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Research Article

Real-Time Forecasts of Inflation: The Role of Financial Variables

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ABSTRACT

We present a mixed-frequency model for daily forecasts of euro area inflation. The model combines a monthly index of core inflation with daily data from financial markets; estimates are carried out with the MIDAS regression approach. The forecasting ability of the model in real time is compared with that of standard VARs and of daily quotes of economic derivatives on euro area inflation. We find that the inclusion of daily variables helps to reduce forecast errors with respect to models that consider only monthly variables. The mixed-frequency model also displays superior predictive performance with respect to forecasts solely based on economic derivatives. Copyright © 2012 John Wiley & Sons, Ltd.

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