ECONOMIC FORECASTING DURING THE CORONA
WHAT THE BANK OF FRANCE IS DOING

SUERF/BOCCONI WEBINAR "ECONOMIC FORECASTING DURING AND AFTER CORONA"
NOWCASTING THE ECONOMIC ACTIVITY DURING THE COVID-19 CRISIS: WHY
STANDARD MODELS DID NOT WORK?

- The shock of lockdown measures, affecting simultaneously both supply
  (manufacturing and mostly services) and demand (consumption), as well as their
  composition, could not be possibly taken on board by aggregate models.
- Timely data on economic activity also not available (greater need of high frequency
  data); hard and traditional soft data (surveys) directly affected by the lockdown and
  by the magnitude of the shock
- The models traditionally used to nowcast GDP at the BdF (e.g. our reference MIBA
  model) are based on econometric specifications that, although very well performing
  in normal times, proved to be inadequate to account for the large drop of activity
  and its very asymmetric sectoral composition.
- An example: end-March the MIBA model predicted -1.2% for Q1, against -5.8%
  released end-April.
THE SECTORAL DASHBOARD: AN ALTERNATIVE TOOL FOR MONITORING BUSINESS ACTIVITY AND NOWCASTING DURING THE COVID-19 CRISIS

- Developed at the BdF in the aftermath of the lockdown.
- Evaluation of the pandemic shock computed for each sector of the economy.
- Mainly (but not exclusively) based on BdF survey data (Monthly Business Survey on industry and services) to calibrate the shocks:
  - additional questions on current/expected level of activity, with respect to “normal”, number of closing days...
  - using text-mining on free comments as additional input to the balance of replies
- Two main outcomes:
  - an estimate of the aggregate loss of activity (in terms of value-added), related to a specific period of sanitary measures (e.g. a typical lockdown week), and its evolution over time
  - an estimate of GDP growth rate for the current quarter.
- Released every month on the BdF website.
In June, the loss of activity amounted to -9% compared to normal. It was -17% during the first phase of the lockdown exit in late May. Recovery driven by services and construction. GDP Q2 predicted at -14% (released at -13.8% end-July).

In July, the loss of activity slightly improved to -7%: gradual improvement with respect to previous months.

Evaluation for August and Q3 to be released on September 14th.
• The evaluation provided by the sectoral dashboard feeds into the medium-term analysis: a longer bridge between the short-term analysis and a structural analysis than usually (3 to 5 quarters depending on the sanitary scenarios).

• According to the Banque de France macroeconomic projections (June 9th), economic activity is expected to decline by 10% in 2020 before rebounding by 7% in 2021 and by 4% in 2022.

• France is only expected to return to its pre-crisis level of activity during the course of 2022.

• Unprecedented magnitude of uncertainty, risks related to the pandemic outpace the other risks.
- Firm’s electricity consumption used to assess the overall activity of the manufacturing sector, as well as to calibrate shocks in the dashboard for specific sectors (e.g. railways, but data available only from beginning of 2020).
- Bank card transactions are used to monitor sectors whose production mainly supplies HH final consumption (e.g. retail trade, accommodation and food services).
- Correct potential biases in the data is key (e.g. whether condition for electricity consumption, change in payment behavior for credit card transactions)
WHAT’S NEXT?

- Probably turn back to the standard models once the crisis will be sufficiently behind us, as the sectoral dashboard is likely not suited for nowcasting GDP in normal time.
- But potential new applications with the high-frequency data explored so far, such as:
  - Use bank card transactions in predictive models/regressions for households’ consumption.
  - Develop a high-frequency indicator of economic activity (a weekly activity index) based on a range of relevant data.
  - Explore the potential of big data (e.g. google data)