

# The Role of Survey Data in the Construction of Short-term GDP Growth Forecasts\*

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## Abstract

The aim of this paper is to investigate the role of Business and Consumer Survey data, published by the European Commission, in the construction of short-term gross domestic product (GDP) growth forecasts. A pseudo out-of-sample forecasting exercise is conducted in which the availability of data mimics real-time releases. A sequence of GDP growth estimates is computed starting 5½ months prior to the publication of GDP growth and ending about 10 days before the release of the actual figure. The focus of the analysis is on Cyprus and some of its key trading partners. Due to the openness of the Cypriot economy, timely information on the expected economic performance of Cyprus's main trading partners is crucial to the assessment of domestic prospects and challenges. The analysis for Cyprus reveals that the use of survey data improves the accuracy of GDP growth estimates, but the forecasting gains are not always statistically significant. The improvements in forecast accuracy from the use of survey data are larger and more significant for the euro area, the European Union and Greece compared to those for Cyprus, while survey predictors are not found to enhance the precision of GDP growth estimates for the United Kingdom. Thus, survey information for the European Union and the euro area as a whole, as well as for Greece, can be used by practitioners to extract reliable signals for the short-term growth prospects of these economies and identify risks to the outlook for the Cypriot economy. The use of survey data for Cyprus resulted in large forecasting gains during the international financial crisis and its aftermath and predicted the depth of the recession in 2009 and 2013 fairly accurately. Moreover, information from the Business and Consumer Surveys correctly signalled the moderation of the recession in Cyprus in 2013–2014.

**Keywords:** Business and Consumer Surveys, GDP growth forecasting.

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