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Should Macroeconomic Forecasters Use Daily Financial Data and How?

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Abstract

We introduce easy-to-implement, regression-based methods for predicting quarterly real economic activity that use daily financial data and rely on forecast combinations of mixed data sampling (MIDAS) regressions. We also extract a novel small set of daily financial factors from a large panel of about 1000 daily financial assets. Our analysis is designed to elucidate the value of daily financial information and provide real-time forecast updates of the current (nowcasting) and future quarters of real GDP growth.

KEY WORDS:

Daily financial factors | Financial markets and the macroeconomy | MIDAS regressions

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