Macroeconomic forecast optimism and analysts’ earnings forecasts

Abstract
We examine whether the properties of earnings forecasts are different across periods when macroeconomic forecasts are optimistic than non-optimistic. We hypothesize and find that the long-horizon earnings forecasts are more optimistically biased in periods when the long-horizon macroeconomic forecasts are optimistically biased as well; however, the short-horizon earnings forecasts are not biased in both periods when the corresponding short-horizon macroeconomic forecasts are optimistic and non-optimistic. We find that the sell-side analysts’ four-quarters ahead earnings forecast is roughly twice as optimistic in calendar quarters when the long-horizon macroeconomic forecast is optimistic than in other periods. We also hypothesize and find that the long-horizon earnings forecast dispersion is lower in periods when the long-horizon macroeconomic forecasts are optimistic than in other periods; however, the short-horizon earnings forecast dispersion are not different in periods when the corresponding short-horizon macroeconomic forecasts are optimistic and non-optimistic. Finally, we find that firms are penalized less, when missing the four-quarters ahead forecasts in periods when the long-horizon macroeconomic forecast is optimistic than in other periods. Collectively, the results suggest that sell-side analysts’ long-horizon forecasts contain more macroeconomic information than firm-specific information. Furthermore, our results suggest that optimistic bias in long-horizon forecasts is confounded by the macroeconomic forecasts optimistic bias; and the stock market appears to understand this confound. This finding indicates that users of analysts’ long-horizon forecasts should consider the macroeconomic environment in interpreting analysts forecast errors.

Key words: Long-horizon forecast bias, real gross domestic product, beat-miss forecast

Data availability: All data is available from sources described in the text

JEL Classification: M40, M41