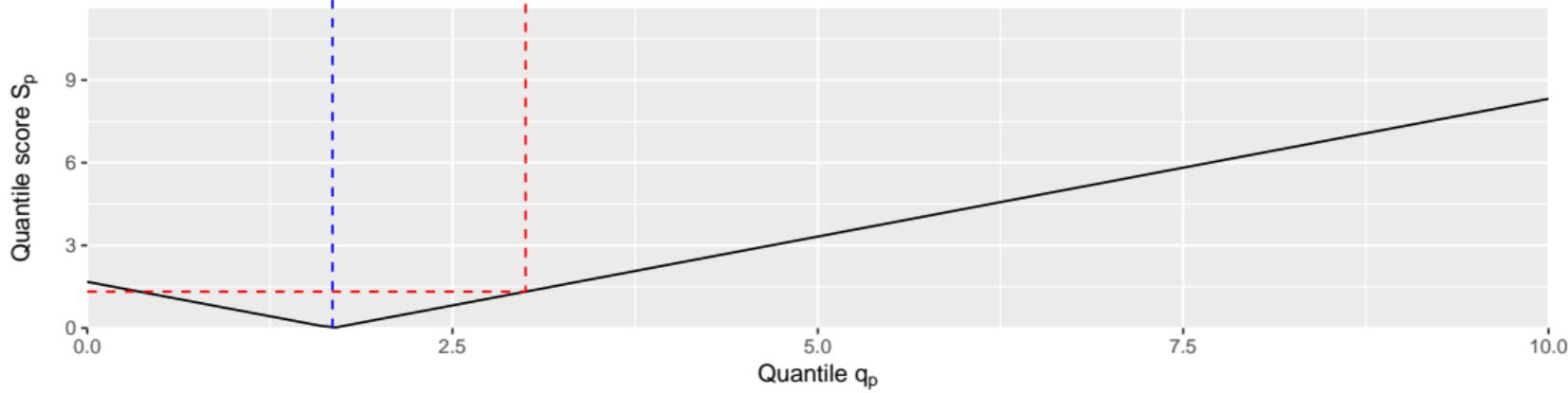
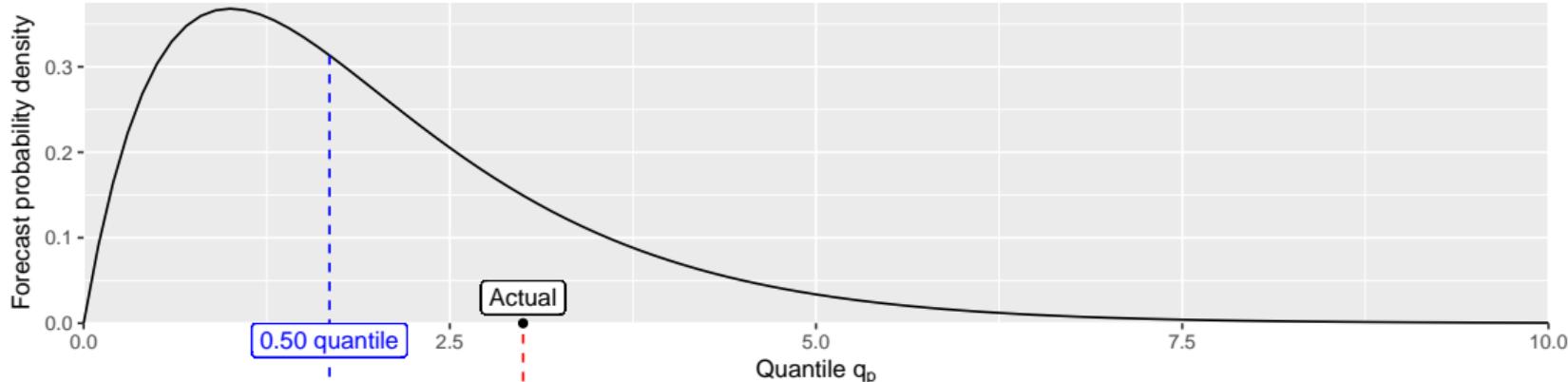
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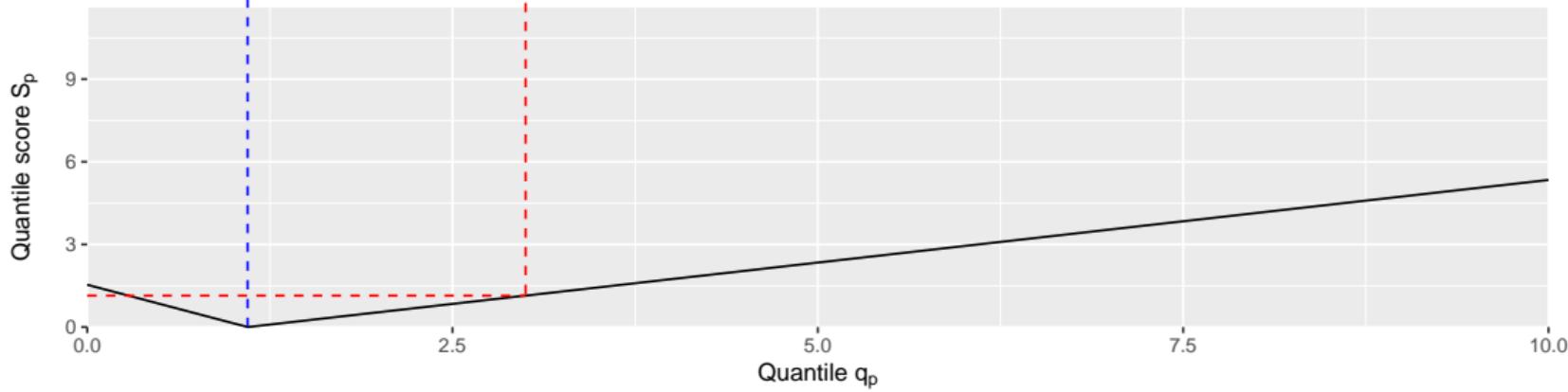
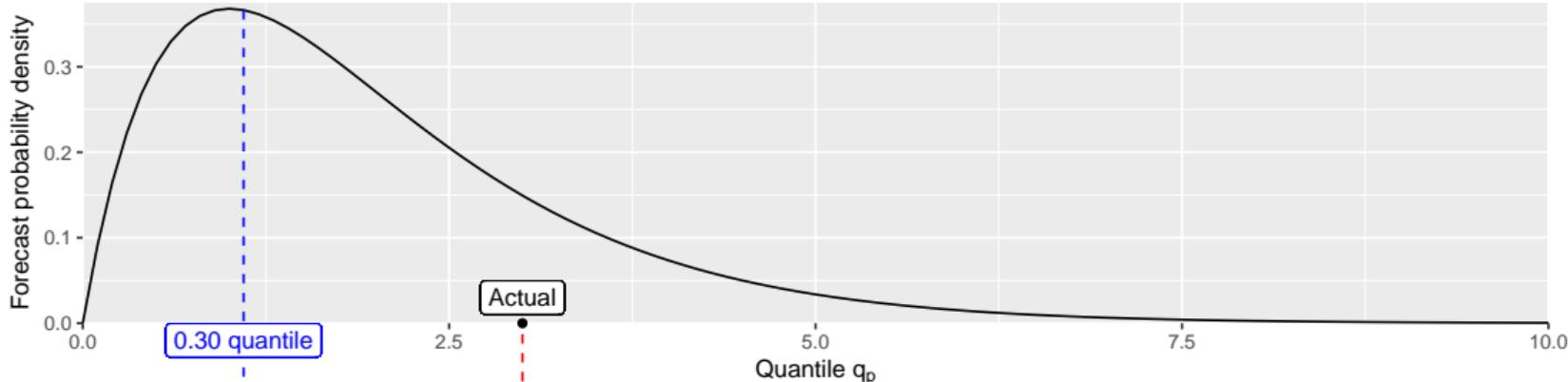
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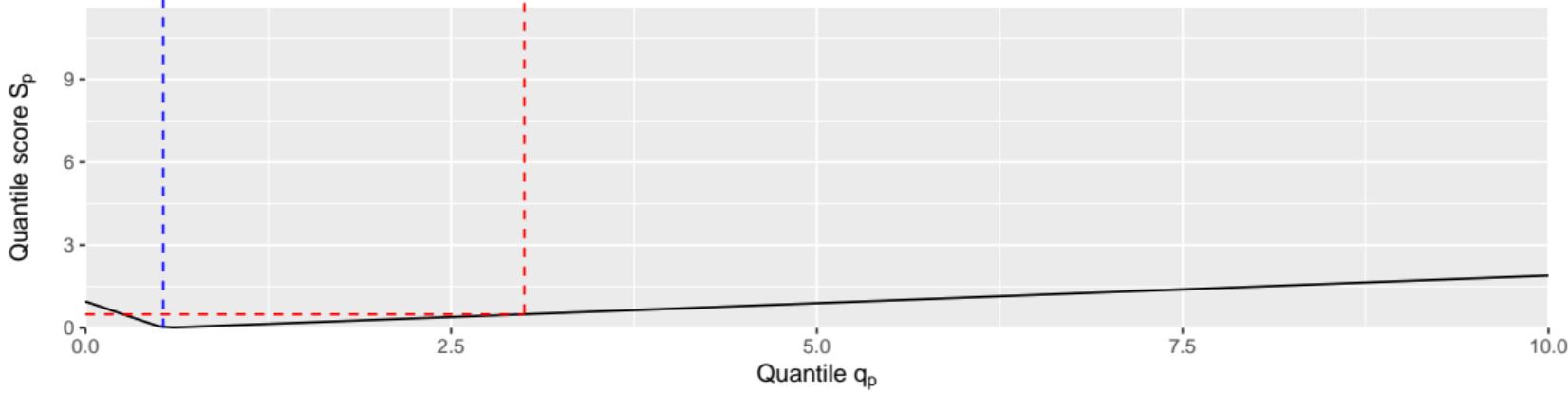
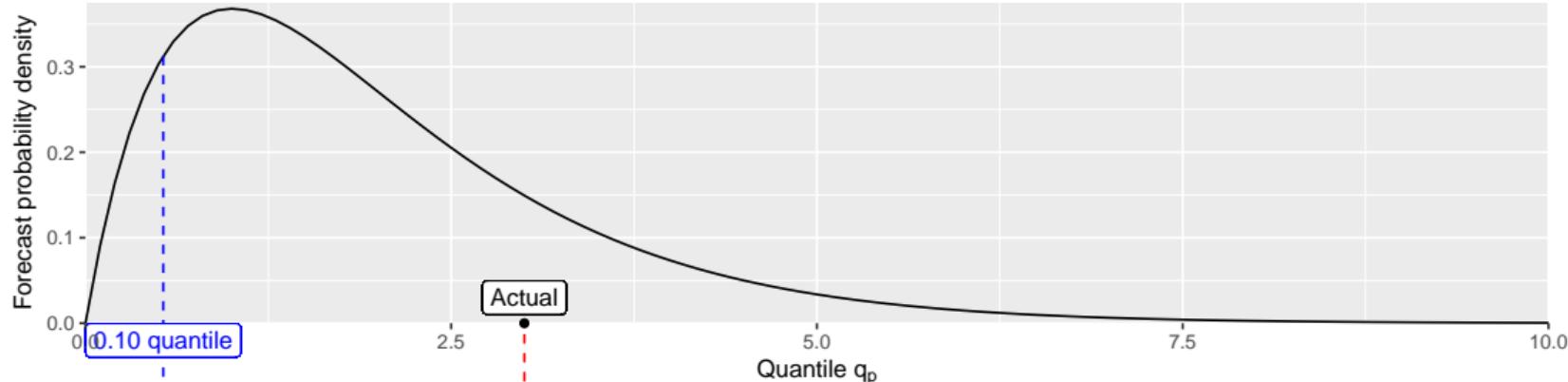
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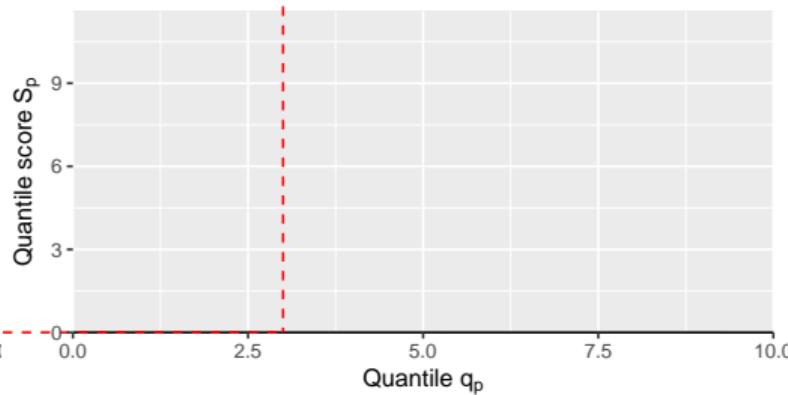
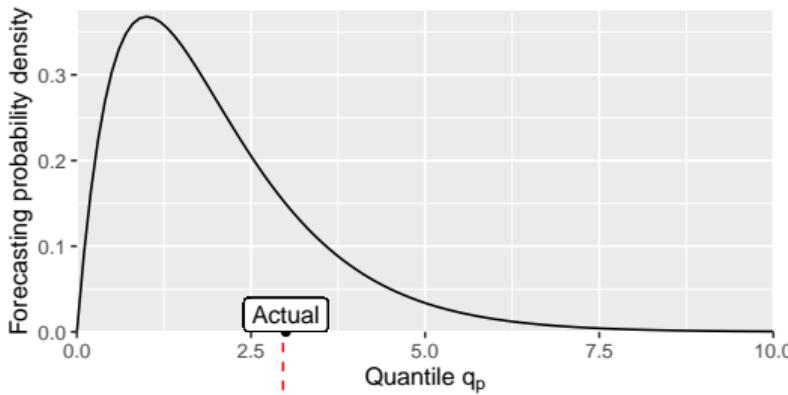
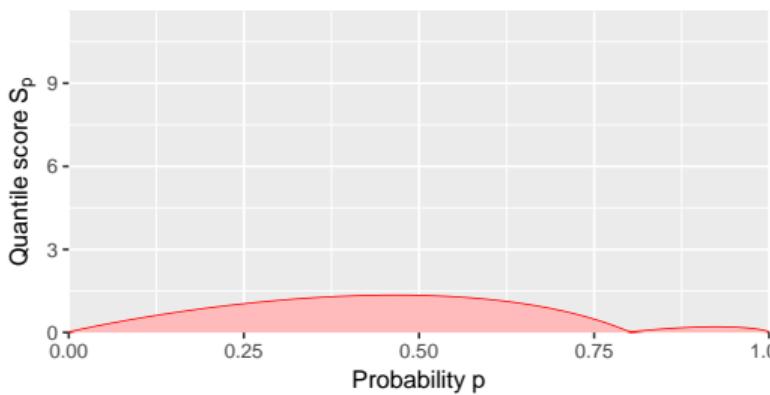


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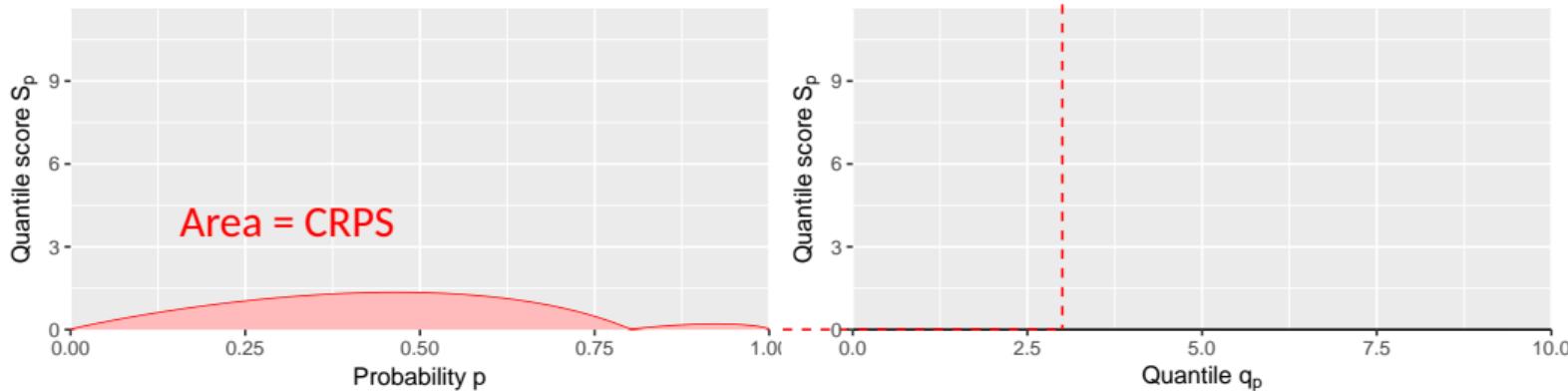
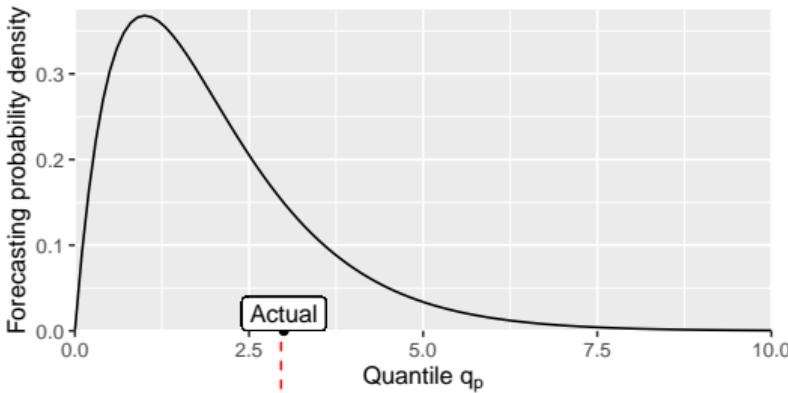


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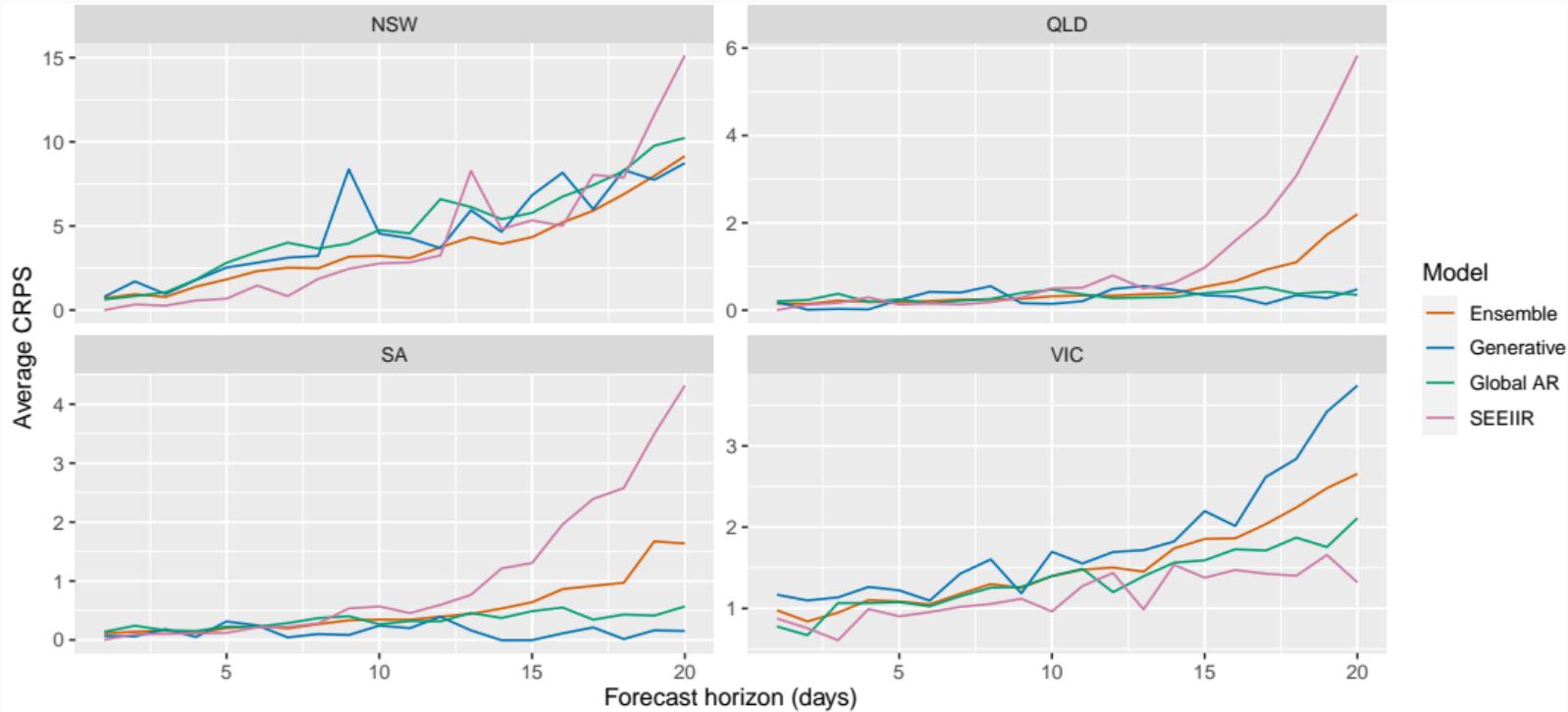
# Evaluating probabilistic forecasts



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# CRPS: Continuous Ranked Probability Score



For weekly forecasts created from 17 September 2020 to 15 June 2021

# When should we give up?

- When there is insufficient data?
- When the models give implausible forecasts?
- When the forecast uncertainty is too large to assist decision making?

## More information

 [robjhyndman.com](http://robjhyndman.com)

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 [@robjhyndman](https://github.com/robjhyndman)

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Slides: [robjhyndman.com/uncertain\\_futures](http://robjhyndman.com/uncertain_futures)