

## **20120127 Central Bank of Brazil: Are core inflation directional forecasts informative?**

**Source: Central Bank of Brazil**

### **Abstract**

Core inflation is under attack. Empirically, experts have become increasingly disappointed with its actual performance. Theoretically, while some claim that it is a key inflation predictor others argue that, by construction, that cannot be one of its main properties, at least in the short run. Even if true, core inflation could still be useful if it provides good directional inflation forecasts. The evidence presented here using U.S., Canadian and Brazilian data shows that this does not seem to be the case. Directional forecasts are often no better than a coin toss, especially from the level model. The gap model's forecasts are wrong, on average, at least 20% of the time. More crucially, they are usually no better than a simple moving average of headline inflation.

To read the paper please click [here](#).

**NovaRes Team**