Concluding Remarks

In this study, an inverse demand system approach is applied to specify a price-forecasting model. Six aggregate food quantities and per capita income are used as explanatory variables for forecasting consumer price indexes of 16 food categories. To enhance the forecasting capacity of the model, the disturbance terms of each price equation are specified as a second-order autoregressive process. The forecasting performance of the model is satisfactory.

This price-forecasting model is useful in capturing economic demand-pull factors such as food use and income in the food price changes. The model, however, has its limitations and should be used in conjunction with some other food price-forecasting models. First, the accuracy of food price forecasts in this model is conditional on the prior information of aggregate food quantities and per capita income, while reliable prior information for these input data may be difficult to obtain. Second, the price-forecasting model developed here is an annual model, and some research is needed to extend the model for providing monthly or quarterly short-term price forecasts.