

Nowcasting – developing the sources and methods to improve high-frequency labour market forecasting

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Nowcasting tools are becoming increasingly used in **the real-time prediction of macroeconomic aggregates** such as GDP and inflation, particularly at the level of Central Bank's research offices. This research has extended these methods to evaluate the performance of Bayesian Vector Autoregressions and Factor Augmented Vector Autoregressions for short-term forecasts ("nowcasts") of labour market trends based on high-frequency data.

As macroeconomic aggregates are published with a delay, it is worth exploring and assessing the out-of-sample properties of alternative modelling techniques that overcome such time lag. This note has focused on the unemployment rate of Italy for the period January 1980 – October 2020.



Key finding 1

Reliable and real-time forecasts of labour market trends (e.g., employment/unemployment) offers welfare institutions and/or governments of Member States the capacity to make **time-consistent decisions and improve the management of labour markets.**



Key finding 2

A high frequency update of forecasts on labour market trends reduces the lag between decision and implementation. This effect can make interventions more effective, for example, at calibrating unemployment benefits, providing targeted wage/hiring subsidies or training programs.





Key finding 3

The proposed LASSO VAR model outperforms all other approaches typically deployed in Nowcasting macroeconomic aggregates even in the case of increasing data publishing lags. Moreover, increasing number of high frequency data should increase model accuracy.

To download the full research note, please visit the [SSM website](#)

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