

TABLE 23

EVALUATION OF OUT-OF-SAMPLE FORECASTING PERFORMANCE:
 CONSUMPTION GROWTH FORECASTING MODELS

Model	Horizon	Forecasts	RMSE	MAE
Yield Spread (Real)	1 Quarter	37	0.005228	0.004185
Lagged Consumption	1 Quarter	37	0.005186	0.004008
Value Weighted Stocks	1 Quarter	37	0.005172	0.004021
Yield Spread (Nominal)	1 Quarter	37	0.006297	0.005262
Yield Spread (Real)	2 Quarter	37	0.007369	0.005956
Lagged Consumption	2 Quarter	37	0.007812	0.006318
Value Weighted Stocks	2 Quarter	37	0.008198	0.006569
Yield Spread (Nominal)	2 Quarter	37	0.009647	0.008361
Yield Spread (Real)	3 Quarter	37	0.009866	0.008336
Lagged Consumption	3 Quarter	37	0.009970	0.008266
Value Weighted Stocks	3 Quarter	37	0.011022	0.009092
Yield Spread (Nominal)	3 Quarter	37	0.013078	0.011095
Yield Spread (Real)	1 Year	9	0.017123	0.013389
Lagged Consumption	1 Year	9	0.014930	0.011409
Value Weighted Stocks	1 Year	9	0.015837	0.012796
Yield Spread (Nominal)	1 Year	9	0.020500	0.018807

Parameters of each model are re-estimated at each point in the time series during 1975:4–1984:4. These parameters are used to forecast the 1976:1–1985:1 period for the quarterly models and 1976–1984 for the annual model.