

## **The Roles that Forecast Surprise and Forecast Error Play in Determining Management Forecast Precision**

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**ABSTRACT:** Prior empirical research focuses on the association between forecast precision and the sign of the forecast surprise, and hypothesizes that bad news forecasts should be less precise than good news forecasts, but these studies document at best a marginal association between the sign of the news and forecast precision. Using a larger sample of more recent management earnings forecasts than used in prior work, we provide strong evidence that bad news forecasts *are* less precise than are good news forecasts. In addition, we find that forecast precision is negatively associated with the magnitude of the forecast surprise and with the magnitude of the forecast error. Furthermore, we document that this negative association is stronger when the forecast is bad news than when it is good news, and when forecast errors are negative, consistent with greater liability concerns related to bad news forecasts and negative forecast errors, respectively. Thus, this study enables us to better understand the influence of management's voluntary disclosure incentives on the precision of their earnings forecasts. Studying the determinants of management forecast precision is important because a better understanding of the factors affecting management's choice of forecast precision can provide investors and other users with cues about the characteristics of the information contained in the forecasts, may aid in research regarding the market's reaction to these management forecasts, and may be informative to regulators as they consider regulations surrounding voluntary management disclosure.

**Keywords:** Forecast precision; management forecasts; forecast surprise; forecast error

**Data Availability:** Data are available from public sources identified in the paper