

Seventh International Institute of Forecasters Workshop on “Flash Indicators”

Verbier 21-22nd January 2011

The Seventh International Institute of Forecasters (IIF) Workshop on “Flash Indicators” was celebrated from 21 to the 22 of January 2011 in the warm Chalet Orny in Verbier surrounded by the snow of the impressive Alps. Verbier is a well known ski resort and many of the participants took advantage of the beautiful and long tracks of trails to practice this sport during the breaks between the sessions of the workshop. We would also like to ski but, obviously, we stayed at the warm chalet because someone needs to be in charge of the multiple catering services. All skiers were back punctually after each break. They were very happy after being in contact with such wonderful slopes. We also have the opportunity of tasting the *raclette*, a delicious typical Swiss cheese dish with nice sandwiches made of beef and vegetables. The taste of Switzerland will be with us for a long time.

The project of organizing a workshop in Verbier on Flash Indicators was born in Hong Kong during the 29th International Symposium on Forecasting in 2009 in a meeting between the President of the International Institute of Forecasters, Antonio García-Ferrer, from the Universidad Autónoma de Madrid and Miriam Scaglione from the Institute Economie & Tourisme, HES-SO Valais. Soon, Esther Ruiz from the Universidad Carlos III de Madrid also became involved in the project. The workshop was finally organized by Miriam Scaglione and Esther Ruiz. After many contacts, e-mail messages and telephone conversations, an excellent program was put together with 9 speakers and with their corresponding 9 discussants. Around 50 participants from Canada, France, Italy, Netherlands, Spain, United Kingdom, United States and, of course, Switzerland attended the meeting.



The unforgettable village of Verbier
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The opening speeches were made by Miriam Scaglione, Antonio García-Ferrer and Hervé Fournier who, as a member of the board of the Development Unit for the *Valais Romand*, represented the Valais cantonal government. They welcomed the participants and made a point about the need for analytical tools for modeling and predicting flash indicators so that changes in the evolution of the main macroeconomic variables, and mainly in the GDP, can be anticipated. Moreover, Mr. Hervé Fournier stressed the importance of the subject for cantonal government for which one of its main aims is to get timely tourism forecasts for the future Cantonal Tourism Observatory.

The first session, chaired by Robert Fildes, starts with the presentation of Lucrezia Reichlin who talked about “G-20 in real time (Nowcasting)”. Lucrezia pointed out the relevance of the short run in prediction and the need of imposing a structure on the available data so that we can keep track of the news. The methodology proposed is based on Principal Component analysis plus the use of the Kalman filter. Her presentation was discussed by Kornel Mahlstein, Economist of Short-Term Economic Analysis at State Secretariat for Economic Affairs (SECO, Swiss Confederation) who focused on the importance of having seasonal data, the comparison of the procedures proposed by Lucrezia with alternative procedures as, for example, ridge equations and the relevance of these procedures for Swiss economic analysis. Then, the discussion was opened to



The IIF President together with President of the county of Bagnes Mr. Christophe Dumoulin. Do not miss the wine.

the attendants with a lively debate about the importance of seasonality and nonlinearities among many other topics. The second speaker for the first session was Kajal Lahiri who presented, jointly with George Monokroussois, the paper entitled "Nowcasting US GDP: The role of ISM Business Surveys". They discussed the use of dynamic factor models together with the Kalman filter to estimate composite indices and the effect of ISM information on nowcasting GDP. The discussant was Urs Müller, director and chief economist of BAKBASEL.

The second session, chaired by Antonio García-Ferrer, started after the ski break. The first speaker

in this session was Siem Koopman who presented the paper entitled "Forecasting the US Term Structure of Interest Rates using a Macroeconomic Smooth Dynamic Factor Model". Siem proposed a smooth dynamic factor model with the loading parameters being smooth functions of maturity. The discussant of this paper was Pilar Poncela who wondered about whether smoothing truly improves forecasting and the effects of the yield curve on macro variables. Then, Mike Clements presented the paper entitled "Real-time Forecasting of Inflation and Output Growth in the presence of data revisions". He proposed to forecast the post-revision estimates of output by a vintage-based VAR model that incorporates seasonalities. This paper was discussed by Tara Sinclair who asked about the relevance of data revisions for flash indicators. She was surprised about the systematic patterns in revisions and about whether the releases could determine output. An important question raised by Tara was whether by exploiting patterns in revisions, flash indicators could disappear in the future. After a wonderful coffee break where participants socialize with each other in a relaxed atmosphere, the last session of the first day was chaired by Carlo Malaguerra, former Head of the Swiss Federal Statistical Office. In this session Herman Steckler presented the paper "Compositional Differences in GDP Estimates Between recessions and Expansions". He concluded that data is worse in recessions and that there is an important tradeoff between accuracy and timing. Herman's paper was discussed by Laurent Ferrara who put forward the view of a central banker. Once more, he pointed out the importance of seasonal adjustment being more difficult to seasonally adjust in recessions than in expansions.

The first day finished with the 'Official Welcome Aperitif' offered by the Municipality of Bagnes where the wines were excellent. After this wonderful finish to the day, we left the Chalet Orny to head to the Gala dinner with local musicians playing the traditional instrument *Swiss Alphorn*, while the participants entered the restaurant. There we tasted the wonderful *raclette*.

The second day started with the session chaired by Mohsen Hamoudia. The first paper of this session, "Towards an early warning system for euro area," was presented by Gian Luigi Mazzi who talked about the reconstruction of real-time data bases for Eurostat, putting forward the key principles in the construction of flash indicators. Finally, he described various projects in which Eurostat is involved including the construction of the Euro-mind indicator. The discussant was Gabriel Pérez-Quirós who made a very interesting presentation focusing on the importance of the flow of information from data generators to data users. The second paper of this session, entitled "ASEF: An Automated Short-term economic forecasting", was presented by Nicolas Stoffels, Deputy Head Economic Analysis at the Swiss National Bank who described the fASEF system based on combining many indicators constructed from individual forecasts. Marc Wildi discussed this paper by asking about which GDP should be forecasted, the final or earlier releases. Once

again, after this early morning session, skiers went to the mountains coming back on time for the last session of the workshop which was chaired by Bruno Parnisari, Head of Short-Term Economic Analysis at State Secretariat for Economic Affairs (SECO, Swiss Confederation). The first presentation of this session was made by Benoît Quenneville who presented the paper entitled "Testing time series data compatibility for benchmarking" where he put forward several issues related with situations where benchmarking could be no appropriate. Tommaso Proietti was excellent in his discussion by pointing out that benchmarking is an important component of reliability of macroeconomic information (both for practitioners and econometricians). The second paper of this last session was presented by Antoni Espasa with the title "Forecasting disaggregates and aggregates with common features". He started by pointing out that revisions are not so important for inflation data as they are for GDP and propose forecasting techniques for inflation based on exploiting all information inside CPI data. Marcos Bujosa was the discussant of this paper raising issues related with carrying out too many tests when testing for cointegration using pair-wise tests.

After a final coffee break, the workshop had a stimulating end with the Round Table chaired brilliantly by Andrew Harvey. He started by asking about the exact meaning of a flash indicator. After a very lively debate, the final conclusion was that the definition needs to be clarified. The second question raised by Andrew was related with the interpretation of models as coherent ways of weighting the data and whether statistical agencies should use models. The floor discussion ended with a debate about the nature of the data usually used to analyze the macroeconomic. Most participants taking part in this debate agreed that, in general, the numbers usually used for analysis do not really exist but are just indicators of where the variables of interest are. Then the discussion moved towards one of the recurrent topics throughout the workshop, the meaning and importance of seasonality. The final question was: What do we do next? Maybe a workshop on the role of seasonal adjustment in prediction?

One last social event took place on Saturday night. A wonderful dinner was waiting for all in the restaurant La Pergola. After dinner was the time to bid 'adieu' and to wish everyone a safe return back home.

All this organization would not be possible without the support of the staff of the Institute of Tourism (HES-SO, Valais), especially the professors Marie-Françoise Perruchoud, Serge Imboden and Catherine Klimek.

Last, but not least, it is important to mention that the *International Journal of Forecasting* will be publishing a special issue with some of the papers and discussions presented during these two days in Verbier. Also, this workshop has taken place thanks to the financial support of the International Institute of Forecasters, University of Applied Sciences Western Switzerland, Valais (HES-SO Valais), the State Secretariat for Economic Affairs (Swiss Confederation), University of Applied Sciences Western Switzerland (HES-SO), Economic Development Office of the Canton of Valais, Swiss National Bank, Municipality of Bagnes, Verbier-Saint Bernard Tourism Office and Guinnard *Immobilier et Tourisme* SA (Verbier)



Participants in the workshop on Flash Indicators in the Chalet Orny

Miriam Scaglione and Esther Ruiz (co-chairs)