

Redefining the Croatian Economic Sentiment Indicator

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Abstract : Based on Business and Consumer Survey (BCS) data, the European Commission (EC) regularly publishes the monthly Economic Sentiment Indicator (ESI) for each EU member state. ESI is conceptualized as a leading indicator, aimed at tracking the overall economic activity. In calculating ESI, the EC employs arbitrarily chosen weights on 15 BCS response balances. This paper raises the predictive quality of ESI by applying nonlinear programming to find such weights that maximize the correlation coefficient of ESI and year-on-year GDP growth. The obtained results show that the highest weights are assigned to the response balances of industrial sector questions, followed by questions from the retail trade sector. This comes as no surprise since the existing literature shows that the industrial production is a plausible proxy for the overall Croatian economic activity and since Croatian GDP is largely influenced by the aggregate personal consumption.

Keywords : business and consumer survey, economic sentiment indicator, leading indicator, nonlinear optimization with constraints

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