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Discussion of „Real-Time Datasets Really Do Make a Difference: Definitional Change, Data Release and Forecasting“

Real-Time Datasets Really Do Make a Difference: Definitional Change, Data Release, and Forecasting

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Are real-time datasets useful?

- First available vs latest available releases of data: which one should be used in prediction?
- Does this depend upon the release we want to predict?
- How do definitional change, data (in)efficiency and measurement error affect the choice between first available and latest available release for forecasting?
- Is the predictability among macro variables preserved in real time?

Methodological

- New Efficiency Test based on implication of data rationality for predictability: if data revisions are news and definitional change does not affect the data, then the model using first release data should yield more accurate forecast than a model that uses only latest available data.

Empirical

- Real time datasets *are* useful;
- First release should be used in predicting prices, latest release and money; for output: early release model is better for predicting early releases, latest release model for predicting later releases;
- Rationality might a property of the variable and not of the release to forecast;
- Money has little marginal predictive content for output but it might be a useful control variable in policy applications;

Efficiency Test:

- Previous literature: in-sample test of the form

$${}_f X_t = \alpha_1 + \beta_1 {}_{t+1} X_t + \mathbf{W}'_{t+1} \gamma + \nu_{1,t+1}$$

NEWS hypothesis $\alpha_1 = 0 \wedge \beta_1 = 1 \wedge \gamma = 0$

- CFS: out-of sample test:

$$MSFE_A = MSFE_C \quad \forall k$$

where $MSFE_A$ is the MSFE from the model which uses first release data, $MSFE_C$ is the MSFE from the model which uses latest release data.

What is the advantage of an out-of sample test rather than an in-sample test? (Power issue)

Efficiency Test

- What do we learn if we fail to reject the null? (*either the data are efficient or the cost of using early inefficient releases or releases affected by definitional change might compensate the cost associated with using mixed release*)
- What do we learn if we reject the null? *how can we distinguish the feature of the series that causes the rejection? (for example, if a model that uses only first release data performs worse, what is the cause: inefficiency or definitional change)?*

SUGGESTION: test the equal predictive accuracy of a model including only first data release with one including first data release and revision errors.

Are real-time datasets useful?

Yes, because:

- some variables (prices) can be better predicted using first release data;
- for some key macroeconomics variables rationality is a property of the variable, not of the release;
- revision error can help improving the performance of a forecasting model; (prices)
- real-time dataset can uncover new evidence on the predictive content across macro variables.