The Role of Business Survey Measures in Forecasting Croatian Industrial Production

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Abstract: While the European Union (EU) harmonized methodology is a benchmark of worldwide used business survey (BS) methodology, the choice of variables that are components of the confidence indicators, as the leading indicators, is not strictly determined and unique. Therefore, the aim of this paper is to investigate and to quantify the relationship between all business survey variables in manufacturing industry and industrial production as a reference macroeconomic series in Croatia. The assumption is that there are variables in the business survey, that are not components of Industrial Confidence Indicator (ICI) and which can accurately (and sometimes better than ICI) predict changes in Croatian industrial production. Empirical analyses are conducted using quarterly data of BS variables in manufacturing industry and Croatian industrial production over the period from the first quarter 2005 to the first quarter 2013. Research results confirmed the assumption: three BS variables which is not components of ICI (competitive position, demand and liquidity) are the best leading indicator than ICI, in forecasting changes in Croatian industrial production instantaneously, with one, two or three quarter ahead.

Keywords: balance, business survey, confidence indicators, industrial production, forecasting

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