



**PJM Interconnection**

**Proposed: Replace Economy.com Baseline Forecast With Blue Chip Consensus U.S. GDP Forecast**

	<b>Pro</b>	<b>Con</b>
1	Blue Chip Consensus reflects the views of a majority of forecasters.	All referenced studies examining accuracy of consensus vs. individual forecasts consider only current year and next year forecasts. Studies do not measure relative accuracy of long-term forecasts (years 2-15).
2	MEDC's forecast of US GDP growth exceeds the "Top Ten Average" of the Blue Chip forecasters for 2011, 2012, and 2013	No PJM company or ISO/RTO has adopted a consensus forecast approach.
3	Studies show that as a general matter, pooled forecasts such as the Blue Chip Consensus tend to be more accurate than those of individual forecasters	Blue Chip forecasts are not consistent with developing the 15-year monthly load forecast needed by PJM planning (Blue Chip provides quarterly values for years 1 and 2, annual for years 3-5; 5-year average for years 6-15)
4	Studies show that pooled forecasts tend to be unbiased; studies also show that individual forecasters' forecasts may show statistical bias toward optimism or pessimism	Averaging growth rates (as Blue Chip does) will mask the detail of individual year-to-year growth, which is especially important at turning points.
5	The Blue Chip Consensus is a highly regarded and oft-cited indicator of expected economic growth, and by pooling over 40 forecasts, will never be extreme.	The proposal would ask MEDC to do something they have not done before (fix the dependent variable then determine independent variables).
6	A median U.S. GDP growth forecast can be derived from the Blue Chip Consensus. MEDC's baseline is explicitly a "most likely", not a median, forecast.	Proposal would result in an economic forecast that is not a consistent scenario; the underlying factors of GDP growth can not be explained to stakeholders, commissions, etc.
7	The Blue Chip consensus, as an average of many forecasts, will be a more stable forecast over time.	Having MEDC produce a customized forecast to replicate Blue Chip GDP forecast may potentially introduce inconsistencies among GDP drivers.
8	MEDC has been one of the least accurate, if not the least accurate, of all the forecasters participating in the Blue Chip survey, based on forecasts of 2009 growth produced in 2007-2008.	Two month lead time needed to develop proposed customized forecast by MEDC. Multiple iterations between MEDC and PJM required, annually.
9	A majority of other forecasters assign very low probabilities to MEDC's forecast rates of growth for 2011 and 2012.	If MEDC is looking to PJM to develop inputs, PJM will be in the business of developing US macroeconomic forecasts.
10		To use Blue Chip forecast, legal issues related to replicating their proprietary forecast must be addressed.
11		LAS has an established practice of studying proposals before implementation. This proposal does not allow for that.
12		The proposal will lead to winners and losers at the regional level. Stakeholders will not have access to underlying data to validate the assumptions which determine this.
13		PJM would likely pursue a brief stakeholder process before deciding to implement the Blue Chip proposal, and to determine any guidance to provide on preparation of the Blue Chip scenario
14		Past forecasts have used MEDC's baseline US GDP scenario. Continuing to do so would maintain consistency with past forecasting.