Forecasting economic activity in data-rich environment: The case of a small open economy

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Abstract

In this paper we assess the predictability of principal economic activity indicators in a small open economy, Québec, using a battery of forecasting models and informational data sets. In particular, we compare standard univariate and small-scale multivariate models to a number of data-rich methods. We find that including US and Canadian large data sets does not necessary improve the forecasting performance, in terms of MSE, upon the models using only regional information. Moreover, the simple ARMA model appears to be a very strong competitor to many highly sophisticated dimension reduction methods.

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