

Discussion of

**Short-term forecasts of euro area real GDP growth: an  
assessment of real-time performance based on vintage data**  
by Marie Diron

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*Needed: A Real Time Database for the Euro-Area*  
*National Bank of Belgium*  
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    - real-time forecasts of Euro Area GDP growth based on linear regressions on monthly variables (“bridge equations”)
- ⇓
- evaluation of the “bridge equations” forecasting performance: real-time versus pseudo real-time (Sédillot and Rünstler, 2003 and Baffigi et al, 2004)

# Results 1

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  1. the RMSEs based on pseudo real-time exercises are very similar to those calculated with the vintages data set;
  2. forecasts for individual quarters do not (generally) differ if based on revised data from those made on preliminary series.

## Results 2

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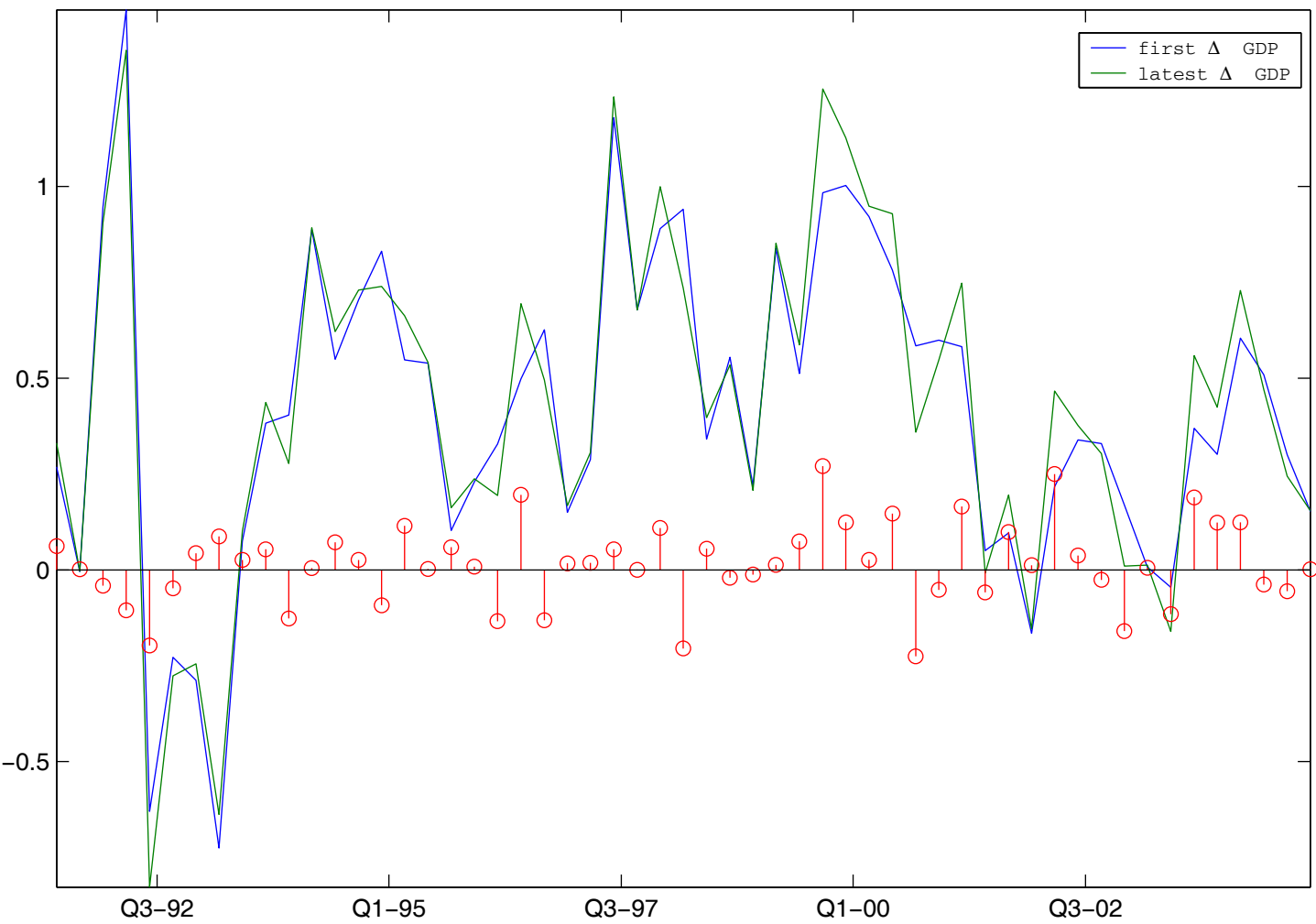
- on the sources of errors
  1. equations and extrapolations' errors are significant in all cases;
  2. the root mean square errors related to revisions in GDP growth and in the monthly indicator tend to be relatively small

# Comment 1: benchmark model

- Data revision does not affect forecast accuracy on GDP growth rate using AR(p) model:
  1. forecasts for US output growth is also not significantly better when based on latest-available data [Robertson et Tallman (1998); Kozicki (2001); Crushore (2004)];

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  2. (explanation) for variables that are subject to only small revision, data vintage issues are almost irrelevant.



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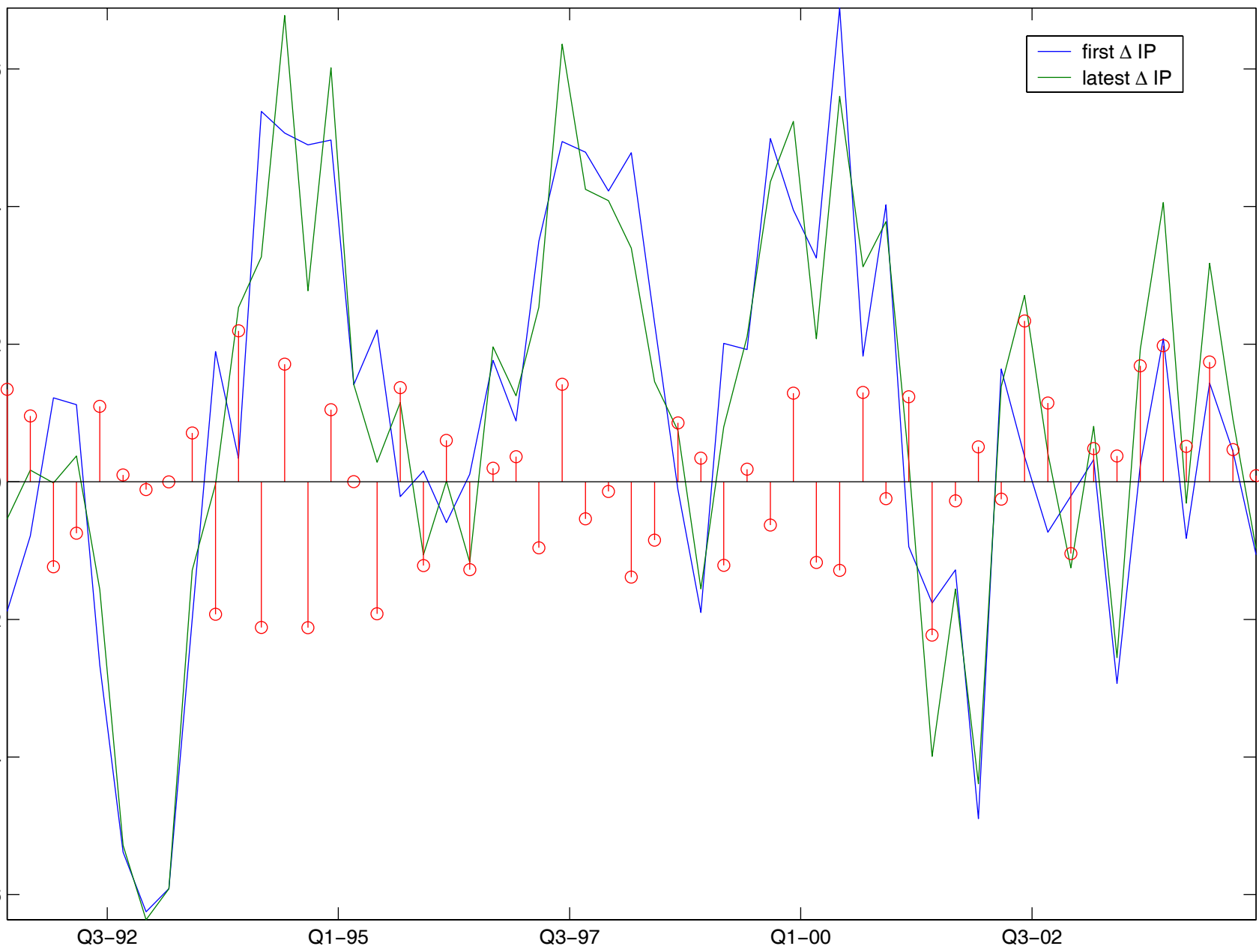
- Forecasts may be affected by data revisions for three reasons:
  1. revisions change the data input into the forecasting model;
  2. revisions change the estimated coefficients;
  3. revisions lead to a change in the model itself (such as the number of lags).

## Comment 2: bridge equations

To analyze the previous points we estimate the following bridge equation:

$$\Delta \ln GDP_t = \alpha + \beta \Delta \ln IP_t + \epsilon_t$$

where  $t$  refers to quarter.





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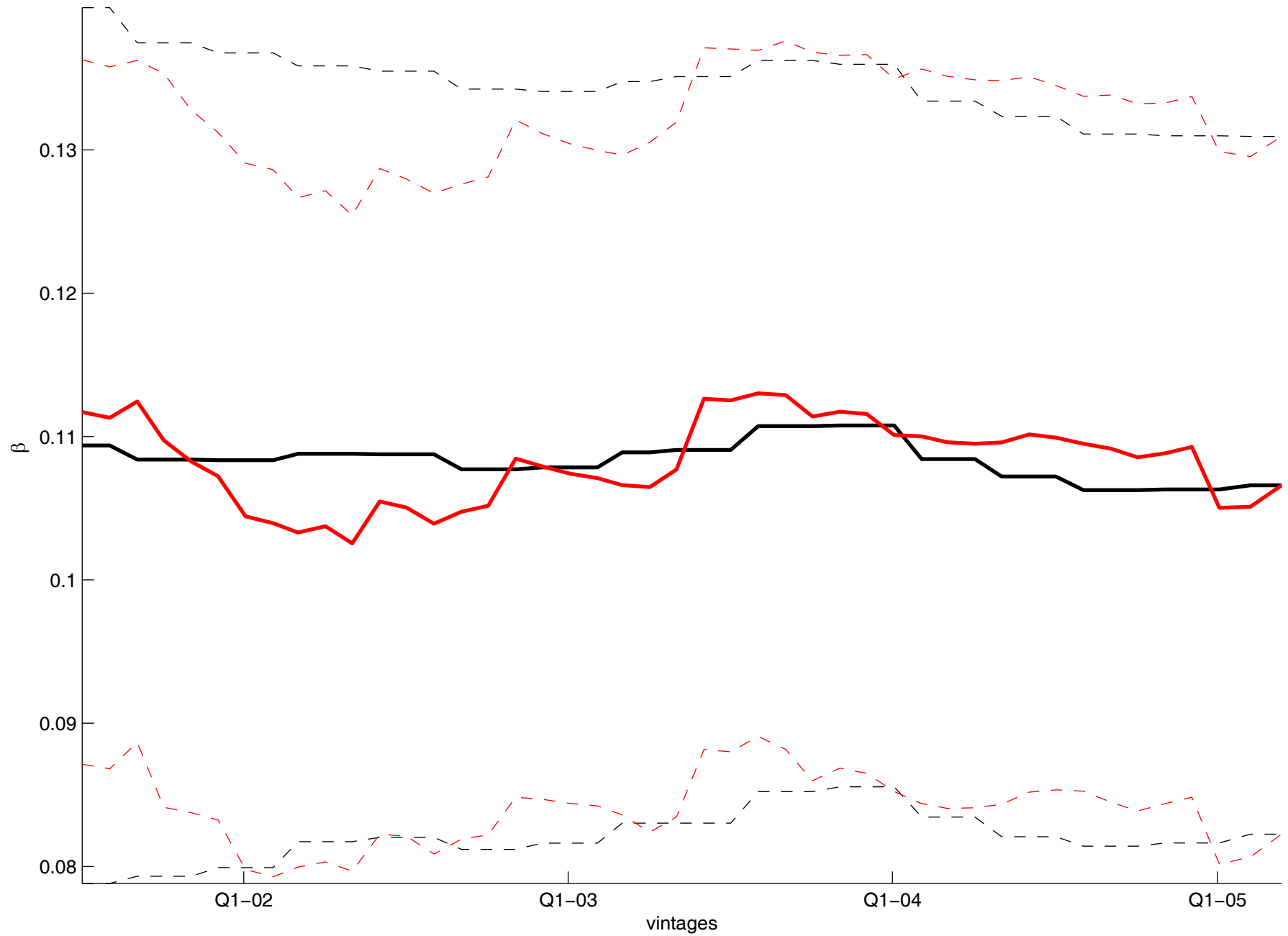
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2. (Q,M3, . . . ) Errors on data input does not matter because the average of  $\Delta \ln IP_t|v$  does not vary;
3. Such forecasts are not very accurate.



Is this result still valid for different models (e.g.: var, factors, . . . )?



## Comment 2: bridge equations

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  1. the estimated parameters are very similar in pseudo and real-time;

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2. What does happen to non "constant" model?



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2. the forecasting model ("bridge equations" + "extrapolation" ) is responsible of (almost) the entire forecast errors;
3. it is important to verify the results for other multivariate models;
4. . . . and for more revised data (e.g. Consumption).