

ABSTRACT

In the past, seasonal variation in macroeconomic time series data has often been treated as a purely "statistical" problem. The view prevailed that a proper understanding of seasonality would enable researchers to eliminate its effects more efficiently and thereby facilitate the analysis of "business cycle" frequencies.

An alternative view, advocated by Ramsey (1992), treats the underlying dynamic model as a high frequency oscillator with relatively stable coefficients. Such a model may incorporate "parameter drift" in that the model parameters can be allowed to change slowly over time. The benefits of such an approach include improved interpretation and understanding of the relationships which give rise to the model, as well as insight as to possible causes of observed changes to the system over time.

Ramsey (1992) demonstrated that the time paths of economic variables can be accurately characterized using a simple harmonic oscillator model. The present paper investigates the forecasting properties of this class of model with respect to time series for U.S. durable and non-durable goods production.