Firm Performance and Macro Forecast Accuracy

Mari Tanaka
Nicholas Bloom
Maiko Koga
Haruko Kato

Abstract

Ever since Keyenes' famous quote about animal spirits, there has been an interest in linking firms' expectations and actions. But the empirical evidence on this is thin because of the lack of firm panel data on expectations and outcomes. In this paper, we combine a unique survey of Japanese firms' GDP forecasts with company accounting data for 25 years for over 1,000 large Japanese firms. We find four stylized facts. First, as standard forecasting models predict, both optimistic and pessimistic forecast errors lower profitability because it is costly to have too much or too little capacity. Second, while over optimistic forecasts lower measured productivity, over pessimistic forecasts do not tend to have impact on productivity (likely because capacity and pricing effects offset direct negative TFP effects). Third, these results are stronger for cyclical firms, suggesting firm performance is particularly dependent on manager's GDP forecasting ability when demand is more sensitive to the macro economy. Finally, larger and more cyclical firms make more accurate forecasts, presumably reflecting the higher value of forecast accuracy. More productive, older and bank owned firms also make more accurate forecasts, suggesting that forecasting ability is also linked to management ability, experience and governance. Collectively, this highlights the importance of firms' forecasting ability for micro and macro performance.