Comments on:

« Forecasting the Euro-area GDP in real time »

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Overview

- Summary of the paper
- Suggestions
- Questions

Objective # 1

- Develop a statistical method to forecast the short-term economic situation in the Euro area. The method is able to deal with:
  - The lack of timely information
  - The presence of missing values
  - The short length of the Euro aggregates

Objective # 2

- Provide inferences about the probability of recessions and expansions in real time

Methodology

- The authors propose two extensions to the common factor model described in Mariano and Murasawa (JAE, 2003).
  - First: incorporate quarterly indicators to the model that was based on monthly indicators only
  - Second: assume that the common factor is governed by a Markov-switching process to take into account the nonlinear pattern of business cycle.

Main contribution

- Construct a new coincident indicator of the euro area economy.
- Illustrate the importance of relying on current-vintage data sets when analysing forecasting accuracy.
- Show that the monthly indicators and the flash estimate of GDP contain valuable information to predict and reduce forecast uncertainty.

Comments and suggestions

- Explain the choice of indicators
  - These kinds of model are very sensitive to the choice of indicators
  - Should explain how they have been selected
  - Proceed to sensitivity analysis

Comments and Suggestions

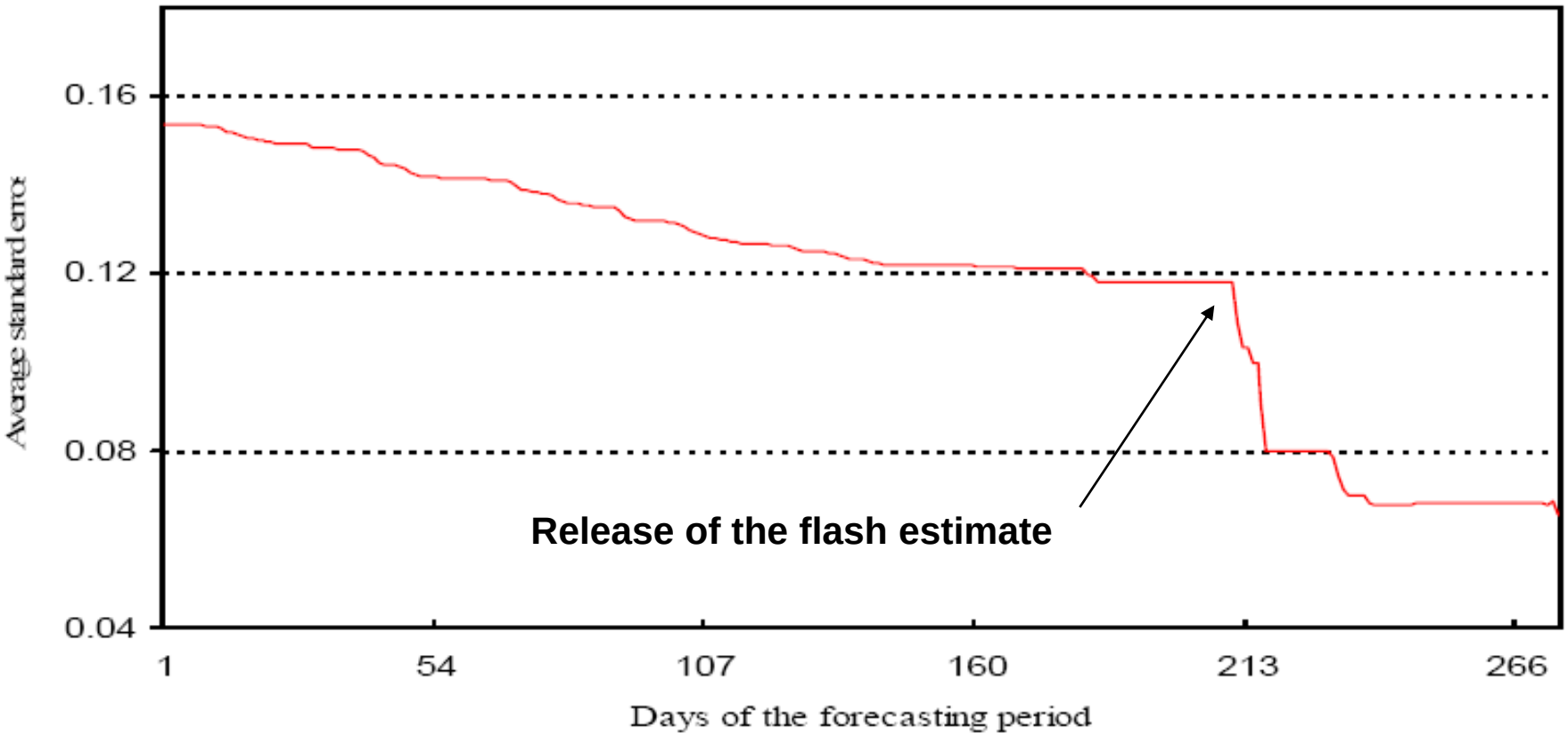
- Use a different set of benchmark models to compare forecasting performance.
- Benchmark model should be free of judgement.
- Example: AR model

Comments and Suggestions

- Paper should focus more on how well the model predicts GDP before the release of the first estimate (or flash estimate when available).

Suggestions

Figure 7. Averaged standard errors over the forecasting period



Suggestions

- Figure 5 illustrates how the GDP forecast would change with the publication of the IFO indicator. It shows a logistic shape indicating that outliers are interpreted as misleading.
- It would be interesting to compare each indicators on this basis to see if outliers are treated the same way.

Suggestions

- Use the proposed methodology to forecast the different components of GDP (consumption, investment or domestic demand vs net exports)

Question

- "Eurostat tends to be conservative in its raw announcements in the sense that preliminary GDP releases tend to be revised downward and low preliminary numbers tend to be revised upwards".
- Still, the model assumes:

$$y_t^f = y_t^{2nd} + e_{1t} + e_{2t},$$

$$y_t^{1st} = y_t^{2nd} + e_{2t},$$

Where e_{1t} and e_{2t} are mean zero revision shocks

Questions

- You find that soft indicators tend to exhibit higher loading factors than hard data.
- Most studies show however that soft data contain little information beyond real activity data.

  – How do you interpret your results ?

Final remark

- Very interesting paper