Forecasting with Dynamic Factor Models during and after the Great Recession

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Abstract

We estimate Dynamic Factor Models (DFMs) for five advanced economies (France, Germany, Italy, the United Kingdom and the United States) and assess their short-term forecasting performance during and after the Great Recession. In particular, we analyse how news coming from business tendency surveys, real indicators, financial indicators and indicators related to the international environment contribute to GDP forecast revisions over the six months preceding the first GDP release by national accountants. For European countries, we also analyse whether Purchasing Managers’ Indices (PMIs) improve the forecasting performance of DFMs when indicators from the Joint Harmonised EU Programme of Business and Consumer Surveys are already included in the information set and compare their contributions to forecast revisions.