Charlie Nelson's Forecasting Track Record

July 2020

Charlie Nelson, Managing Director of Foreseechange, has a track record for accurate forecasts of retail sales, new vehicle sales, the economy, and rainfall over the past 25 years.

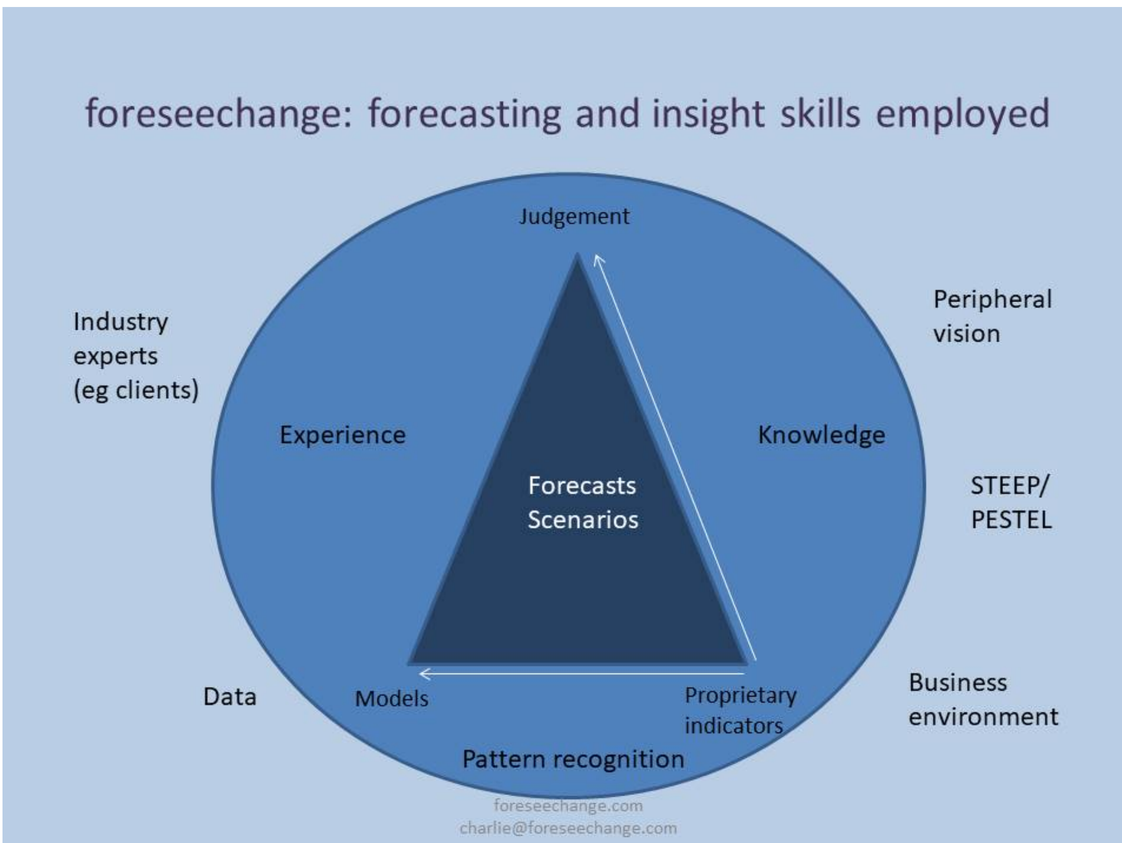
"Nelson is one of Australia's most respected forecasters of consumer behaviour and spending patterns. Why is he respected? Because most of his forecasts come true"

Neil Shoebridge, Business Review Weekly, November 13-19, 2003.

"I received a danger alert this week from my old friend Charlie Nelson at Foreseechange who for decades has been remarkably accurate in predicting retail changes".

Robert Gottliebsen, The Australian, 6 April 2017.

His extensive experience can assist organisations in improving forecasting accuracy, by utilising and improving the essential forecasting skills.



Several of his forecasts have been contrary to the prevailing views of the experts at the time, but turned out to be accurate. Some of these, which have been documented, are described below.

New Vehicle Sales

At the start of 1998, the automotive industry was forecasting between 700,000 and 715,000 new vehicle sales for 1998. This followed record sales of 722,427 sales in 1997. But Charlie forecast that sales would be between 770,000 and 820,000, a figure that was considered to be staggering. This was reported in the Business Review Weekly of January 26 1998 by Bill Tuckey. The CEO of one automotive company told Bill Tuckey that he did not know what Charlie was smoking but he wanted some too. This was translated to "I would like to know the brand of tea in the tea leaves they were reading, because I'll start buying it."

The sales figure for 1998 was 807,669! This is 100,000 more than the industry was predicting and towards the top end of Charlie's forecast range. Charlie was using a model he had developed, which quantified the impacts of important drivers such as employment growth and interest rates.

The predicted demise of the biggest selling vehicle segment

In January 2002, Charlie told Bob Jennings of drive.com.au that the large passenger car was under pressure due to a fall in the proportion of households with young families – a combination of deferral by people in their 20's and the large Baby Boomer generation becoming empty nesters (www.drive.com.au/editorial/ArticleDetail.aspx?ArticleID=3035). Higher petrol prices were just reinforcing the trend away from the large passenger vehicle. Despite this prediction, all four local manufacturers produced new models of large cars in the mid-2000's. One of these, the Mitsubishi 380, was launched in 2005 and dumped in 2008. The company spent $600 million on the car. Total investment by the companies and government was in the billions. In 1998, the large passenger car segment had over 230,000 sales which comprised 29% of the market. By 2008, sales were just over 119,000 (11.8% share) and by 2012 sales had fallen to 61,500 (5.5% ahare). By 2017 the three remaining local manufacturers had closed their factories.

Australia avoiding recession during the Global Financial Crisis

In May 2009, the Australian Federal Budget predicted recession in the year ahead and unemployment rising to 8.5%. This was in line with the majority of economic forecasts including the Reserve Bank, indeed some were more pessimistic but very few were more optimistic.

One of the optimists was Charlie Nelson. Even before that budget, on 30 April 2009, Harold Mitchell wrote in The Age and The Sydney Morning Herald that Charlie Nelson had told him that the worst was already over (The Age, Business Day, page 2). And so it proved to be. Australia did not experience a recession and unemployment peaked at less than 6%. Furthermore, Harold Mitchell noted that Charlie had correctly anticipated (in 2007) an economic slowdown in late 2008 due to a confluence of three factors, of which two were global and one was local.

As noted by The Australian Financial Review on 11 March 2010 (page 61) in a review of the very poor economic forecasting performance in 2009, both the Reserve Bank and the Treasury stated that an optimistic forecast (such as Charlie's) would not have been viewed as being credible! But it was correct!

Predicting drought: ending and beginning

Charlie has applied his talent for pattern recognition, statistical analysis, and his broad general knowledge to identify a major influence on long-term rainfall cycles in southeast Australia, especially southeastern Australia and the Murray Darling Basin. There is an 18.6 year cycle of the moon which influences rainfall, a factor which has eluded the experts. He has made a submission to the 2009 House of Representatives Industry, Science and Innovation Committee enquiry into long-term meteorological forecasting in Australia on this subject (http://www.aph.gov.au/house/committee/isi/weather/index.htm).

By September 2009, he had identified another astronomical cycle which influences rainfall in southeastern Australia and was able to predict that the long millennial drought would not last much longer.

There was then a remarkable recovery from drought. In 2010, Melbourne received 776.8 mm which is 20% higher than the long-term average and the best calendar year total since 1996.

This was a surprise to the Bureau of Meteorology even in October 2010 - in Special Climate Statement 22, issued on 1 October 2010, BOM discussed Australia's wettest September on record in 2010. With regard to Melbourne, the statement said:

Although 2010 has been the wettest year in Melbourne since 2005, January-September rainfall has still been 35mm below normal, and it is likely that 2010 will be a fourteenth consecutive year of below average rainfall for the city.

The Bureau was clearly expecting no more than average rainfall, 184 mm, for the October to December period but Melbourne actually received 345.4 mm, 80% more than average!

All of southeastern Australia recovered from drought and in 2010 the Murray Darling Basin had its highest rainfall on record!

By the end of June 2011, the recovery in Melbourne was even more remarkable. The 12 months to the end of May 2011 was the wettest 12 month period (984 mm) since the 12 months ending October 1955 (1,026.9 mm). During the first six months of 2011, Melbourne received 459.4 mm which is higher than the average of 308.3. By comparison, the first six months of 2010 received only 283 mm and the first six months of 2009 received only 127 mm (the driest first six months ever recorded). The 459.4 mm for the first six months of 2011 was more than received in the whole year in each of 2006 to 2009.

In July 2011, Charlie issued a warning that, despite the recovery from the long millennium drought, there would be another extreme drought in southeastern Australia over the period 2017 to 2022. This is documented in correspondence with the then water mister of Victoria. The three years 2017 to 2019 were the second driest on record (second to 2006 to 2008 by a very small amount). Combined with a simultaneous hottest three year period on record, this culminated in the worst bushfire conditions in Australia's history.

Proving that lower interest rates can be damaging to the economy

Over 25 years ago Charlie identified that changes in interest rates do not have the impact on consumer spending and the economy claimed by public sector and private sector economists. He noted that interest rate changes initially have a "perverse" impact before the expected effect appeared up to 18 months later. He concluded that this was because some people had savings which earned interest and which was in part used to fund spending. These were mostly older people and their numbers were growing rapidly. A cut in interest rates reduced their spending power and they responded quickly while people with debt had an increase in spending power but responded slowly so as to reduce debt. Interest rate changes give some consumers more discretionary spending power but reduce the discretionary spending power of other people.

Charlie developed a unique tracking survey of consumers and asked about their interest rate preferences from the perspective of their own financial situation. After the global financial crisis of 2008-09 there was a big decline in the proportion of people who preferred lower interest rates and an increase in the proportion who preferred higher interest rates. For much of the time since these two groups have been of equal size, meaning that interest rate sensitivity across the population is close to zero. As the large Baby Boomer generation paid off their mortgages and started saving more, they preferred higher interest rates.

This analysis was covered in The Australian by Robert Gottliebsen on 18 May 2016.

Since 2011, official interest rates have fallen from 4.75 percent to 0.25 percent but consumer spending growth and GDP growth has steadily weakened.

More recently, Charlie identified another channel by which lower interest rates negatively impact the economy. Consumers know that the Reserve Bank cuts interest rates when the economy is weakening. So when interest rates fall, consumer economic pessimism increases – which makes them more cautious about spending. This was identified by analysis of Charlie's unique tracking surveys of consumers and was covered by Robert Gottliebsen in The Australian on 15 January 2020.

How Charlie succeeds where experts fail

Charlie uses modelling techniques, but employs his extensive experience, good general knowledge, pattern recognition skills, curiosity, imagination, and insights from his proprietary tracking surveys to guide his modelling, rather than relying on theory.

He also uses the wisdom of the masses, collective intelligence which provides good forecasts of the unemployment rate up to a year ahead and insights into consumer expectations – which influences their future behaviour.

Charlie has compiled a detailed report on the skills essential for forecasting, illustrated by several case studies. The report evaluates the performance of forecasting in several fields and identifies why forecasts are going wrong.

The report, "Forecasting: the essential skills" has more than 170 pages and is available at foreseechange.com.au.