

LECG Comments and alternate wording.

Title. "Proposed: Include Load Forecast Scenario Based on Blue Chip US GDP Forecast When Moody's, Blue Chip Differ By A Threshold"

Pros:

Pro #1. Use: "The Blue Chip Consensus reflects the views of a majority of forecasters participating in the survey; this reflects on the likely accuracy of the forecast."

in the rebuttal: The statement "very little overlap" is not correct. I find at least 22 of the Blue Chip forecasters on the WSJ list, before attempting to identify firms that may have changed their names, merged, listed by subsidiary, etc.

Pro # 2. Use: "Moody's forecast of US GDP is higher than nearly all other forecasts at present. Moody's forecast of US GDP growth exceeds the Blue Chip "Top Ten Average" of the highest forecasts for 2011, 2012 and 2013. Moody's forecasts for 2013 and 2014 GDP exceed the Blue Chip consensus by 3.6% or more. (See James Wilson's August 12 presentation to the Planning Committee, slides 7 and 8)."

Note: if you plan to use acronym MEDC, define it first.

Pro #4 rebuttal: " \*The FRB article referenced above explains how consensus forecasts are potentially vulnerable to bias that could not occur in a non-consensus forecast." This certainly sounds unlikely! It is not supported by the cited paper, and in the call, the author was unable to provide the cite. The word "bias" appears in this paper only in a footnote on a different subject. This should be deleted.

pro #5: add, at end (it was dropped from original): "... will never be extreme; while Moody's forecast at present is one of the most optimistic for the key time period (2012 and beyond)."

Pro #6: Use: "PJM's task is to produce a median ("50/50") peak load forecast and, therefore, should use median forecasts as inputs. However, Moody's Baseline is explicitly a "most likely", not a median forecast, and Moody's states that the risks are skewed to the downside, so a Moody's median forecast, if one were produced, would be lower than Moody's baseline."

Pro #8: use: "Over the course of the current recession so far, Moody's economy.com has been one of the least accurate, if not the least accurate, of all the forecasters participating in the Blue Chip survey. It is of course too soon to pass judgment on forecasts of 2010 and later years, but 2009 is already fairly clear (Blue Chip Top 10/consensus/Bottom 10 are now very close, -2.5, -2.6, -2.9 respectively). From December 2007 to April 2008, many forecasters began to understand the seriousness of the situation, and reduced their forecasts of 2009 GDP; the consensus for 2009 fell from 2.9% to 2.2% during this period. Moody's actually raised its forecast to 3.5% by April 2008 (and was the highest in the survey in April and January 2008). Moody's forecasts for 2009 continued to lag the BC consensus on the way down throughout 2008, standing at

1.0% in October compared to the consensus at 0.5%. In January 2009, the consensus for 2009 further declined to -1.6%, and Moody's reduced its forecast sharply to the consensus level, -1.6."

Con #1, rebuttal: What you have here is not "rebuttal", its "friendly cross"!! Delete it.

Instead include: "This is incorrect: at least two of the cited studies included evaluations of long-term forecasts. However, most studies have focused on shorter-term forecasts, as much more data is available for such forecasts. No one has put forward a theory as to why the conclusions regarding the advantages of pooled forecasts based on 1- and 2-year forecasts would not hold for longer-term forecasts, if there was sufficient data."

Con #3, rebuttal second \*: delete this, its not rebuttal of this Con, and its not correct. There are not "sectoral growth rates" in Blue Chip. The claim that productivity behaves in "strange ways" is unsupported. etc.

Con #5, second \* -- delete, this is not rebuttal.

Con #6 is not correct, should be deleted. In the "rebuttal", the second and third-last sentences are not correct and not rebuttal, they should be deleted. the last sentence should be a separate \*.

Con #7: rebuttal: use: the revised proposal provides flexibility within +/- percent of the GDP forecast, and Moody's may further relax the constraint if necessary.

Con #8: "two month lead time needed" this is false, as you know; change to say "desired". Cochrane said "he would like to have", and Moody has in writing said they could do it by first week of November, starting with the October values.

"Multiple iterations required" is also false. Cochrane said the revised proposal is feasible, and it explicitly precludes multiple iterations.

"Rebuttal", second \* is not rebuttal, delete.

Con #9 rebuttal, use: The proposal does not call for PJM to develop any inputs. All guidance is general and ex ante.

Con #11: delete second \*, its not rebuttal.

Con #12 second sentence is false. Full detail will be available.

Con #14 rebuttal: Such consistency should be a very minor consideration compared to the likely accuracy of the forecast.

Con #15, rebuttal: The proposal calls for producing two scenarios, and PJM is to recommend which it feels should be considered the "official" forecast. PJM does not need to be an economic expert to make such a recommendation.

Con #16, rebuttal: Many PJM members use Global Insight or other forecast providers; no survey was performed of this question. The Blue Chip scenario, as a consensus scenario, is likely to be closer to the forecasts of other providers than Moody's extremely optimistic forecast.

Con #17, rebuttal: "Producing a second forecast, in which all assumptions are identical except for one set of inputs (GMP values), is very little additional work. MEDC has quoted \$15,000 for the additional macro scenario, a modest sum."