Real-Time Forecasting with a (Standard) Mixed-Frequency VAR During a Pandemic

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Abstract

We resuscitated the mixed-frequency vector autoregression (MF-VAR) developed in Schorfheide and Song (2015) to generate macroeconomic forecasts for the U.S. during the COVID-19 pandemic in real time. The model combines eleven time series observed at two frequencies: quarterly and monthly. We deliberately did not modify the model specification in view of the COVID-19 outbreak, except for the exclusion of crisis observations from the estimation sample. We compare the MF-VAR forecasts to the median forecast from the Survey of Professional Forecasters (SPF). While the MF-VAR performed poorly during 2020:Q2, subsequent forecasts were at par with the SPF forecasts. We show that excluding a few months of extreme observations is a promising way of handling VAR estimation going forward, as an alternative of a sophisticated modeling of outliers.

JEL CLASSIFICATION: C11, C32, C53

KEY WORDS: Bayesian inference; COVID-19; Macroeconomic Forecasting; Minnesota Prior; Real-time data; Survey of Professional Forecasters; Vector autoregressions.

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1 Introduction

Vector autoregressions (VARs) are widely used in empirical macroeconomics. A VAR is a multivariate time series model that can be used to forecast individual time series, to predict comovements of macroeconomic or financial variables, to analyze sources of business cycle fluctuations, or to assess the effects of monetary or fiscal policy interventions on the macro economy. The recent COVID-19 pandemic triggered long-lasting mobility restrictions in the form of stay-at-home orders across the U.S. and the world in 2020. As a consequence, economic activity collapsed in many sectors and unemployment soared. The unprecedented decline of economic activity created a tremendous challenge for macroeconomic modeling and forecasting, including the use of VARs.

In response to this challenge we resuscitated the mixed-frequency VAR, henceforth MF-VAR, developed in Schorfheide and Song (2015). Rather than modifying the MF-VAR in real time or \textit{ex post} to accommodate idiosyncrasies of the economic downturn triggered by the COVID-19 pandemic, we decided to leave the model unchanged, except for the consideration of several forms of excluding or discounting extreme observations during the estimation stage. We summarized a first-set of real-time forecasts in the working paper version Schorfheide and Song (2020) and published monthly real-time forecasts at \url{www.donghosong.com} from April 30, 2020 until August 31, 2021. The contribution of the current paper is to evaluate the seventeen months of real-time MF-VAR forecasts and compare them to median forecasts from the Survey of Professional Forecasters (SPF) conducted by the Federal Reserve Bank of Philadelphia.\footnote{See \url{https://www.philadelphiafed.org/surveys-and-data}.}

We draw three main conclusions from our analysis. First, during the first three months of the pandemic in the U.S., in 2020:Q2, we deliberately did not exert any effort in adapting our MF-VAR to the idiosyncrasies of the pandemic, except for ending the estimation sample on January 31, 2020, nor did we make judgmental adjustments to the model-based forecasts. We find that the MF-VAR performed poorly compared to the SPF. In April 2020 the data for the MF-VAR estimation did not yet contain information about the severity of the downturn and the model did not anticipate the magnitude of the recession. By June 2020, the model had identified large shocks to the economy. Propagating these large shocks through a very persistent VAR law of motion led to overly pessimistic forecast. In short, the model performed poorly in 2020:Q2.
Second, without any modifications or adjustments the MF-VAR model generated remarkably accurate forecasts from July 2020 onwards. These forecasts are at par with the median SPF forecasts. Many pundits initially expected the pandemic to be relatively short-lived and the recession to be followed by a strong recovery once the mobility restrictions were lifted. From this perspective, the cards were stacked \textit{ex ante} against the MF-VAR which is estimated based on macroeconomic time series that exhibit unit-root behavior and thereby implies that shocks tend to have long-lived effects. \textit{Ex post} it turned out that mobility restrictions could only be lifted gradually and that the economic effects of the pandemic were long-lasting, just as the effects of previous recessionary shocks had been long-lasting and recoveries have often been slow.

Third, going forward, an important question for users of VARs is how to handle the extreme data points observed in the second quarter of 2020. One option is to increase the complexity of the VAR model by explicitly allowing for outliers, either specifically during the COVID-19 pandemic, or in every period with some small probability. Our findings suggest that the alternative and rather simple approach of excluding observations from the first few months of the pandemic works remarkably well and provides an attractive alternative in situations in which a more sophisticated modeling of outliers is impractical. Our approach ensures that the MF-VAR performs as well after the initial downturn as it did prior to the pandemic. The real-time forecasts published at \url{www.donghosong.com} were generated by ending the estimation sample on January 31, 2020. As time has progressed, it has become desirable to start including new observations in the estimation sample. Based on our findings we recommend dropping observations from March to June 2020, but including the subsequent data points when estimating a VAR.

Since the beginning of the pandemic, several papers have been written contemporaneously on how to adjust forecast models to cope with the unprecedented economic downturn. The two papers most closely related to our work are Carriero, Clark, Marcellino, and Mertens (2021) and Lenza and Primiceri (2021). The latter considers a homoskedastic VAR and proposes to deterministically scale the innovation covariance for the duration of the pandemic to capture the increased shock sizes. Specifically, the authors recommend to estimate separate scale factors for the first months of the pandemic and then let the last of these scale factors decay geometrically at an estimated rate. To the extent that the estimated scale factors are large, the method has a similar effect on the parameter estimates as dropping observations. However, rather than abruptly including new observations after a certain period, the method gradually increases the weight on observations. We adapt the Lenza and Primiceri (2021),
henceforth LP, approach to our mixed-frequency framework. We find in our application that, compared to our approach of excluding observations, the LP approach creates similar point forecasts, but ex post unreasonably large predictive intervals because the estimated scale factor implies a relatively slow decay.

Carriero, Clark, Marcellino, and Mertens (2021), henceforth CCMM, modify a single-frequency Bayesian VAR with stochastic volatility to account for COVID-19 (and other) outliers. It has been documented that the inclusion of stochastic volatility (SV) can improve the forecasting performance of VARs, in particular density and interval forecasts; see, for instance, Clark (2011). While VARs with SV are designed to adapt to time-varying volatility, the estimated volatility processes are typically highly persistent. This implies that large COVID-19 shocks over a period of two to three months, would SV for multiple years to levels that are ex ante implausible and ex post counterfactual. As a remedy, CCMM modify the SV specification to allow for Student-$t$ distributed (instead of Gaussian) innovations as well as outliers that do not trigger a persistent increase in volatility. The authors show that the outlier-augmented SV-$t$ specification substantially improves the forecast performance of a standard VAR with SV. While the CCMM approach can handle outliers in an automated way and potentially adapt to future outliers caused by non-COVID-related economic disruptions, our approach provides a low-tech alternative in situations in which a more sophisticated modeling is impractical.

The approach of allowing for short-lived outliers that do not trigger a persistent rise in the SV process is also used by Antonin-Diaz, Drechsel, and Petrella (2021) who focus on GDP nowcasting with a dynamic factor model. Primiceri and Tambalotti (2020) adapt a VAR to the COVID-19 pandemic by assuming that not just the scale, but also the propagation (persistence and comovements) of the COVID shocks is potentially different from typical business cycle shocks. While their approach is useful for scenario analysis, it is difficult to accurately estimate the COVID shock propagation mechanism in real time. Foroni, Marcellino, and Stevanovic (2020) explore COVID-19 adjustments of econometric model forecasts that are based on the forecasting experience during the Great Recession. Either the forecast model is exclusively estimated based on observations surrounding the Great Recession (similarity-based estimation) or its forecasts are corrected by forecast errors made during the Great Recession (intercept correction).

We are not alone in exploring the behavior of time series models during the pandemic without explicitly modeling outliers or tailoring the model specification to the COVID observations. For instance, Diebold (2020) studies the performance of the Aruoba-Diebold-Scotti
(ADS) economic activity index, which is based on a low-dimensional dynamic factor model and has been published by the Federal Reserve Bank of Philadelphia for more than a decade. Lewis, Mertens, and Stock (2020) developed a weekly economic index (WEI) to track the rapid economic developments triggered by the coronavirus pandemic. Their principal component analysis, which uses observations from 2008 onward, does not treat the observations from the second quarter of 2020 as outliers.

The remainder of this paper is organized as follows. Section 2 reviews the specification of the MF-VAR and discusses how we drop observations from the estimation sample and implement the LP approach of scaling the innovation covariance matrix. The real-time data set is discussed in Section 3 and the empirical results are presented in Section 4. Finally, Section 5 concludes. Additional information about the construction of our data set is provided in the Online Appendix. Real-time forecasts from April 30, 2020 to August 31, 2021, were published and remain available at www.donghosong.com.

2 MF-VAR Specification and Estimation

We consider an MF-VAR that utilizes monthly and quarterly observations. The MF-VAR can be conveniently represented as a state-space model, in which the state-transition equations are given by a VAR at monthly frequency and the measurement equations relate the observed series to the underlying, potentially unobserved, monthly variables that are stacked in the state vector. To cope with the high dimensionality of the parameter space, the MF-VAR is equipped with a Minnesota prior and estimated using Bayesian methods. In Section 2.1 we reproduce the model description and estimation strategy from Schorfheide and Song (2015), referring the reader to our original paper for a detailed discussion of the Bayesian computations. In Section 2.2 we discuss two modifications that we consider in the empirical application: (i) dropping of observations and (ii) a break in volatility as in LP.

2.1 Baseline Version

Model Specification. We assume that the economy evolves at monthly frequency according to the following VAR(p) dynamics:

\[ x_t = \Phi_1 x_{t-1} + \ldots + \Phi_p x_{t-p} + \Phi_c + u_t, \quad u_t \sim iidN(0, \Sigma). \tag{1} \]
The $n \times 1$ vector of macroeconomic variables $x_t$ can be composed into $x_t = [x'_{m,t}, x'_{q,t}]'$, where the $n_m \times 1$ vector $x_{m,t}$ collects variables that are observed at monthly frequency, e.g., the consumer price index and the unemployment rate, and the $n_q \times 1$ vector $x_{q,t}$ comprises the unobserved monthly variables that are published only at quarterly frequency, e.g., GDP. Define $z_t = [x'_t, \ldots, x'_{t-p+1}]'$ and $\Phi = [\Phi_1, \ldots, \Phi_p, \Phi_c]'$. Write the VAR in (1) in companion form as
\[
z_t = F_1(\Phi)z_{t-1} + F_c(\Phi) + v_t, \quad v_t \sim iidN(0, \Omega(\Sigma)),
\] (2)
where the first $n$ rows of $F_1(\Phi)$, $F_c(\Phi)$, and $v_t$ are defined to reproduce (1) and the remaining rows are defined to deliver the identities $x_{q,t-l} = x_{q,t-l}$ for $l = 1, \ldots, p-1$. The $n \times n$ upper-left submatrix of $\Omega$ equals $\Sigma$ and all other elements are zero. Equation (2) is the state-transition equation of the MF-VAR.

We proceed by describing the measurement equation. To handle the unobserved variables we vary the dimension of the vector of observables as a function of time $t$ (e.g., Durbin and Koopman (2001)). Let $T$ denote the forecast origin and let $T_b \leq T$ be the last period that corresponds to the last month of the quarter for which all quarterly observations are available. The subscript $b$ stands for balanced sample. Up until period $T_b$ the vector of monthly series $x_{m,t}$ is observed every month. We denote the actual observations by $y_{m,t}$ and write
\[
y_{m,t} = x_{m,t}, \quad t = 1, \ldots, T_b.
\] (3)
Assuming that the underlying monthly VAR has at least three lags, that is, $p \geq 3$, we express the three-month average of $x_{q,t}$ as
\[
\bar{y}_{q,t} = \frac{1}{3}(x_{q,t} + x_{q,t-1} + x_{q,t-2}) = \Lambda_{qz}z_t.
\] (4)
For variables measured in logs, e.g., $\ln GDP$, the formula can be interpreted as a log-linear approximation to an arithmetic average of GDP that preserves the linear structure of the state-space model. For flow variables such as GDP, we adopt the NIPA convention and annualize high-frequency flows. As a consequence, quarterly flows are the average and not the sum of monthly flows. This three-month average, however, is only observed for every third month, which is why we use a tilde superscript. Let $M_{q,t}$ be a selection matrix that equals the identity matrix if $t$ corresponds to the last month of a quarter and is empty otherwise. Adopting the convention that the dimension of the vector $y_{q,t}$ is $n_q$ in periods in
which quarterly averages are observed and empty otherwise, we write

\[ y_{q,t} = M_{q,t} \bar{y}_{q,t} = M_{q,t} \Lambda_{qz} z_t, \quad t = 1, \ldots, T_b. \]  

(5)

For periods \( t = T_b + 1, \ldots, T \) no additional observations of the quarterly time series are available. Thus, for these periods the dimension of \( y_{q,t} \) is zero and the selection matrix \( M_{q,t} \) in (5) is empty. However, the forecaster might observe additional monthly variables. Let \( y_{m,t} \) denote the subset of monthly variables for which period \( t \) observations are reported by the statistical agency after period \( T \), and let \( M_{m,t} \) be a deterministic sequence of selection matrices such that (3) can be extended to

\[ y_{m,t} = M_{m,t} x_{m,t}, \quad t = T_b + 1, \ldots, T. \]  

(6)

Notice that the dimension of the vector \( y_{m,t} \) is potentially time varying and less than \( n_m \). The measurement equations (3) to (6) can be written more compactly as

\[ y_t = M_t \Lambda_z z_t, \quad t = 1, \ldots, T. \]  

(7)

Here, \( M_t \) is a sequence of selection matrices that selects the time \( t \) variables that have been observed by period \( T \) and are part of the forecaster’s information set. In sum, the state-space representation of the MF-VAR is given by (2) and (7).

**Bayesian Estimation.** The starting point of Bayesian inference for the MF-VAR is a joint distribution of observables \( Y_{1:T} \), latent states \( Z_{0:T} \), and parameters \( (\Phi, \Sigma) \), conditional on a pre-sample \( Y_{-p+1:0} \) to initialize lags. The distribution of observables and latent states conditional on the parameters is implied by the above state-space representation of the MF-VAR. For the marginal distribution of the parameters \( (\Phi, \Sigma) \) we use a conjugate Minnesota prior. This prior dates back to Litterman (1980) and Doan, Litterman, and Sims (1984). We use the version of the Minnesota prior described in Del Negro and Schorfheide (2011)’s handbook chapter, which in turn is based on Sims and Zha (1998). The main idea of the Minnesota prior is to center the distribution of \( \Phi \) at a value that implies a random-walk behavior for each of the components of \( x_t \) in (1). We implement the Minnesota prior by mixing artificial (or *dummy*) observations into the estimation sample. The artificial observations are computationally convenient and allow us to generate plausible a priori correlations between VAR parameters. The variance of the prior distribution is controlled by a low-dimensional vector of hyperparameters \( \lambda \).
We generate draws from the posterior distributions of \((\Phi, \Sigma)|Z_{0:T}\) and \(Z_{0:T}|(\Phi, \Sigma)\) using a Gibbs sampler. Based on these draws, we are able to simulate future trajectories of \(y_t\) to characterize the predictive distribution associated with the MF-VAR and to calculate point, interval, and density forecasts.

### 2.2 Modifications

**Dropping Observations.** As one of the empirical strategies we consider dropping a few months of observations during the early part of the pandemic from the estimation sample. This can be easily implemented by setting the selection matrix \(M_t\) in (7) to \(\emptyset\) in months \(t\) that are to be excluded from the estimation.

**Volatility Breaks and Discounting.** LP propose to allow for a break in volatility, which is modeled through a variable \(s_t\) that scales up the residual covariance matrix during the period of the pandemic. Following their specification, we replace (1) by

\[
x_t = \Phi_1 x_{t-1} + \ldots + \Phi_p x_{t-p} + \Phi_c s_t u_t, \quad u_t \sim iidN(0, \Sigma).
\]

(8)

It is assumed that \(s_t = 1\) before time period \(t = t^*\) in which the pandemic begins. Subsequently \(s_t\) evolves according to

\[
s_{t^*} = \bar{s}_0, \quad s_{t^*+1} = \bar{s}_1, \quad s_{t^*+2} = \bar{s}_2, \quad \text{and} \quad s_{t^*+j} = 1 + (\bar{s}_2 - 1)\rho^{j-2}.
\]

(9)

The quadruplet \(\vartheta = (\bar{s}_0^2, \bar{s}_1^2, \bar{s}_2^2, \rho)\) needs to be estimated. This flexible parameterization allows for this scaling factor to take three (possibly) different values in the first three periods after the outbreak of the disease, and to decay at rate \(\rho\) after that. Note that \(\vartheta\) uniquely determines the sequence \(S_{1:T} = \{s_1, \ldots, s_T\}\).

### 3 Real-Time Data

We generated and published the forecasts presented in Section 4 in real time as the pandemic unfolded.\(^2\) Section 3.1 summarizes the monthly and quarterly series used for the MF-VAR

\(^2\)One can easily modify the specification to allow for more or fewer exceptional periods.

\(^3\)Diebold (2020) distinguishes between “Pseudo Real Time” analysis, meaning the use of expanding sample estimation and vintage data, and “Real Time” analysis, meaning the use of real-time information rather than hindsight. We did the latter.
and the timing convention for the estimates and forecasts. The timing of the real-time SPF forecasts is described in Section 3.2.

### 3.1 Monthly and Quarterly Time Series

We consider a MF-VAR for eleven macroeconomic variables, of which three are observed at quarterly frequency and eight are observed at monthly frequency. The quarterly series are GDP, fixed investment (INVFIX), and government expenditures (GOV). The monthly series are the unemployment rate (UNR), hours worked (HRS), consumer price index (CPI), industrial production index (IP), personal consumption expenditures (PCE), federal funds rate (FF), 10-year Treasury bond yield (TB), and S&P 500 index (SP500). Precise data definitions are provided in the Online Appendix. Series that are observed at a higher than monthly frequency are time-aggregated to monthly frequency. The variables enter the MF-VAR in log levels with the exception of UNR, FF, and TB, which are divided by 100 to make them commensurable in scale to the other log-transformed variables.

Our forecasts are based on real-time data sets, assuming that the econometric analysis is conducted on the last day of each month. The timing convention and the data availability for each forecast origin are summarized in Table 1. A forecaster on April 30 has access to monthly observations from March, to an initial release of Q1 GDP, investment, and government spending, as well as the April observations for the average federal funds rate, the Treasury bond yield, and the S&P500 index. In May, monthly non-financial observations on the April unemployment rate, hours worked, inflation, industrial production, and personal consumption expenditures become available. On June 30, two monthly observations for each non-financial variable are available for the second quarter. This pattern of information repeats itself every quarter. In the remainder of the paper we will refer to the forecast origins only by month and year, with the understanding that estimates and forecasts are based on the information available on the last day of the month.

We plot four of the eleven time series in Figure 1. GDP is available only at quarterly frequency. The most striking feature of the graphs are the outliers in 2020. GDP, consumption, and industrial production drop sharply. The latter two series almost fall to their Great Recession levels. Meanwhile, the unemployment rate soars to almost 15% in April 2020, a level that is unprecedented in the past six decades.

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4 Due to data revisions by statistical agencies, observations of $Y_{t:T-1}$ published in period $T$ are potentially different from the observations that have been published in period $T-1$. Moreover, some series are published with a delay of several periods.
### Table 1: Information at MF-VAR Forecast Origin

#### April 30

<table>
<thead>
<tr>
<th></th>
<th>UNR</th>
<th>HRS</th>
<th>CPI</th>
<th>IP</th>
<th>PCE</th>
<th>FF</th>
<th>TB</th>
<th>SP500</th>
<th>GDP</th>
<th>INVFIX</th>
<th>GOV</th>
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<tr>
<td>Q1</td>
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<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>QAv</td>
<td>QAv</td>
<td>QAv</td>
</tr>
<tr>
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<td>M4</td>
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<td>Ø</td>
<td>Ø</td>
<td>Ø</td>
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<td>X</td>
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#### May 31

<table>
<thead>
<tr>
<th></th>
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<th>HRS</th>
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<th>PCE</th>
<th>FF</th>
<th>TB</th>
<th>SP500</th>
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<td>X</td>
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<td>X</td>
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<td>QAv</td>
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<tr>
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<td>Q2</td>
<td>M5</td>
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#### June 30

<table>
<thead>
<tr>
<th></th>
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<th>HRS</th>
<th>CPI</th>
<th>IP</th>
<th>PCE</th>
<th>FF</th>
<th>TB</th>
<th>SP500</th>
<th>GDP</th>
<th>INVFIX</th>
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<tbody>
<tr>
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<td>X</td>
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**Notes:** Ø indicates that the observation is missing. X denotes monthly observation and QAv denotes quarterly average.

### 3.2 Survey of Professional Forecasters

We compare the MF-VAR forecasts to median forecasts from the SPF. The timing of the SPF is summarized in Table 2. The quarterly survey forecasts are comparable to our first-month-within-a-quarter forecasts (January, April, July, October). Because the survey respondents in principle have two more weeks after our end-of-month MF-VAR forecast origin, this comparison generates a slight informational advantage for the SPF. On the other hand, a comparison with our third-month-within-a-quarter predictions (March, June, September, December) puts the SPF forecasts at a clear informational disadvantage against the MF-VAR because the most recent monthly data used in the MF-VAR forecasts are released well after the SPF submission deadline.
Figure 1: Data

Notes: The data are obtained from the August 2021 vintage, starting in 1964. The shaded bars indicate the NBER recession dates.

Table 2: Timing of Survey of Professional Forecasts

<table>
<thead>
<tr>
<th>Survey Name</th>
<th>Questionnaires Sent to Panelists</th>
<th>Submission Deadline</th>
<th>Last Quarter in Info Set</th>
<th>Quarterly Forecasts</th>
</tr>
</thead>
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<tr>
<td>1st Quarter</td>
<td>End of Jan</td>
<td>Middle of Feb</td>
<td>Y-1:Q4</td>
<td>Y:Q1 to Y+1:Q1</td>
</tr>
<tr>
<td>2nd Quarter</td>
<td>End of Apr</td>
<td>Middle of May</td>
<td>Y:Q1</td>
<td>Y:Q2 to Y+1:Q2</td>
</tr>
<tr>
<td>3rd Quarter</td>
<td>End of Jul</td>
<td>Middle of Aug</td>
<td>Y:Q2</td>
<td>Y:Q3 to Y+1:Q3</td>
</tr>
<tr>
<td>4th Quarter</td>
<td>End of Oct</td>
<td>Middle of Nov</td>
<td>Y:Q3</td>
<td>Y:Q4 to Y+1:Q4</td>
</tr>
</tbody>
</table>

Notes: The questionnaires are sent after the NIPA advance report. The submission deadline is in the second or third week of the month. “Y” refers to the year of the survey.

4 Empirical Results

The pre-COVID forecast performance of the MF-VAR model used in this paper was documented in Schorfheide and Song (2015). We showed that the MF-VAR generates more accurate nowcasts and short-run forecasts than a VAR estimated on time-aggregated quar-
terly data. The improvement tempers off in the medium and long run. The short-run accuracy gain is largest in the third month of the quarter when a lot of monthly data are available for the current quarter. We also documented that the monthly information helped the MF-VAR track the economic downturn during the 2008-09 (Great) recession period more closely in real time than a VAR estimated on quarterly data only.

We estimate the MF-VAR using $p = 6$ lags based on various 2020 and 2021 data vintages and generate forecasts of quarterly averages of the eleven variables that appear in the VAR. All of our estimation samples start in 1964. The hyperparameter settings are the same as in Schorfheide and Song (2015). We subsequently examine the MF-VAR forecasts in chronological order: the COVID-19 outbreak in the U.S. in 2020:Q2 (Section 4.1), the continuation of the pandemic throughout the second half of 2020 (Section 4.2), and the first three quarters of 2021 (Section 4.3). Because our sample only spans seventeen MF-VAR forecast origins and six quarters of SPF forecasts, we examine plots of forecasts and actuals, rather than computing forecast evaluation summary statistics.

4.1 The First Months of the COVID-19 Pandemic

April, May, and June forecasts for GDP, the unemployment rate, and CPI inflation are plotted in Figure 2. The panels show actual values from the August 2021 vintage (solid red), posterior median forecasts (solid black), and 90% posterior predictive intervals (light grey). Moreover, we also plot the median forecasts from the SPF. The MF-VAR forecasts are constructed from the real-time vintages available on the date of the forecast, as described in Section 3. For each forecast origin we end the estimation sample in January 2020 to avoid the contamination of the parameter estimates by the extreme observations in 2020:Q2. We refer to these estimates and forecasts as baseline numbers and consider alternative estimation strategies below.

Conditional on the posterior draws of the parameters, the forecasts themselves are generated by running the Kalman filter until the forecast origin and then simulating the MF-VAR forward. We are reporting forecasts of quarterly averages (see tick marks on the $x$-axes of the plots), which are obtained by averaging the within-quarter monthly values simulated from the MF-VAR. Depending on the forecast origin, actual values for some variables might be available for the first one or two months of the first quarter to be forecast. In this case, we generate the quarterly forecast by averaging actual and simulated values. While unemployment and inflation forecasts are plotted directly, we make the following adjustment for
Figure 2: Forecasts in 2020:Q2

Notes: We forecast quarterly averages. Actual values (solid red, August 2021 vintage) and forecasts: median (solid black) and 90% bands (light grey) constructed from the posterior predictive distribution. Green squares represent median forecasts from the SPF. For GDP we depict percentage change relative to December 2019. The MF-VAR is estimated based data available up to January 2020 (baseline estimation).

the graphical presentation of the GDP forecasts. We convert the level forecasts from the MF-VAR and the SPF into growth rate forecasts and then add the cumulative growth rate forecasts to the level of GDP at the forecast origin according to the August 2021 vintage.

Forecasts. The April forecasts are, with the exception of the April financial variables (federal funds rate, treasury bond yield, and S&P500 index) based on Q1 and March data. While the economic downturn started in the second half of March, by historical standards the drop in real activity was still contained. According to the August 2021 vintage, quarter-on-quarter (Q-o-Q) GDP growth in Q1 was -1.3%, which is approximately 1.5 times the historical standard deviation in the estimation sample. Industrial production in March 2020 dropped by 3.9% and the unemployment rate increased from 3.5% to 4.4%. At an annualized rate consumer prices fell by 1.3%. 
Because the severity of the pandemic was not yet reflected in the estimation sample, the April MF-VAR forecasts did not capture the unprecedented magnitude of the downturn. While the posterior median forecast for Q2 GDP growth was -2.8%, the actual drop was -9.4%. Likewise, the Q2 unemployment forecast was 5.2%, whereas the actual average unemployment rate in Q2 was 13.1%. The SPF forecasters had an additional week or two to gather information about the economic consequences of the pandemic and the freedom to make judgmental adjustments to model-based forecasts. The figure shows that the median SPF forecasts for GDP and inflation for Q2 were more pessimistic and thereby much closer to the respective actuals than the MF-VAR forecasts. In terms of inflation, the Q2 forecasts of MF-VAR and SPF essentially agree, but over the medium-run the SPF forecasters correctly predict a rise in inflation, whereas the median-run MF-VAR forecast stays close to zero.

We now turn to the May forecasts of GDP and unemployment, which use observations on the April monthly non-financial variables. The MF-VAR requires very large “COVID-19” shocks to be able to rationalize the April data. Because historically macroeconomic shocks have had very persistent effects on the time series included in the MF-VAR specification, the model predicts long-lasting adverse effects of the COVID-19 shocks: until the end of 2021 GDP will stay 15% to 20% below its December 2019 value and the unemployment rate will remain above 13%. A comparison to the actuals shows that these forecasts are overly pessimistic: over the forecast period GDP reverts back to its 2019:Q4 level and the unemployment rate falls below 6%. The June information leads to slightly more favorable MF-VAR forecasts, but the model continues to predict long-lasting macroeconomic effects of the pandemic.

Recall that the survey underlying the SPF forecasts is only conducted quarterly. Thus, the May and June SPF forecasts plotted in Figure 2 are the same as the April forecasts. As we have seen before, the SPF predicts a much faster recovery than the MF-VAR and, ex post, its median forecasts turned out to be much more accurate than the MF-VAR forecasts. Overall, the forecast performance of the MF-VAR during the first three months of the pandemic is poor, compared to the SPF which presumably incorporates other data sources and judgment about the idiosyncratic nature of the COVID-19 recession.

**Effect of Estimation Sample.** We proceed by examining the effect of choosing the endpoint of the estimation sample on the forecasts. To construct the baseline forecasts, we

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5The plotted values can be slightly different within the quarter, because we are converting level forecasts into growth rate forecasts and add the growth rates to the level at the origin which may get revised from month to month.
Figure 3: Effect of Estimation Sample on GDP Forecasts

**Notes:** We forecast quarterly averages. Actual values (solid red, August 2021 vintage) and forecasts: median (solid black) and 90% bands (light grey) constructed from the posterior predictive distribution. Green squares represent median forecasts from the SPF. We depict percentage change relative to December 2019. Full Sample: the MF-VAR is estimated based on data available at the forecast origin. Jan. 2020 Info: The MF-VAR is estimated based data available up to January 2020 (baseline estimation).

excluded observations that became available after January 2020. This is a sensible strategy if the pandemic was a shock to the economy that was unusually large, indeed several standard deviations in magnitude, but did not change the fundamental workings of the aggregate economy. Unless explicitly modeled, the COVID-19 outliers simply distort the parameter estimates. On the other hand, if the pandemic fundamentally changed macroeconomic dynamics, then the most recent observations should be included in the estimation, and earlier observations should possibly be discounted.

In Figure 3 we compare GDP forecasts from a full-sample estimation (top row) that includes post January 2020 observations (but does not downweight pre-pandemic observations) to forecasts generated from the baseline estimates that are based on the January 2020 information set. For April 2020 the two sets of forecasts are very similar, because the estimation sample ends with the Q1 and March non-financial variables which are not yet severely affected by the pandemic, as discussed previously.

The difference between the forecasts is most pronounced for the May 2020 forecast origin. Here the 90% bands under the full-sample estimation are considerably wider than the bands.
under the baseline estimation. Moreover, the median forecasts drop below $-40\%$ in 2020:Q4, whereas under the baseline estimation the median forecasts only fall to about $-20\%$. The increase in forecast interval width is mainly driven by the estimates of $\Sigma$ which increased due to the extreme observations in April 2020. The discrepancy among the forecasts shrinks again for the June 2020. In general, after the initial adjustment of the economy to the COVID-19 pandemic, we expect the magnitude of subsequent shocks to be more similar to the pre-2020 experience. For 2020:Q2 we find no upside in including post-January observations in the estimation sample.

### 4.2 The Second Half of 2020

We now turn to forecasts during 2020:Q3 and Q4. We proceed with the baseline approach of estimating the MF-VAR with data available in January 2020. As before, conditional on the parameter draws from the posterior distribution, we run the Kalman filter to the forecast origin to make inference on the unobserved variables and then simulate the model forward to sample from the predictive distribution. MF-VAR forecasts, SPF forecasts when available, and actuals from the August 2021 vintage are presented in three figures: real activity variables in Figure 4, labor market variables in Figure 5 and inflation and financial variables in Figure 6. The July 2020 panels overlay the MF-VAR forecasts with SPF forecasts from the Q3 survey, whereas the October and December 2020 panels compare the MF-VAR forecasts to Q4 SPF forecasts. As discussed in Section 3.2, for the first month within a quarter, the SPF forecasters have a slight informational advantage compared to the MF-VAR, whereas for the third month within a quarter, the MF-VAR has a strong advantage.

In July 2020 the MF-VAR predicts that GDP and industrial production return to their respective 2019:Q4 values in the second half of 2021. The median forecast from the SPF is less optimistic and about 3\% to 5\% lower than the MF-VAR forecast. While the October and December industrial production forecasts from the MF-VAR look quite similar to the July forecast, the GDP forecasts made in 2020:Q4 imply a slightly stronger recovery than the July forecast. Compared to the July forecasts, the gaps between MF-VAR and SPF forecasts narrow in Q4 (October and December). Compared to the Q2 forecasts presented in Section 4.1, the most remarkable difference in the second half of 2020 is that the posterior median forecasts produced in Q3 and Q4 accurately predict GDP and industrial production over a one-year horizon. In fact, the MF-VAR forecasts are now more accurate than the SPF forecasts.
Figure 4: Real Activity Forecasts in 2020:Q3 and Q4

Notes: We forecast quarterly averages. Actual values (solid red, August 2021 vintage) and forecasts: median (solid black) and 90% bands (light grey) constructed from the posterior predictive distribution. Green squares represent median forecasts from the SPF. We depict percentage change relative to December 2019. The MF-VAR is estimated based data available up to January 2020 (baseline estimation).
Figure 5: Labor Market Forecasts in 2020:Q3 and Q4

Notes: We forecast quarterly averages. Actual values (solid red, August 2021 vintage) and forecasts: median (solid black) and 90% bands (light grey) constructed from the posterior predictive distribution. Green squares represent median forecasts from the SPF. For Hours Worked we depict percentage change relative to December 2019. The MF-VAR is estimated based data available up to January 2020 (baseline estimation).

The MF-VAR predicts throughout the second half of 2020 that consumption returns to its December 2019 value by 2021:Q2 (October and December forecasts). The forecast error for the 2020:Q4 observation is close to zero. In 2021 actual consumption rises faster than the forecast, but by and large stays within the 90% credible intervals. Only the band from the December 31 forecast for 2021:Q2 does not cover the actual value. The posterior median forecasts for investment imply a quick recovery. By the end of 2021, investment is expected to be about 10% above the 2019:Q4 value. The forecasts from all three origins are quite accurate. Finally, the last row of Figure 4 shows government spending forecasts.

Unemployment and hours worked forecasts are presented in Figure 5. For the unemployment rate the MF-VAR and SPF forecasts are very similar. The Q3 and Q4 SPF forecasts are slightly lower than the July and October MF-VAR forecasts, respectively, in particular over a one-year horizon. By December unemployment had fallen substantially compared to its Q2 peak and now the MF-VAR forecast that utilizes the most recent information is below the SPF forecast, at least in the short run. In absolute terms, the July forecast is too pessimistic: unemployment falls more quickly than predicted and the actual path is outside of the 90% band. The December MF-VAR unemployment forecast, on the other hand, is
Figure 6: Inflation and Financial Forecasts in 2020:Q3 and Q4

Notes: We forecast quarterly averages. Actual values (solid red, August 2021 vintage) and forecasts: median (solid black) and 90% bands (light grey) constructed from the posterior predictive distribution. Green squares represent median forecasts from the SPF. For S&P 500 Returns we depict percentage change relative to December 2019. The MF-VAR is estimated based data available up to January 2020 (baseline estimation).

very accurate. The second row of Figure 5 demonstrates that the MF-VAR is successful in predicting the recovery of hours worked.

Figure 6 shows forecasts of inflation and the financial variables. For October and December, the MF-VAR and SPF forecasts of inflation are very similar, despite the additional information used by the December MF-VAR. Both approaches capture the drop in inflation
between 2020:Q3 and 2020:Q4, but they miss the subsequent rise in inflation, predicting that inflation stays around 2% throughout 2021. The MF-VAR predicts a lift-off from the effective lower bound on nominal interest rates which did not happen. While the 10-year Treasury bond yield forecast in July correctly predicts the actual path, the median forecasts in October and December slightly underestimate the actual yield. For all three forecast origins, the MF-VAR yield forecasts dominate the SPF forecasts. Finally, the MF-VAR implied median forecasts for the S&P 500 slightly underpredict the stock market recovery.

Overall, we conclude that while the forecast performance of the MF-VAR was poor in the second quarter of 2020, the predictions are back on track in the third and fourth quarter. In fact, they are in general as good or better than the SPF forecasts.

4.3 Forecasts in 2021

Forecasts of GDP, unemployment, and CPI inflation made in January and July 2021 are depicted in Figure 7. Going forward, and important question when estimating VARs and other time series models will be how to treat the extreme observations during the pandemic. We previously compared our baseline approach of ending the estimation sample in January 2020 to a full sample estimation. In addition, we now consider the following two strategies. First, instead of ending the estimation sample in January 2020, we only drop four months of extreme observations (from March to June, denoted by No 2020:M3-M6) from the estimation sample. We thereby allow the estimates to adapt to post-June-2020 observations. Second, we implement the LP proposal of scaling the innovation variance during 2020:Q2 in a data-driven manner and then letting the scale factor decline subsequently. By inflating the innovation covariance matrix, this approach also discounts pandemic observations in the model estimation stage.

Full sample estimation, baseline estimation, and the no-2020:M3-M6 estimation yield very similar posterior median predictions which are very close to the SPF predictions. The main difference is the width of the predictive intervals. The full estimation approach generates the widest interval, because the estimate of $\Sigma$ is heavily influenced by the outliers in 2020:Q2. The baseline approach yields the shortest intervals because all pandemic observations are excluded from the estimation of $\Sigma$. The approach of excluding only observations from March to June 2020 generates intervals that are slightly wider than the baseline intervals but shorter than the full sample estimation.
Figure 7: January and July Forecasts for 2021

Notes: We forecast quarterly averages. Actual values (solid red, August 2021 vintage) and forecasts: median (solid black) and 90% bands (light grey) constructed from the posterior predictive distribution. Green squares represent median forecasts from the SPF. For GDP we depict percentage change relative to December 2019. Full Sample: the MF-VAR is estimated based on data available at the forecast origin. January 2020 Info is baseline estimation. No 2020:M3-M6: we treat all monthly and quarterly observations for the period of March to June 2020 as missing.
While the posterior median forecasts of unemployment and inflation under the LP approach are similar to the baseline forecasts, the GDP forecasts show some difference. In January they are slightly higher and more accurate, and in July slightly lower than the baseline forecasts. The main difference between the LP approach and the other three methods is that the predictive intervals are substantially wider. The estimated decay coefficient $\rho$ is too large for the scaling to decay sufficiently fast. In particular the band for the GDP forecast appears to be unreasonably wide. We conclude that excluding the March to June 2020 observations is a promising way of handling the estimation problem going forward.

5 Conclusion

We resuscitated the mixed-frequency vector autoregression (MF-VAR) developed in Schorfheide and Song (2015) to generate macroeconomic forecasts for the U.S. during the COVID-19 pandemic from April 2020 to August 2021 in real time. While the forecasting performance of the MF-VAR was quite poor compared to the SPF from April to June 2020, the MF-VAR produced forecasts that are of similar accuracy as the SPF forecasts from July 2020 onwards. The only adjustment that we made relative to our prepandemic MF-VAR specification was to exclude observations from the early part of the pandemic from the estimation sample. Importantly, we did not modify the model ex post to be able to generate good forecasts in the April to June period retrospectively. This finding is remarkable because it implies that going forward, in applications in which a careful modeling of outliers is impractical, VARs can simply be estimated by excluding observations from the first half of 2020. Our results also suggests that it is prudent for the assessment of the forecasting performance of time series models to separate the first months of the pandemic from later periods. Because the period of March to June 2020 was highly unusual in many dimensions, the forecast performance in the subsequent months is likely to be more indicative of future forecast performance.

References


Supplemental Online Appendix to
“Real-Time Forecasting with a (Standard) Mixed-Frequency VAR During a Pandemic”
Frank Schorfheide and Dongho Song

This Online Appendix consists of the following sections:

A Computational Details
B Data Set
C Additional Empirical Results

A Computational Details

We modify the posterior sampler developed in Schorfheide and Song (2015) to account for the latent scale sequence $s_t$ defined in (9) and its associated parameter vector $\vartheta$. The Bayesian computations are implemented with a Metropolis-within-Gibbs sampler that iterates over the following three conditional distributions:\footnote{Lenza and Primiceri (2021) use a posterior sampler that integrates out $(\Phi, \Sigma)$ analytically. Because of the state-space form of the MF-VAR, this approach is not feasible in our settings. Thus, we will use a Metropolis-within-Gibbs step.}

\begin{align}
p(\Phi, \Sigma|Z_{0:T}, Y_{-p+1:T}, \vartheta) & \propto p(Z_{1:T}|z_0, \Phi, \Sigma, \vartheta)p(\Phi, \Sigma|\lambda) \\
p(Z_{0:T}|\Phi, \Sigma, Y_{-p+1:T}, \vartheta) & \propto p(Y_{1:T}|Z_{1:T})p(Z_{1:T}|z_0, \Phi, \Sigma, \vartheta)p(z_0|Y_{-p+1}) \\
p(\vartheta|\Phi, \Sigma, Z_{0:T}, Y_{-p+1:T}) & \propto p(Z_{1:T}|z_0, \Phi, \Sigma, \vartheta)p(\vartheta),
\end{align}

where the third distribution is new. The modifications are as follows:

Step 1. Conditional on $Z_{0:T}$ the MF-VAR reduces to a standard linear Gaussian VAR with a conjugate prior. To sample from $p(\Phi, \Sigma|Z_{0:T}, Y_{-p+1:T}, \vartheta)$ write the VAR in slight abuse of notation as

\begin{equation}
x'_t = z'_{t-1}\Phi + s_t u'_t,
\end{equation}
where we treat $x_t$ as observed and incorporate a constant term in the definition of $z_{t-1}$. Recall that the sequence $\{s_t\}$ can be generated from $\vartheta$. The likelihood function is given by

\[
p(X|\Phi, \Sigma, S) \propto \left( \prod_{t=1}^{T} |s_t^2 \Sigma|^{-1/2} \right) \exp \left\{ -\frac{1}{2} \sum_{t=1}^{T} \text{tr} \left[ s_t^{-2} \Sigma^{-1} (x'_t - z'_{t-1} \Phi)(x'_t - z'_{t-1} \Phi) \right] \right\}
\]

\[
\propto \left( \prod_{t=1}^{T} s_t^{-n} \right) |\Sigma|^{-T/2} \exp \left\{ -\frac{1}{2} \text{tr} \left[ \Sigma^{-1} (\tilde{X} - \tilde{Z}_{-1} \Phi)'(\tilde{X} - \tilde{Z}_{-1} \Phi) \right] \right\},
\]

where $\tilde{X}$ has rows $x'_t / s_t$ and $\tilde{Z}_{-1}$ has rows $z_{t-1} / s_t$. Thus, the posterior sampler for $(\Phi, \Sigma)$ only requires the transformation of $X$ into $\tilde{X}$ and $Z_{-1}$ into $\tilde{Z}$.

**Step 2.** Sampling from $p(Z_{0:T}|\Phi, \Sigma, Y_{-p+1:T}, \vartheta)$ can be easily implemented by replacing the covariance matrix $\Sigma$ by $\tilde{\Sigma}_t = s_t^2 \Sigma$ in every period $t$.

**Step 3.** We follow Lenza and Primiceri (2021) in using a Pareto distribution to form a prior for $\bar{s}_2^2$ and a Beta distribution for $\rho$. Thus,

\[
p(\vartheta) = \left( \prod_{j=0}^{2} \frac{1}{\bar{s}_j^2} I\{\bar{s}_j^2 \geq 1\} \right) \frac{1}{B(p, q)} \rho^{p-1} (1 - \rho)^{q-1},
\]

where $p$ and $q$ are chosen such that the Beta distribution has mean 0.8 and standard deviation 0.2. We split $\vartheta$ into three components, $\bar{s}_0^2$, $\bar{s}_2^2$, and $(\bar{s}_2^2, \rho)$, and sample each component conditional on values for the other three components.

**Sampling from the posterior of $\bar{s}_0^2$.** Note that $\bar{s}_0^2$ only affects the density for period $t^*$:

\[
p(\bar{s}_0^2|\Phi, \Sigma, Z_{0:T}, Y_{-p+1:T}, \vartheta_{-}) \propto \frac{1}{\sqrt{\bar{s}_0^{2n}}} \exp \left\{ -\frac{1}{2\bar{s}_0^2} \text{tr} \left[ \Sigma^{-1} (x'_{t^*} - z'_{t^*-1} \Phi)'(x'_{t^*} - z'_{t^*-1} \Phi) \right] \right\} I\{\bar{s}_0^2 \geq 1\} \frac{1}{\bar{s}_0^2}.
\]

Now define

\[
\beta = \frac{1}{2} \text{tr} \left[ \Sigma^{-1} (x'_{t^*} - z'_{t^*-1} \Phi)'(x'_{t^*} - z'_{t^*-1} \Phi) \right], \quad \alpha = n/2.
\]

Then the distribution of $\bar{s}_0^2$ is Inverse Gamma $(\alpha, \beta)$ truncated at 1.\footnote{The IG($\alpha, \beta$) distribution has density $(\beta^\alpha / \Gamma(\alpha))(1/x)^{\alpha+1} \exp(-\beta/x)$.} Notice that the distribution of $\bar{s}_0^2$ is independent of the other $\vartheta$ elements.
Sampling from the posterior of $s^2_1$. Note that $s^2_1$ only affects the density for period $t_\ast + 1$:

$$p(s^2_1|\Phi, \Sigma, Z_{0:T}, Y_{-p+1:T}, \vartheta)$$

$$\propto \frac{1}{\sqrt{s^2_1}} \exp\left\{-\frac{1}{2s^2_1}\mathrm{tr}\left[\Sigma^{-1}(x'_{t_\ast+1} - z'_{t_\ast}\Phi)'(x'_{t_\ast+1} - z'_{t_\ast}\Phi)\right]\right\} \mathbb{I}\{s^2_1 \geq 1\} \frac{1}{s^2_1}.$$

Now define

$$\beta = \frac{1}{2}\mathrm{tr}\left[\Sigma^{-1}(x'_{t_\ast+1} - z'_{t_\ast}\Phi)'(x'_{t_\ast+1} - z'_{t_\ast}\Phi)\right], \quad \alpha = n/2.$$

Then the distribution of $s^2_1$ is Inverse Gamma $(\alpha, \beta)$ truncated at 1. Notice that the distribution of $s^2_1$ is independent of the other $\vartheta$ elements.

Sampling from the posterior of $(s^2_2, \rho)$. Note that $(s^2_2, \rho)$ affect the density for period $t_\ast + 2$ onwards:

$$p(s^2_2, \rho|\Phi, \Sigma, Z_{0:T}, Y_{-p+1:T}, \vartheta)$$

$$\propto \left(\prod_{t=t_\ast+2}^T \frac{1}{1 + (\sqrt{s^2_2 - 1})\rho^{t-t_\ast-2}}\right)^n \times \exp\left\{-\frac{1}{2}\sum_{t=t_\ast+2}^T \frac{1}{(1 + (\sqrt{s^2_2 - 1})\rho^{t-t_\ast-2})^2}\mathrm{tr}\left[\Sigma^{-1}(x'_{t_\ast} - z'_{t_\ast-1}\Phi)'(x'_{t_\ast} - z'_{t_\ast-1}\Phi)\right]\right\} \times \mathbb{I}\{s^2_2 \geq 1\} \frac{1}{s^2_2} \frac{1}{B(p, q)} \rho^{p-1}(1 - \rho)^{q-1}.$$

This density does not belong to a specific family of distributions from which we can sample directly. Thus, we use a random walk Metropolis-Hastings step.

Initialization of $\vartheta$ and Proposal Covariance Matrix. (i) We initialize $\rho^0$ using the prior mean of 0.8. (ii) Based on parameter estimates from a run that stops estimation in, say, December 2019, we use the estimates $(\hat{\Phi}, \hat{\Sigma}, \hat{Z})$ to compute $(\alpha_j, \beta_j)$ for the conditional posteriors $p(s_j|\cdot)$, $j = 0, 1$. We initialize $s_j$ using the mean $\beta_j/(\alpha_j - 1)$. Assuming that $s_2$ only affects observation $t = t_\ast + 2$, the same approach can be used to initialize $s_2$. (iii) For the proposal covariance matrix in the random walk Metropolis-Hastings step we use a diagonal matrix. The element for $\rho$ is a fraction of its prior variance, e.g., $0.2^2/10$, and for $s_2$ we use $\beta_2^2/(\alpha_2 - 1)^2(\alpha_2 - 2)$. 
B  Data Set

The eleven real-time macroeconomic data series are obtained from the ALFRED database maintained by the Federal Reserve Bank of St. Louis. Table A-1 summarizes how the series used in this paper are linked to the series provided by ALFRED. The recent vintages of PCE and INVFIX from ALFRED do not include data prior to 2002. However, the most recent data for PCE and INVFIX can be obtained from BEA or NIPA Tables. Specifically, we download “Table 2.8.3. Real Personal Consumption Expenditures by Major Type of Product, Monthly, Quantity Indexes” for PCE and “Table 5.3.3. Real Private Fixed Investment by Type, Quantity Indexes” for INVFIX, which are available from 1/1/1959 and 1/1/1948 to current periods, respectively. First, we compute the growth rates from the quantity indexes. Based on the computed growth rates, we can backcast historical series up to 1/1/1964 using the 1/1/2002 data points as initializations. We think this is a reasonable way to construct the missing points for PCE and INVFIX.

Figures A-1 and A-2 provide the time series plot of our eleven macroeconomic variables obtained from the August 2021 vintage.

Table A-1: ALFRED Series Used in Analysis

<table>
<thead>
<tr>
<th>Time Series</th>
<th>ALFRED Name</th>
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<tbody>
<tr>
<td>Gross Domestic Product (GDP)</td>
<td>GDPC1</td>
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<tr>
<td>Fixed Investment (INVFIX)</td>
<td>FPIC1</td>
</tr>
<tr>
<td>Government Expenditures (GOV)</td>
<td>GCEC1</td>
</tr>
<tr>
<td>Unemployment Rate (UNR)</td>
<td>UNRATE</td>
</tr>
<tr>
<td>Hours Worked (HRS)</td>
<td>AWHI</td>
</tr>
<tr>
<td>Consumer Price Index (CPI)</td>
<td>CPIAUCSL</td>
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<tr>
<td>Industrial Production Index (IP)</td>
<td>INDPRO</td>
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<tr>
<td>Personal Consumption Expenditure (PCE)</td>
<td>PCEC96</td>
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<td>Federal Fund Rate (FF)</td>
<td>FEDFUNDS</td>
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<tr>
<td>10-year Treasury Bond Yield (TB)</td>
<td>GS10</td>
</tr>
<tr>
<td>S&amp;P 500 (SP500)</td>
<td>SP500</td>
</tr>
</tbody>
</table>
Figure A-1: Monthly Data

Unemployment Rate  Industrial Production  Personal Consumption Expenditures

Hours Worked  CPI Inflation  Federal Funds Rate

S&P 500  10-year Treasury Bond Yield

Notes: M-o-M percentage changes are annualized. The data are obtained from the August 2021 vintage, starting from 1964. The shaded bars indicate the NBER recession dates.

Figure A-2: Quarterly Data, Q-o-Q Growth Rates in Annualized %

GDP in %  Investment  Government Spending

Notes: The data are obtained from the August 2021 vintage, starting in 1964. The shaded bars indicate the NBER recession dates.