MIDAS Modeling for Core Inflation Forecasting

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Paper Summary

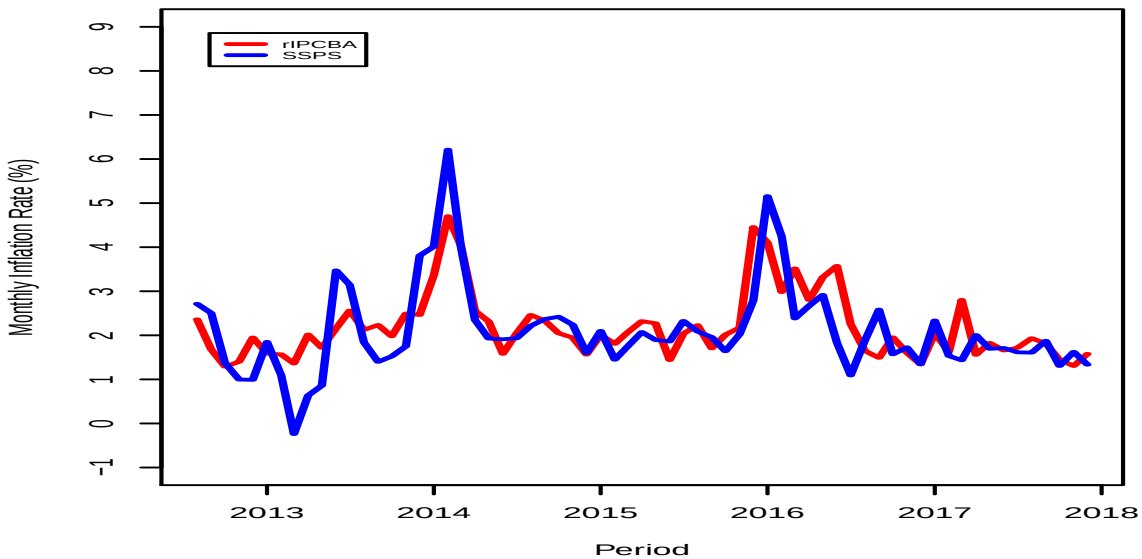
- Billion Prices Project used web scraping to measure online prices
- Original motivation for Argentina was to be better measure than CPI (e.g. Cavallo (2013))
- Current paper takes different approach: treating official monthly Buenos Aires price index as "true"
  - Nowcast/forecast with daily SSPS data.

Paper Summary

- Main exercise considers forecasting at the end of the month
- Very important methodological/substantive problem
- Modest evidence that the daily data via MIDAS can help with 3 months of lags for nowcasting

Paper Summary

- Tradeoff between the two series: SPSS is more timely but also more noisy



Possible reasons why lags help

- Smooths out measurement error in SPSS
- Web prices are fast moving and lead other prices

Main comment

- Sample period is very short and models with very few parameters may do best
- Random walk benchmark: $\pi_{t+h}^{rIPCBA} = \pi_t^{rIPCBA}$

RMSPEs over 2015-2017; $h = 1$

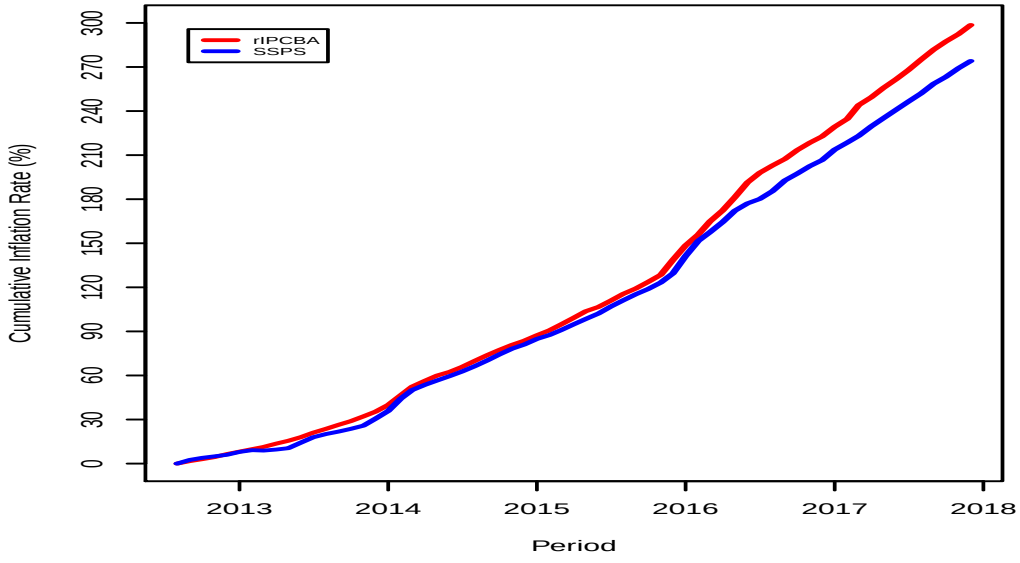
MIDAS-ADL Almon ($L_x = 3$)	0.56
MIDAS-ADL Flat ($L_x = 3$)	0.57
Autoregression	0.62
Random Walk	0.51

Main comment

- How about
  - $\pi_t^{rIPCBA} + \sum_{j=0}^{mL_X-1} \pi_{t+1-j/m}^{SPSS}$
  - $\pi_t^{rIPCBA} + \theta \sum_{j=0}^{mL_X-1} \pi_{t+1-j/m}^{SPSS}$ (restricted flat MIDAS)

More comments

- Indices diverge in 2016: must affect comparison



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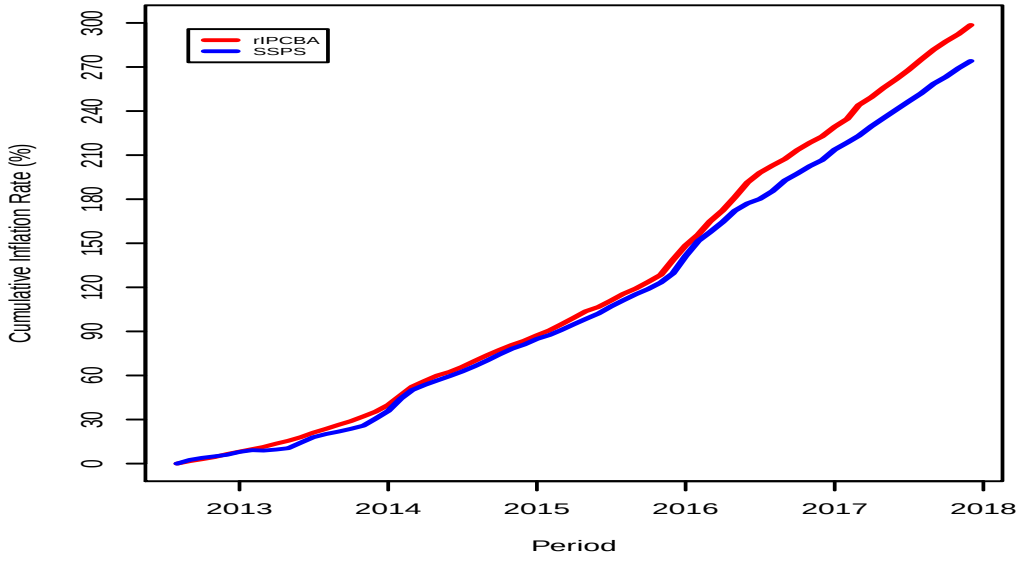

- Suspect that exchange rate could also be useful for prediction

More comments

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- Nowcasting month t inflation at end of month t
  - Not quite the best use of the method, as monthly data not available till middle of month $t + 1$
- Would include Diebold-Mariano tests

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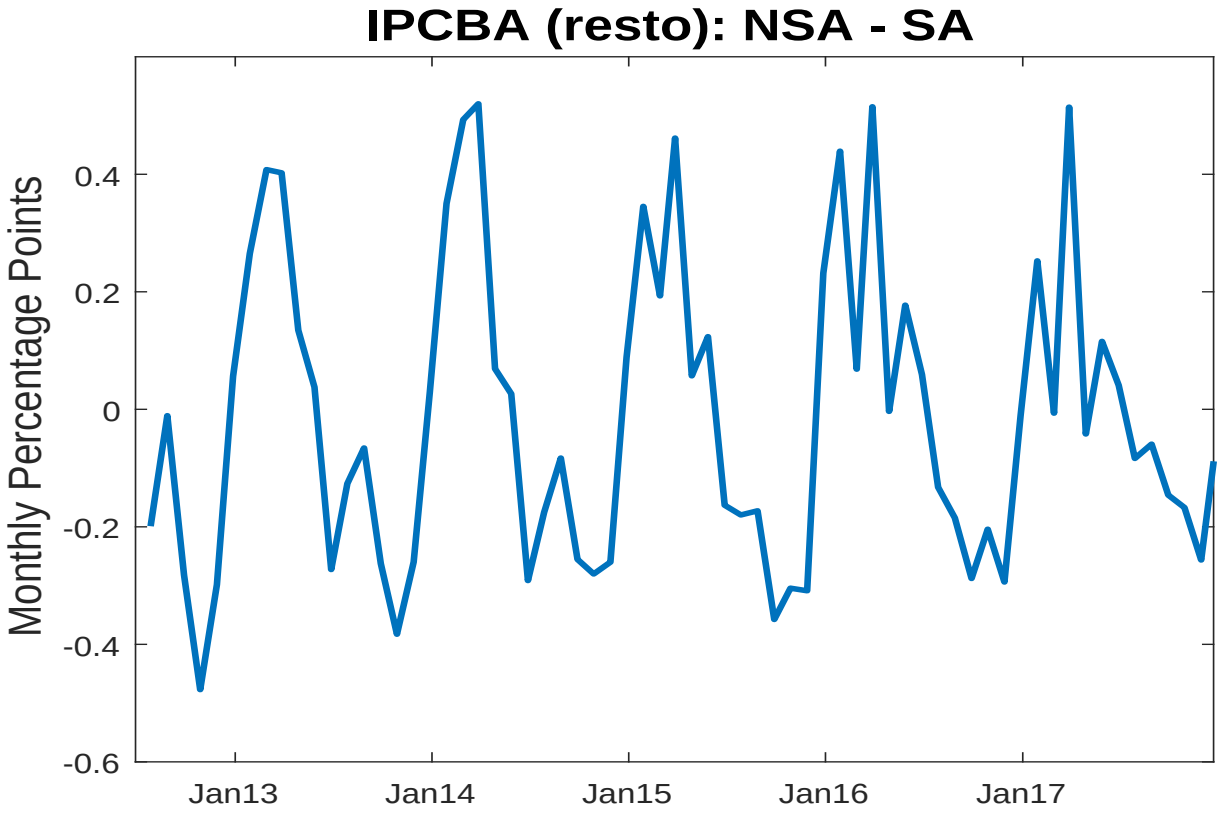

Conclusions

- Great paper on an important question
- MIDAS is motivated by parsimony
- But the best forecast in this problem might be even more parsimonious