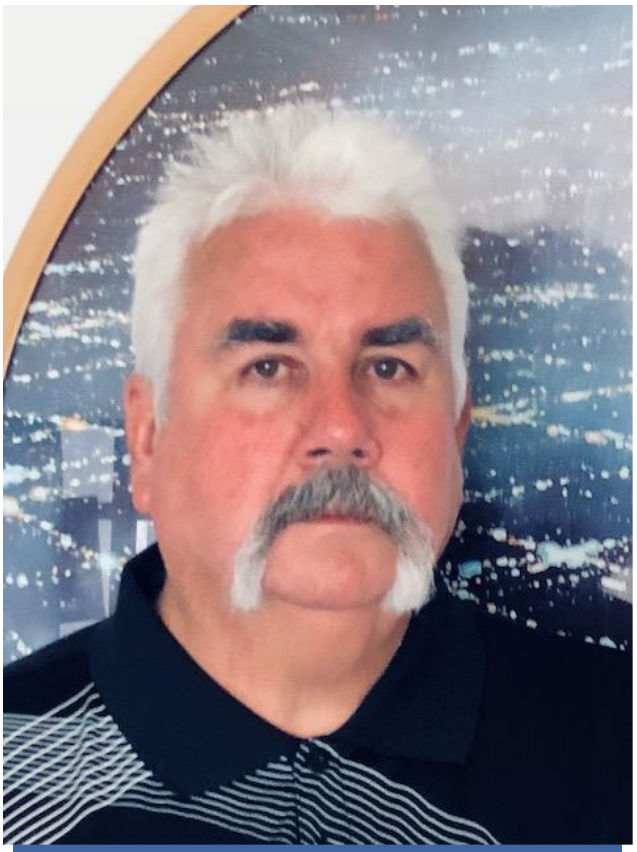
An Economy Driven by Oil. Forecasting Key Provincial Economic Indicators Using a Time Series Approach.



Department of Economics

Speaker: Scott Lynch

Dec. 1, 2017 3:00-4:30 PM
Arts & Admins Bldg. Rm A1046

This event is open to the public.

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There is little consensus in the economic profession regarding the appropriate forecasting methodology; the appropriate set of assumptions; or the appropriate set of facts to utilize when constructing an economic forecast. Yet, the measure of a good forecast relies on the old idiom "the proof of the pudding is in the eating" or, a good forecast, like horseshoes and hand grenades, counts if you are close (or, more specially, consistently close).

In this context, CARE has developed a short-term forecasting model. The development of the NL offshore, along with mineral extraction in the early 2000s, led to an economic boom that NL had not experienced previously. Oil extraction activities, at a time when oil prices were rising, sent per capita GDP to unprecedented levels. Housing prices, retail sales and other economic indicators showed the NL economy "booming". Oil royalties displaced equalization payments and the province became "fiscally independent". It is not a great stretch to think that offshore activities play a significant role in determining the current and future state of the Newfoundland and Labrador economy. CARE has developed a time-series forecasting model where offshore activities play a significant role in the forecasting model. The model utilizes monthly data to forecast the annual growth rate of key economic variables. Both oil prices and production are exogenous variables that influence employment, hours worked, wages, retail sales, average housing prices, residential sales, housing starts and inflation. The model also produces a monthly estimate of real GDP using calibration techniques. New data is added to produce a monthly forecast for the current calendar year, the current fiscal year and the upcoming year.

Professor Scott Lynch is in his 30th year at Memorial University and has seen the Newfoundland and Labrador economy experience both the positive and negative aspects of the business cycle. Living through the boom to bust periods gives one a unique perspective on the likely future of the NL economy. Professor Lynch research areas include applied macroeconomics, forecasting provincial macroeconomic indicators, forecasting energy demand, immigration with a focus on Newfoundland and Labrador, research in productivity with a NL context.

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