

AN EVALUATION OF BUSINESS SURVEY DATA FOR CYPRUS¹

Adamos Andreou, Nicoletta Pashourtidou and Christos Papamichael

Executive Summary

This study provides an investigation of the properties of the business survey data for Cyprus at the aggregate level and at the individual firm level. At the aggregate level, we evaluate the ability of confidence indicators to track developments in the economy and to forecast relevant reference (quantitative) economic series. At the micro level we investigate the consistency of the firms' responses by comparing their expectations stated in a given month with the realisations reported by the same participants in subsequent surveys. In addition, we examine whether the probability of correct predictions (i.e. expectations that are in agreement with realisations) varies with firm-specific characteristics.

The results of the pseudo out-of-sample forecasting exercise show that the inclusion of confidence indicators or employment expectations series in the forecasting models does not lead to more accurate forecasts for aggregate output (GDP) or employment growth than those obtained from simple univariate models. Nevertheless, substantial gains are achieved in forecasting output growth one quarter ahead in construction, manufacturing and services. The use of employment expectations in construction and manufacturing also generate considerable forecasting gains one quarter ahead over the univariate models for employment growth. The results also show that for sub-categories of the services sector (non-financial services, financial services, retail trade, tourism), the models with survey series outperform univariate models in one quarter ahead forecasts.

No strong or specific patterns emerged from the analysis at the individual firm level with respect to the firm size, except in the case of services. The larger the size of a firm in the services sector the higher the probability of a correct prediction about the firm's activity. This finding however is reversed in the case of employment predictions with the probability being negatively affected by the firm size. Responses obtained by fax or email, as opposed to those collected over the phone, are found to be associated with higher probability of correct predictions about activity and employment. Hence the use of fax and email should be encouraged since such methods give more time to interviewees to reflect on their responses.

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