Note on the Average Hourly Earnings Forecast

August 2019

Loc Quach

The forecast equation for FAHETTPQ_US, average hourly earnings for all employees, has been changed. The forecast equation remains a univariate one based on FAHETP_US, average hourly earnings for private employees. However, we have shifted from a year-over-year percent-change specification to a differenced log, differenced log specification. Modeling with a year-over-year percent-change specification on a seasonally adjusted variable can create seasonality in the forecast that would then need to be addressed with quantitative overlays. A differenced log specification avoids this liability and allows the model to create more accurate forecasts.

New equation specification

Dependent Variable: DLOG(FAHETTPQ_US)
Method: Least Squares
Date: 07/18/19   Time: 16:22
Sample (adjusted): 2006Q3 2019Q2
Included observations: 52 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DLOG(FAHETP_US)	0.923605	0.020704	44.61035	0.0000

R-squared	0.558823	Mean dependent var	0.006184
Adjusted R-squared	0.558823	S.D. dependent var	0.001530
S.E. of regression	0.001016	Akaike info criterion	-10.92623
Sum squared resid	5.27E-05	Schwarz criterion	-10.88870
Log likelihood	285.0819	Hannan-Quinn criter.	-10.91184
Durbin-Watson stat	0.947775		

Mnemonics referenced in the above equation, for example FET, can be defined using the Mnemonic 411 feature on DataBuffet. Please contact Help@economy.com for assistance.

Previous equation specification

Dependent Variable: @PCY(FAHETTPQ_US)
Method: Least Squares
Date: 09/24/15   Time: 14:30
Sample: 2008Q4 2015Q2
Included observations: 27

Variable	Coefficient	Std. Error	t-Statistic	Prob.
@PCY(FAHETP_US)	0.931055	0.026360	35.32044	0.0000

R-squared	0.452726	Mean dependent var	2.144959
Adjusted R-squared	0.452726	S.D. dependent var	0.430277
S.E. of regression	0.318311	Akaike info criterion	0.584755
Sum squared resid	2.634362	Schwarz criterion	0.632749
Log likelihood	-6.894194	Hannan-Quinn criter.	0.599026
Durbin-Watson stat	0.252195		

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