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Forecasting GDP using external data sources

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Describes how principal components analysis can be used to construct an alternative estimate of GDP.

The Office for National Statistics (ONS) is the official provider of National Accounts data in the UK. However, business surveys and financial markets also provide a large number of other possible indicators of economic activity. This article outlines how ONS might use this “external“ data in compiling gross domestic product (GDP) estimates. A study of the literature suggests that these indicators may be useful predictors of economic activity, but their forecast performance in “real time“ is not proven. As a result ONS uses this data cautiously and only as an informal guide and a check on its own statistics. As there are a large number of potential indicators, this article describes how principal components analysis can be used to construct an alternative estimate of GDP which aims to summarise the external data “view of the world“ for comparison purposes.

Misc

The Full Text of this article can be found on the National Statistics website (http://www.statistics.gov.uk/elmr/08_07/downloads/ELMR08_07Chamberlin.pdf).