

Forecasting the European Union GDP Growth using MIDAS models: The role of the Survey and Financial Leading Indicators

Elena Andreou and Magdalini Tofini*

Abstract

The consequences of the recent financial and health crises have significantly queried global confidence, giving a boost to the interest and need to signify the short-run economic activity prospects and business cycle patterns internationally using leading indicators. As such, our analysis aims to evaluate the predictive power of quarterly GDP growth in the European Union through the MIDAS modelling approach using the so-called 'soft' survey and financial leading indicators sampled at a higher monthly frequency. Our results suggest that it may be favorable to include soft predictors sampled at a higher frequency than GDP growth according to *bias* and *efficiency principles*. Remarkably, the unequivocal role of the Consumer Survey Confidence Indicator in describing and anticipating movements in the EU GDP growth and other European countries through the MIDAS models is depicted.

Keywords: European Union GDP Growth, Forecasting, MIDAS, Soft Survey and Financial Leading Indicators, Consumption Confidence Indicator.

* Corresponding Author. Address: Economics Research Centre, University of Cyprus, P.O. Box 1678, Nicosia, Cyprus.
Email: Tofini.magdalini@ucy.ac.cy