

Abhandlungen / Original Papers

On the Forecasting Properties of the Alternative Leading Indicators for the German GDP: Recent Evidence

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JEL E32, C10

Forecasting real GDP, diffusion index, leading indicators, PcGets.

Summary

In this paper we perform a comparative study of the forecasting properties of the about 30 alternative leading indicators for Germany using the growth rates of German real GDP. In addition to them, we have constructed a diffusion index based on the principal component analysis and including 145 component series that reflect all the facets of German economy. We use the post-unification data which cover years from 1991 through 2004. Using a battery of statistical tests we detect a structural break in the growth rates that occurs in the first half of 2001. Our results suggest that the forecasting ability of the leading indicators has been rather good in the pre-break period with our diffusion index showing the superior forecasting accuracy but the forecasting performance of all alternative indicators has significantly deteriorated in the post-break period, i.e. in 2001-2004. None of the leading indicator models was able to predict and accommodate the structural break in the growth rates of the time series under scrutiny. This finding confirms the widespread impression among the practitioners that the state of German economy in the recent years became much more difficult to forecast.

“Die Frühindikatoren haben uns 2002 massiv in die Irre geführt”.
Joachim Scheide, Konjunkturchef am IfW,
“Handelsblatt” October 26, 2005

1. Motivation

In this paper we undertake a comparative study of forecasting performance of a wide range of alternative leading indicators available for Germany using the latest data. In doing so, our paper is related to rather extensive literature that assesses the forecasting properties of various leading indicators for Germany represented by Benner and Meier (2003), Breitung and Jagodzinski (2001), Dreger and Schumacher (2005), Fritsche and Stephan (2000), Hüfner and Schröder (2002a), and Hüfner and Schröder (2002b) for growth rates of German industrial production, and Dreger and Schumacher (2004), Hinze (2003), Langmantel (1999), Mittnik and Zdrozny (2004), and Schumacher (2005) for growth rates of German real GDP.

* We are grateful to Christian Dreger, Christian Schumacher, and two anonymous referees as well as to participants of the 6th Macroeconometric workshop (Halle, Germany) for fruitful and insightful discussions and to Cécile Guinaudeau for excellent research assistance. We would like also to thank the following persons for having kindly provided us with the leading indicator data: Harm Bandholz, Rolf Bürkl, James Cunningham, Volker Kleff, Joachim Scheide, and Ulrich van Suntum.