MACROECONOMIC FORECASTS AHEAD OF A VOTE: Evidence from the Brexit referendum of bias in institutions with an interest in the outcome

New research by **Davide Cipullo** and **André Reslow** of Uppsala University finds evidence of 'propaganda bias' in the GDP growth forecasts released just before the UK's Brexit referendum in June 2016.

Their study, to be presented at the annual congress of the European Economic Association in Manchester in August 2019, shows that influential professional forecasters whose economic interests were threatened by the UK leaving the European Union predicted a GDP growth rate of 0.5% in 2017 compared with a much more accurate 1.3% released on average by other forecasters (the actual growth rate in 2017 was 1.8%).

Forecasters more vulnerable to Brexit predicted lower GDP growth due to more pessimistic views on investment growth, trade exposure and government expenditures than the other forecasters.

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Forecasts released by professionals are the unique sources of information about the future states of the economy in the hand of voters before every election. The authors of this study explore whether forecasting institutions just aim to release accurate estimates, or whether they try to manipulate the information released to voters in order to shape their beliefs and ultimately, the voting outcome.

According to their findings, the latter hypothesis finds support in the circumstances of the Brexit referendum. The results suggest that voters, policy-makers and the mass media should treat macroeconomic forecasts with some caution and account for the evidence that forecasting institutions may have interests other than the accuracy of their estimates.

The analysis builds on monthly observations at the firm level from the *Forecasts for the UK Economy*, a survey of 44 professional forecasters collected and released by the HM Treasury, which mainly includes financial institutions and research companies.

These data are combined with information on the exposure of each forecaster to the consequences of Brexit, such as the business sector, the variation in stock prices just after the referendum results, and with measures of influence computed using Google Trend and Google News data.

With the help of this additional information, the presence of correlations between the size of the 'propaganda bias' and the loss in stock prices after the referendum as well as the influence scores according to the Google measures can be established.

It is not solely the case that forecasters with stakes and influence released, approaching the vote, are more pessimistic and more incorrect estimates than their competitors, but also that among forecasters with stakes and influence, those with more stakes and/or more influence released even more biased forecasts.

The empirical results are consistent with predictions from a theoretical framework of asymmetric information between voters and forecasters. In the theoretical framework, voters decide between remaining in a status quo and leaving it. They care about the potential effects of their vote on the economy and their own ideology, but cannot predict perfectly the economic growth in the future and need forecasts from forecasters to form beliefs before casting a vote.

Forecasters have better information than voters have, but may have economic interests at stake during the referendum. They therefore face a trade-off between producing accurate forecasts and attempting to influence the voting outcome.

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Biased Forecasts to Affect Voting Decisions? The Brexit Case
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Full text:
http://uu.diva-portal.org/smash/get/diva2:1296155/FULLTEXT01.pdf

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