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Wall Street vs. Brookings on the Decline in Unemployment, Round 1

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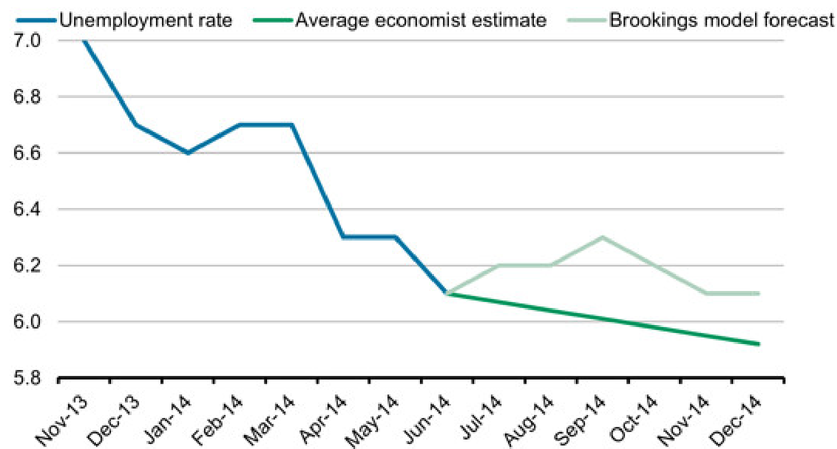
By JOSH ZUMBRUN CONNECT

Every month since the fall of 2012, the **Brookings Institution** has **published a forecast** for the path of the unemployment rate over the next six months. These forecasts are a familiar past-time for economists, but Brookings has a **bold claim**: their model "can outperform the Fed and professional forecasters."

This is a good time for the two to face off, because at the moment, Wall Street economists are predicting the unemployment rate, currently at 6.1%, will continue to decline and end the year at 5.9%, according to the **average estimate** in the **Wall Street Journal**'s survey of economists. The Brookings' model predicts that unemployment will climb slightly in coming months and end the year unchanged at 6.1%.

In other words, Wall Street predicts modest progress and Brookings predicts something of a stall.



The Brookings' model was developed by **Regis Barnichon** of the Barcelona Graduate School of Economics and **Christopher J. Nekarda** of the Federal Reserve Board of Governors. Their model studies the flows in and out of unemployment to make its forecast, as opposed to traditional models which often predict the rate based off the growth of the economy or the relationship between the unemployment rate and other labor market indicators.

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In the **paper** in which the approach was first published, Mr. Barnichon and Mr. Nekarda write that the model "performs especially well surrounding large recessions and cyclical turning points."

The economists' forecast comes from the Wall Street Journal's **survey**, which polls around 50 economists each month on 10 different economic indicators. (These economists primarily work at financial institutions, although some work at economic research firms and universities.)

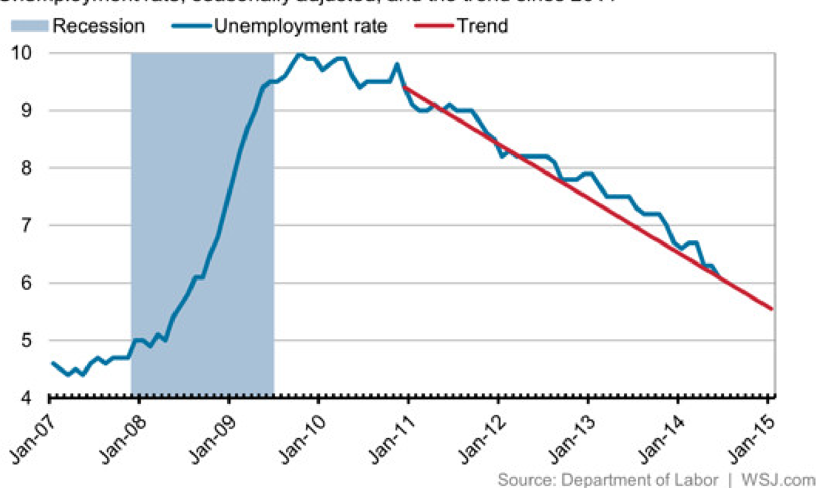
The first test comes with tomorrow's unemployment report, where the Brookings' model predicts the rate will rise to 6.2% and the surveyed economists predict the rate will either hold at 6.1% or fall to 6%.

In a **post** explaining his forecast, Mr. Barnichon added a note of caution to the model's forecast. "I see some downward risk to the forecast, meaning that unemployment could go down faster than suggested by the model," he wrote.

In recent years, forecasters have tended to be too pessimistic about the unemployment rate, which has declined rapidly. In fact, if the pattern since 2011 continues, both Wall Street and Mr. Barnichon and Mr. Nekarda's model will again prove too pessimistic. The trend of recent years would put unemployment near 5.6% by the end of the year.

Plunging Trendlines

Unemployment rate, seasonally adjusted, and the trend since 2011



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