Why Forecast?

We are coming in to the season of economic forecasts for 2012. But are they really helpful? And how can you adjust your business strategy to take advantage of the data?

We use forecasting all the time and in many fields. We are most familiar with weather forecasts, because they are on the news every morning, and easily accessible over the Internet. Many people even have apps on their phones so that they can check the forecast at a moment's notice. Short-term data like this is generally very accurate and we use it to make day-to-day decisions. Midterm data is better suited for advance planning, while long range data that forecasts the weather of an entire region for an entire season or year is generally less accurate, and only useful in a macro sense.

Thankfully economic forecasts are much more accurate than weather predictions, and much more useful for planning purposes. Economic forecasts are generally targeted for a specific local region and mixed in with national data. This focus on local regions does allow the economic model to reduce random variables and thus be more accurate.

The process of forecasting is quite complex. For California they start by developing moderately detailed models for each of the state's counties. These individual models are combined to create an aggregate forecast and then "disassembled" into detailed local forecasts for each region, using more than 2,000 stochastic equations by which predictable events and random elements are reconciled.

Groups like the California Economic Forecast have spent decades refining their model for the California regions and are well respected for their thoughtful and accurate data. Their economic forecast contains valuable information for professionals in almost every type of business or industry.

Developers, cities and economic development agencies are all very interested in retail and industrial space data. When combined that with data about expansion plans for specific industry clusters, developers and planners can use the economic forecast to help determine where to put their resources for the coming year.

Realtors also pay close attention to housing starts, foreclosure rates and shadow inventory.  Knowing what the true inventory and market for housing is can be crucial for advising their clients.

Retailers are typically interested in the forecast for consumer confidence, discretionary income and spending patterns. This data can be used to manage inventories and make strategic decisions on product mix.

Employment figures and job growth will affect almost every aspect of the forecast. Job growth will affect confidence and spending, both retail and housing. Industry specific job growth is useful data for planning and business attraction.

A forecast should also include comparisons to surrounding areas and also a comparison to national trends, along with quantifying risks to the forecast. This type of analysis is important in determining the level of completion from other communities and the competitive advantage we may have in attracting or expanding businesses to our community.

College of the Canyons, partnering with the Santa Clarita Valley Economic Development Corporation, is sponsoring the 2012 Economic and Real Estate Outlook conference on Thursday, Feb. 23. The conference will be held at the Hyatt Regency Valencia from 2 to 5 p.m., and be followed by a networking cocktail reception.

Wouldn't it be worth a few hours of your time to get an up-to-date outlook on the local economy for the coming year?

*Pete Bellas is the Dean of Economic Development at College of the Canyons. His column reflects his own views and not necessarily those of The Signal. For more information about the College of the Canyons Economic Development Division, call (661) 362-3521 or visit www.canyonsecondev.org. For more information about the 2012 Economic and Real Estate Outlook conference, or to register to attend the event please visit www.scvedc.org/outlook.*