New evidence of anti-herding of oil-price forecasters

Christian Pierdzioch¹, Jan-Christoph Rülke² and Georg Stadtmann³

¹Department of Economics, Saarland University, P.O. box 15 11 50, 66041 Saarbrücken, Germany
²Department of Economics, WHU-Otto Beisheim School of Management, Burgplatz 2, 56179 Vallendar, Germany
³Department of Economics, European University Viadrina, P.O. box 1786, 15207 Frankfurt (Oder), Germany

The dynamics of the price of oil were characterized by large “bubble-like” swings in 2008/2009. These swings may reflect herd behavior of traders. A natural question is whether such herding, to the extent that it occurred, was driven by herding in the projections of professional oil-price forecasters.

We used the oil-price forecasts of the Survey of Professional Forecasters published by the European Central Bank to analyze whether oil-price forecasters herd or anti-herd. Oil-price forecasts are consistent with herding (anti-herding) of forecasters if forecasts are biased towards (away from) the consensus forecast.

Based on a robust empirical test developed by Bernhardt et al. (2006) we studied whether professional oil-price forecasters did, in fact, herd. We found strong evidence of anti-herding among oil-price forecasters. Evidence of anti-herding indicates that professional oil-price forecasters deliberately placed their forecasts away from the cross-sectional consensus forecast.

Evidence of anti-herding of professional oil-price forecasters is consistent with evidence of anti-herding of stock analysts (Naujoks et al. 2009) and macroeconomic forecasters (Batchelor and Dua 1990). Evidence of anti-herding, thus, is mounting, implying that it becomes an urgent issue for future research to analyze the consequences of anti-herding of forecasters for bubble-like price swings in financial market in general and in oil markets in particular. Anti-herding may also explain the significant extent of cross-sectional heterogeneity of forecasts documented in recent literature (e.g., Menkhoff et al. 2009).

Anti-herding of forecasters may provide a behavioral explanation for the wide range of forecasts observed in virtually every forecasting cycle. While we have reported evidence of anti-herding of oil-price forecasters, we have not analyzed reasons for why forecasters anti-herd. Given that evidence of anti-herding of forecasters is mounting, it would be interesting to analyze in future research why forecasters anti-herd.

References:

Keywords oil price; forecasting; herding