

## Georgia State University's Economic Forecasting Center

By *Rajeev Dhawan*

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**F**ounded in 1973, the Economic Forecasting Center is celebrating its 30th anniversary this year! We have survived for so long in the business of economic forecasting not by just being accurate, but by also being an important go-to resource for the national and local media, regional companies, nonprofit organizations, and state and local governments. Our location helps, too. Located in the heart of downtown Atlanta—a city that grew tremendously in the last two decades to become the star of the modern South—the Economic Forecasting Center at Georgia State University's J. Mack Robinson College of Business is one of the few university-based forecasting centers in the United States that does a national, regional, and local metropolitan area forecast on a quarterly basis. Thus, the Center provides its subscribers with economic information and analysis on a regular basis, which gives them the tools to make smart, strategic business decisions and to keep their competitive edge.

We achieve our goal by producing quarterly forecast reports for the nation, the state of Georgia, and the Atlanta metro area. Also, we produce a biannual report on the state of economic indicators for the Southeastern states. These are released to our sub-

scribers at the quarterly forecast conferences, which are open to both the public and the media. Additionally, we hold a private meeting three times a year for our corporate sponsors. These seminars are held a month after the forecast conference. They provide a forecast update and handle any interesting special topics that are suitable for a small audience in an interactive setting.

In terms of its core mission, the Economic Forecasting Center is significantly different from its Wall Street forecasting counterparts. This mission is to be the liaison between the university and the community, but more so from the business school's perspective. Our regular economic forecast publications and conferences not only get us media coverage, but also provide information to the business community and to state and local officials. Both the business school and the university get the added benefit of brand-name recognition through this event, a pleasant externality. At times this can be more important than the perceived accuracy of the forecasts!

Business leaders and the media consider the Economic Forecasting Center to be one of the most reliable and accessible sources for economic information. Luckily, the media calls us on both national and local issues to get an independent opinion. When it comes to media coverage, being a very small shop plays to our comparative advantage, reinforcing the independence of our economic thought and forecast pronouncements. To begin with, being a university-sponsored entity earns us a good platform to be independent by definition, which gives the media greater confidence in seeking our opinion, thus giving us greater exposure and perpetuating our independent growth. Independence is

a big advantage of being in academia, and it more than makes up for the few negatives! Nothing, however, is fully independent. Wall Street research shops are pure cost centers for the firms' investment banking, brokerage, or fixed-income divisions. The recent stock market scandals and the bursting of the bubble have tainted their reputations. The support for my salary and the Center's staff comes from state coffers via the university, but the day-to-day running expenses have to be generated by selling our quarterly forecast publications, conference tickets, and sponsorships of the Center. In a way, we too, are a cost center to the university, but our compensation (no bonuses, no revenue or profit sharing) is not directly tied to the university's performance.

Unlike Wall Street firms, we don't release a daily update, or for that matter a weekly update, a web cast, or press release whenever something happens. We stick to our quarterly routine of forecast booklet releases. We just can't compete with them on these matters as our resources are limited. So our interaction with the media is the garden variety type: to provide commentary on economic news and data releases when asked.

The Center's marquee public activity is a quarterly forecast conference held during the third week of February, May, August, and November. Each half-day conference features four to five expert speakers chosen from the pool of our own business school faculty, local business executives, money managers, Federal Reserve Bank economists, or other industry practitioners. The conference ends with me giving a lengthy forecast presentation. The program topics may range from stock market performance and international events to real estate

conditions and local growth. The conference manages to attract more than 250 business professionals from various industries and has become an excellent networking opportunity. Both TV and print media carry reports about the conference. It's a fee-based forum and an important source of soft funds (non-state or non-university-based revenue) for the Center.

The major source of our soft money comes from corporate sponsors who pay an annual fee for the privilege of being able to contact us for their specific research needs. Depending upon the level of sponsorship, the Center offers custom economic research services, impact analysis studies, customized data delivery, and board consultancy services. For example, the local regional transit authority, MARTA, needs an annual 30-year forecast of sales tax revenue collections for the Atlanta metro region for their budgeting purposes. On our website ([www.robinson.gsu.edu/efc](http://www.robinson.gsu.edu/efc)) we state that "Sponsoring organizations are the backbone of the Economic Forecasting Center's research efforts." While to a large extent this is true financially, the economic philosophy and direction of the Center is totally under our control.

### What an Economist Does at the Center

The Center is a stand-alone unit and, from an organizational perspective, almost like a department in the business college. As its director, I report to the dean of the college. The Center is in full charge of what is said to the media and at the conference, the tone of the forecast reports, the public forums in which it participates, and the choice of issues and economic topics. However, the administration does exercise a final say on critical administrative matters, as is true in any private firm.

Apart from me, the Center's only

full-time economic forecaster, I have an assistant director who helps me manage the day-to-day running of the Center with the help of an office manager. My assistant director is very valuable for the Center's growth, as she is responsible for brainstorming marketing strategies, managing our databases, researching specialized topics, and preparing the forecast booklets with the help of a team of four graduate research assistants.

As my dean once remarked, "You're like the CEO of a company and have to take the pluses and minuses of being in those shoes." However, running a small shop, I end up wearing multiple hats. I have to do strategic planning for our growth, manage the staff, be the Chief Economist for the Center, and represent the university and the school at events in the city and across the county. This is in addition to handling the media's economic news reports and requests for an analysis of the economic implications of recent events. While I love this aspect of my job, at times it intrudes upon my ability to perform the basic functions of a forecaster.

As an economist, I produce the forecasts for the nation, state of Georgia, and Atlanta metro area using the typical strain of current macro-models. The national forecast model is a variant of neo-Keynesian model of the variety pioneered by Lawrence Klein, and the regional models are based on the top-down forecasting philosophy that takes the national forecast as exogenous drivers for the regional one. Our national forecast regularly contributes to the prestigious *Blue Chip Economic Indicators*, and we are only one of three university-based Centers out of 50 entities invited to contribute to the survey. Other surveys which regularly seek our national forecast are the Bank One Economic Outlook Survey,

the Federal Reserve Bank of Philadelphia's Livingston Survey, the Professional Forecaster's Survey, NABE, *USA Today*, and the Consensus Economics forecast panel in the UK.

The Center gets quite a bit of media attention for its national forecast from both the local and the national media. To handle the media calls when an important economic report is released, such as GDP or non-farm payroll employment, I have to strategize far in advance. This means being choosy about which of my other roles I abdicate so as to adequately handle all the media inquiries on economic reports, which are released on specific dates but never at specific times. Thus, my cell phone has become my *de facto* office, as it frees me from the constraints of being lashed to my desk landline. This marvelous technological advance at a throwaway cost has made it possible to maintain my productivity in the face of the increasing challenges of this job. I have a first-call, first-served rule, and I can enforce it as I personally handle all the media calls. Except when it's the seventh call on a tax-cut day, I enjoy chatting with the reporters. It's great when you have an ongoing interaction with some of them; they introduce you to new ways of looking at things by making you aware of your biases. This definitely has an impact on the quality of work I do. Fortunately, I have rarely suffered from reporters who have a hidden agenda.

Dealing with the print media is not all that glamorous, except when you get quoted in the *Wall Street Journal* or some other prestigious paper and your friends and family get to read it. It's the TV media that requires more devoted attention, as TV works on short deadlines, quick sound bites, rapid response time, and brings the most visibility to the

Center. An added benefit here is personal recognition, which has its own externalities—mostly positive in a city like Atlanta. These benefits remind me of a hiking trip with my dad to the Shimla hills in the Himalayas in India, when doors would open for us once people learned that my father was a university professor.

Our most popular publication, in terms of the absolute number of annual subscribers, is the *Forecast of Georgia and Atlanta*. It's also very much in demand with the local press, as it is considered the authority on Georgia's economic information. And at times, when interest in the southern region warms up, we get media calls from all over the United States and Europe, too. This publication is mostly of interest to local planners, homebuilders, developers, government officials, and the local business community. For a Center like us, this is where the growth opportunity lies, as most people attending our conferences and seminars are locals (although some travel from neighboring states like Alabama, Tennessee, and Florida). Apart from gaining local or regional exposure, which the university always welcomes, the *Forecast of Georgia and Atlanta* serves to make the Center the long-term source of credibility as the resource provider on local economic issues. It also provides the maximum bang per buck of investment effort, as our competition does not include Wall Street's entire roster of economists. In that sense, I have at times viewed the national forecast portion of my forecast presentation as a talented opening act that keeps the audience warm before the main act, which is the local forecast.

This brings me to a very important component of my job as a forecaster, making speeches at various

public and private forums. These events are typically organized by the corporate sector (especially the Center's corporate sponsors), the Federal Reserve Bank of Atlanta, College and University alumni functions, and nonprofit organizations. This brings much-needed visibility and credibility to the Center's research efforts and work, and when I first came over from UCLA, I fully used this medium to advertise my expertise to the local community. Never underestimate the power of word-of-mouth in this profession!

A unique activity at the Center is organizing seminars for the Center's sponsors. Seminars provide sponsors access to new developments in forecasting technology and the latest economic information. I often present these myself, but quite frequently I bring in my colleagues from the other departments in the college, as well as local Federal Reserve Bank economists who are experts in their chosen fields and are much more familiar with the latest academic research relevant to current economic conditions. In the seminars, we also hold an interactive panel called "Views from the Trenches," where representatives from sponsoring organizations give brief overviews of what they are seeing in their industry and share their concerns about recent economic events. I have found these sessions to be very helpful in understanding the concerns and viewpoints of people who are on the other side of the table, so to speak.

### **What it Takes to be a Forecaster at the Center**

Quite a few people have written about what it takes to be a Wall Street forecaster. Skills such as being a great communicator, having a good technical background, practicing disciplined habits in studying

the economic news, and possessing an intelligent writing style are each a "a necessary condition." But excellence comes from some other attributes, such as being academically respectable and flexible. Let me define these more precisely.

I am also an Associate Professor of Management at the college with teaching responsibilities in the Executive MBA program (consistently ranked in the top 25 by *BusinessWeek*). While teaching EMBA students is fun and enhances my knowledge of the inner workings of the corporate sector, it also means modifying my teaching style, which was developed by teaching graduates in PhD programs. A typical graduate student may primarily evaluate a professor on economic knowledge and delivery style, but EMBA students require quite a bit of human resource skills, which are not typically taught in economics PhD programs. Thus, one learns these while doing the job, which I have found broadens your horizon.

My primary duty is to be the director of the Center, but there are also research expectations by the university that must be met for long-term survival, such as tenure and respect from colleagues. Media hits and public accolade are fine, but modern academe demands its fair share of publications in peer-reviewed journals. One has to keep this activity going by being innovative with one's use of time in being able to switch between managerial, forecasting and research functions quickly. Like the typical R&D department in the private or public sector, the rewards from research are not as apparent – and it takes some patience. The payoffs are lumpy and unpredictable, but research is necessary to be competitive in the market place. Quite a few times, I found that the methodology of my theoretic-

cal academic papers or empirical results had a bearing on my thoughts regarding the direction of the economy or when solving models on the computer.

Another crucial part of flexibility is to unlearn academic concepts taught in the modern PhD economics programs. One case in point is the overemphasis of modern econometric teaching programs on precise measurement of coefficients in a regression equation at the expense of the predictive power of the equation (I am afraid I was a creation of that new teaching philosophy). A forecaster's statistical requirement is different from that of a typical academic practitioner. A forecaster, for example, is interested in the predictive power of an equation and may find a high degree of multicollinearity to be helpful for prediction. An academic practitioner will be so immersed in finding the marginal impact of one of his variables that he will sacrifice a good equation for the sake of a beautiful regression equation that is utterly useless for real-life work. I have found this to be a stumbling block for any fresh PhD student coming out of an economics program.

On the theoretical side, modern macroeconomic theory is totally inadequate from the practical forecasting perspective—VAR or its various cousin methodologies currently favored by PhD programs and Federal Bank research shops notwithstanding. An even more sophisticated and “theoretically” correct methodology is the Real Business Cycles (RBC) paradigm, which I used in writing my PhD thesis. I found it to be very useful in asking “simple” questions and answering them via models that I built and solved. However, when progressing into the reality of the business world, I found the models to be simply inadequate. I was lucky that I knew

enough of the other paradigms to do my job. The old models may not have been theoretically as beautiful or sound if you are a purist, but if one knew their inner-workings and—more importantly—their perceived short-comings, one would bridge the gap between textbook theory and practical reality. Thus, a macro forecaster has to be a well-rounded researcher of all philosophies.

Life is *almost* a random walk, and it is your best friend in forecasting. This is a twist on the mantra I heard from my mentor Larry Kimbell, but I only understood it fully when I had to do a home price appreciation forecast for a big corporate client for an emerging metro area. I have to admit, if I had taken more finance and real estate classes, I would better understand the unfolding drama in the current economy. But learning is a life-long process and quickly learning the skills needed on your job is the most crucial attribute in being a successful forecaster at a center like ours. ■

