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Financial variables as leading indicators of GDP growth: Evidence from a MIDAS approach during the Great Recession

Laurent Ferrara & Clément Marsilli ✉

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Abstract

The global economic recession, referred to as the Great Recession, endured by the main industrialized countries during the period 2008–09, in the wake of the financial and banking crises, has pointed out the current importance of the financial sector in macroeconomics. In this article, we evaluate the predictive power of some major financial variables to anticipate GDP growth in euro area countries during this specific period of time. In this respect, we implement a Mixed Data Sampling (MIDAS)-based modelling approach, put forward by Ghysels et al. (2007), that enables to forecast quarterly Gross Domestic Product (GDP) growth rates using exogenous variables sampled at higher frequencies. Empirical results show that, overall, stock prices help to improve the accuracy of GDP forecasts by comparison with a standard opinion survey variable, whereas oil prices and term spread appear to be less informative.

The views expressed herein are those of the authors and do not necessarily reflect those of the Banque de France.

Keywords:

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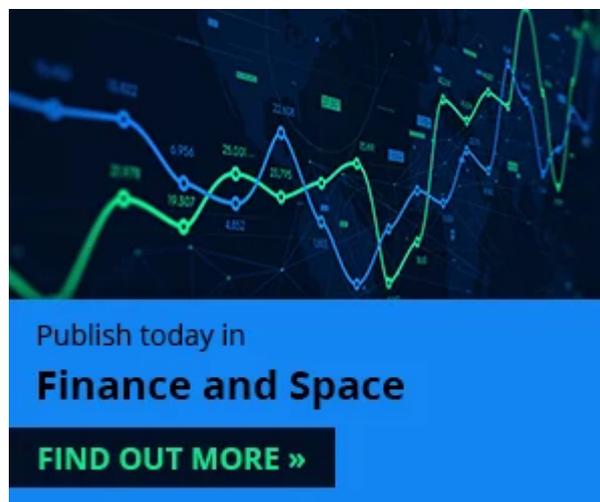
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