

Projections and Actuals -- Changes in NIIP Position							REPORT CARD		
	March projection		July (Actual)		Difference/Error		<u>Correct Sign?</u>	<u>Notes:</u>	<u>Grade</u>
	\$ Trillions	% of GDP	\$ Trillions	% of GDP	\$ Trillions	% of GDP			
2004 EOY NIIP	-2.484	-20.7	-2.361	-19.7	0.123	1.0			
FINANCIAL FLOWS	-0.801		-0.785		0.016				
VALUATION EFFECTS	0.391		0.452		0.061		YES	Model projection error of 14 percent.	B+
Price Changes	0.410		0.625		0.216		YES	Model projection error of 34 percent	C
Exchange Rate Changes	-0.196		-0.226		-0.030		YES	Model projection error of 13 percent.	B+
Other Changes	0.177		0.053		-0.124		YES	Overestimate by 2.3 times	D-
TOTAL	-0.410		-0.333		0.077				
2005 EOY NIIP	-2.894	-22.7	-2.694	-21.1	0.200	1.6			
Change EOY2004 to EOY2005	-0.410	-2.0	-0.333	-1.4	0.077	0.6	YES	Model projection error of -0.6% of GDP compared to -3.5% error for Naïve	B*
NAÏVE Alt, EOY 2005 Error from Actual	-3.285	-25.7	-3.146	-24.6	-0.452	-3.5			

*Note Offsetting errors for price changes and other changes

The table on the left side above shows the estimates for components of the change in the Net International Investment Position (NIIP) for the March projections and the actual values for 2005 (released at the end of June). Note that 2004 EOY values were also revised.

As it turns out, the overall estimated change for the NIIP from EOY2004 to EOY2005 of -0.410 trillion (-2.0 percentage points of GDP) was actually a reasonably good estimate of the reported actual (-0.333 trillion, -1.4 percentage points of GDP) – see bottom line of table above bottom horizontal line. The estimated change was far superior to what would have occurred with a naïve forecast of not accounting for valuation changes (see boxed values underneath table compared to boxed values for “Change EOY2004 to EOY2005). The report card on the right gives the overall estimated change a grade of B.

The performance for the components was mixed. The estimate for total valuation effects was reasonably close to the actual, as was the estimate for the exchange rate effect (grades of B+). For price changes and other changes, however, the estimates were further off. Both were of correct sign but were of different magnitudes than the reported actuals. The errors for those components offset each other, however, allowing the estimated total effect to still come out close the actual.

Projections and Actuals -- US Assets Abroad Changes in Valuation				REPORT CARD		
	<u>March projection</u>	<u>July (Actual)</u>	<u>Difference/Error</u>	<u>Correct Sign?</u>	<u>Notes:</u>	<u>Grade</u>
	<u>\$ Trillions</u>	<u>\$ Trillions</u>	<u>\$ Trillions</u>			
VALUATION EFFECTS	0.366	0.396	0.030	YES	Total valuation effect off by only 8%	A
Price Changes	0.525	0.609	0.084	YES	Price effect off by 14%	B+
Exchange Rate Changes	-0.234	-0.279	-0.045	YES	Exchange rate effect off by 16%	B / B+
Other Changes	0.075	0.066	-0.009	YES	Other changes effect off by 14%	B+

Results for U.S. assets abroad were quite good. The estimate for total valuation effects (0.366 trillion) was quite close to the reported actual (0.396 trillion) – the report card gives that estimate a grade of A.

The estimates for the components generally were relatively close to the actuals – the estimates were off by 14% to 16% across the components. The components estimates get grades in the B to B+ range.

All in all, a good performance.

Projections and Actuals -- Foreign Assets in US Changes in Valuation				REPORT CARD		
	<u>March projection</u>	<u>July (Actual)</u>	<u>Difference/Error</u>	<u>Correct Sign?</u>	<u>Notes:</u>	<u>Grade</u>
	<u>\$ Trillions</u>	<u>\$ Trillions</u>	<u>\$ Trillions</u>			
VALUATION EFFECTS	-0.025	-0.058	-0.033	YES	Total valuation effect off by 57%	C-
Price Changes	0.115	-0.017	-0.132	NO	Worse than Naïve forecast	F
Exchange Rate Changes	-0.038	-0.053	-0.015	YES	Exchange rate effect off by 28%	B-
Other Changes	-0.102	0.012	0.114	NO	Worse than Naïve forecast	F

In contrast to the good results for the estimates for U.S. assets abroad, the March estimates for the valuation effects for foreign assets in the United States generally were much worse.

The total valuation effect estimate was of the correct sign and a little less than one-half the magnitude of the actual – not necessarily a bad estimate but not a very good one either. The report card gives a just passing grade of C-.

The estimate for exchange rate changes was not bad – same sign and within a reasonable difference of the actual magnitude (off by 28%). The report card gives a grade of C+.

The price changes and other changes estimates were very poor – of incorrect sign and gross overstatements of the actual magnitudes – and the only saving grace for those estimates was that the errors were offsetting. Naïve forecasts (zero valuation effects for those estimates) would have been better than the March estimates. Those estimates receive grades of F in the report card.