

Technical note on seasonal adjustment for Capital goods imports

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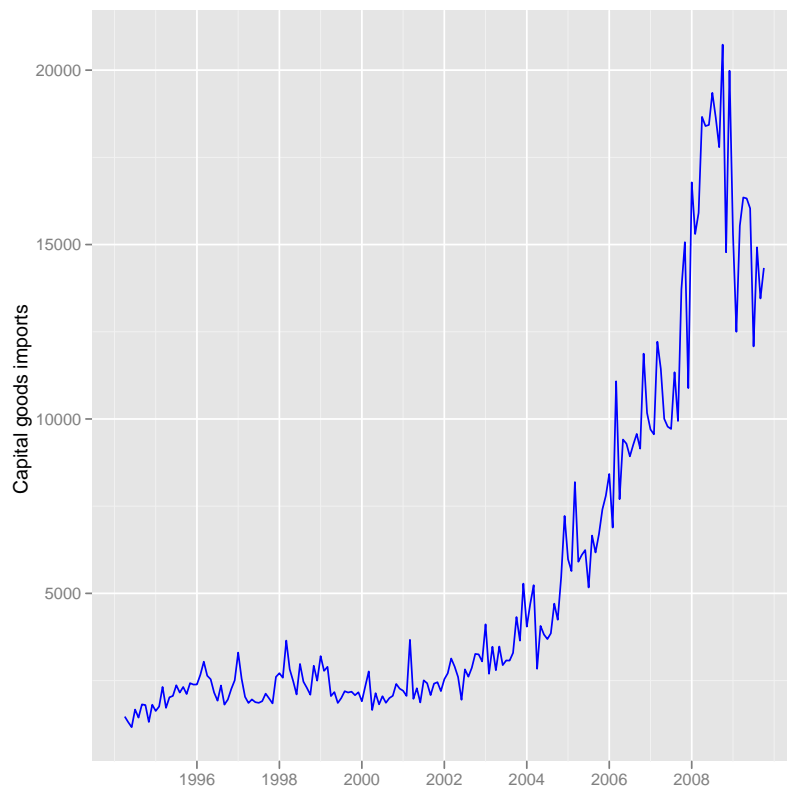
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1 Capital goods imports

We analyse the monthly data for Capital goods imports in Rs.crore from April, 1994 onwards. Figure 1 shows the original plot. The plot shows seasonal peaks which are increasing over time. In a non-seasonally adjusted series, it is difficult to discern a trend as the seasonal variations may mask the important characteristics of a time series.

Figure 1 Capital goods imports (Non seasonal adjusted)



1.1 Additive versus multiplicative seasonality

X-12-ARIMA has the capability to determine the mode of the seasonal adjustment decomposition to be performed i.e whether multiplicative or additive seasonal adjustment decomposition is appropriate for the series. For the given series, multiplicative seasonal adjustment is considered appropriate on the basis of the model selection criteria. The plot of the series also shows multiplicative seasonal adjustment.

2 Steps in the seasonal adjustment procedure

Given that seasonality exists, it is important to model seasonality before the application of seasonal adjustment procedure. Seasonality in time series can be deterministic or stochastic. Stochastic seasonality can be stationary or non-stationary.

A visually appealing way of looking at the raw data is to plot the growth rates in each of the months across the years i.e the growth of April over March in each of the years from 1994 onwards. This gives us some idea of the presence of seasonal peaks, if any in the series.

Figure 2 Monthly growth rates across the years

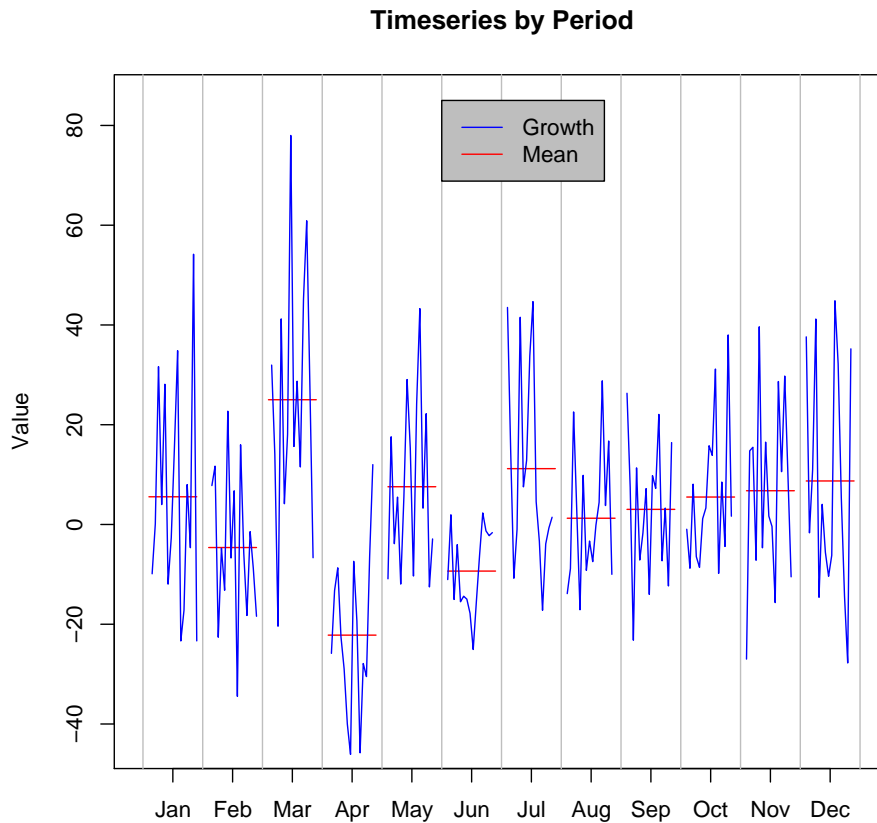


Figure 2 does not show a very high level of seasonality as seen in the series of Index of industrial production.

2.1 Tests for identifying the nature of seasonality

We test for the nature of seasonality using HEGY and Canova Hansen test.

Under the null hypothesis of the HEGY test, nonstationary unit root behavior exists not only

at the long run (or zero) frequency, but also at some or all of the seasonal frequencies. The Canova Hansen test takes the opposite approach. The null hypothesis is stationarity with deterministic seasonality.

Table 1 HEGY test statistics

	Stat.	p-value
tpi_1	0.82	0.10
tpi_2	-1.41	0.10
Fpi_3:4	10.93	0.10
Fpi_5:6	9.48	0.10
Fpi_7:8	2.29	0.01
Fpi_9:10	7.40	0.06
Fpi_11:12	22.35	0.10
Fpi_2:12	17.16	
Fpi_1:12	21.50	

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 Canova & Hansen test
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Null hypothesis: Stationarity.
 Alternative hypothesis: Unit root.
 Frequency of the tested cycles: $\pi/6$, $\pi/3$, $\pi/2$, $2\pi/3$, $5\pi/6$, π ,

L-statistic: 1.634
 Lag truncation parameter: 14

Critical values:

0.10 0.05 0.025 0.01
 2.49 2.75 2.99 3.27

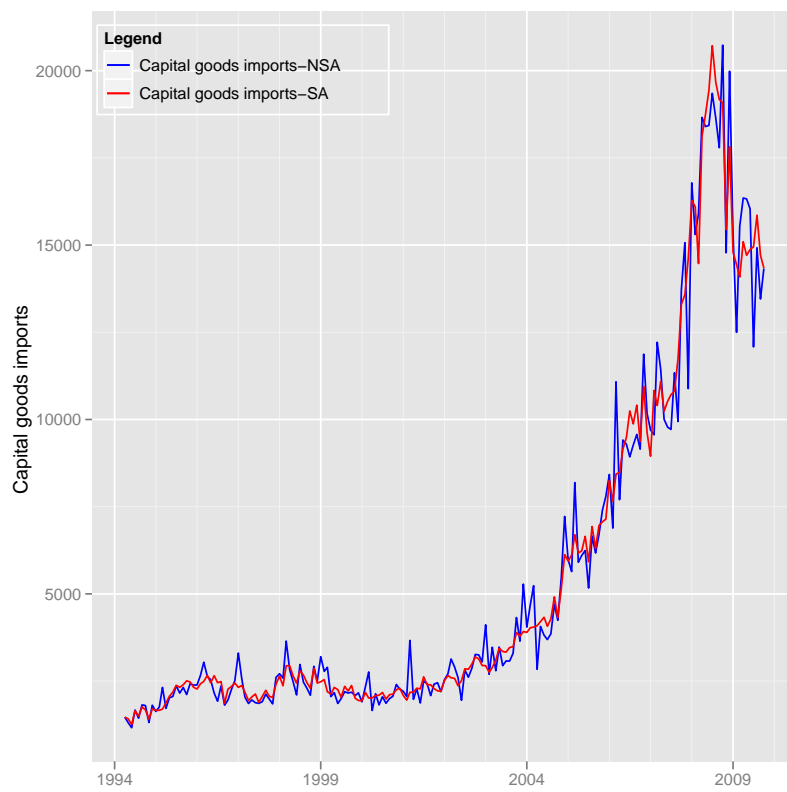
The HEGY test suggests that there is stochastic seasonality in Capital goods imports.

2.2 Seasonal adjustment of Capital goods imports with X-12-ARIMA

Seasonal adjustment is done with X-12-ARIMA method. Seasonal dummy is not added in the specification of the RegARIMA model on the basis of the results of HEGY and Canova Hansen tests. The series shows trading day effect hence trading day adjustment is made in the specification.

Figure 3 shows the non-seasonally and seasonally adjusted Capital goods imports. The seasonal peaks are dampened after seasonal adjustment.

Figure 3 Capital goods imports (NSA and SA)



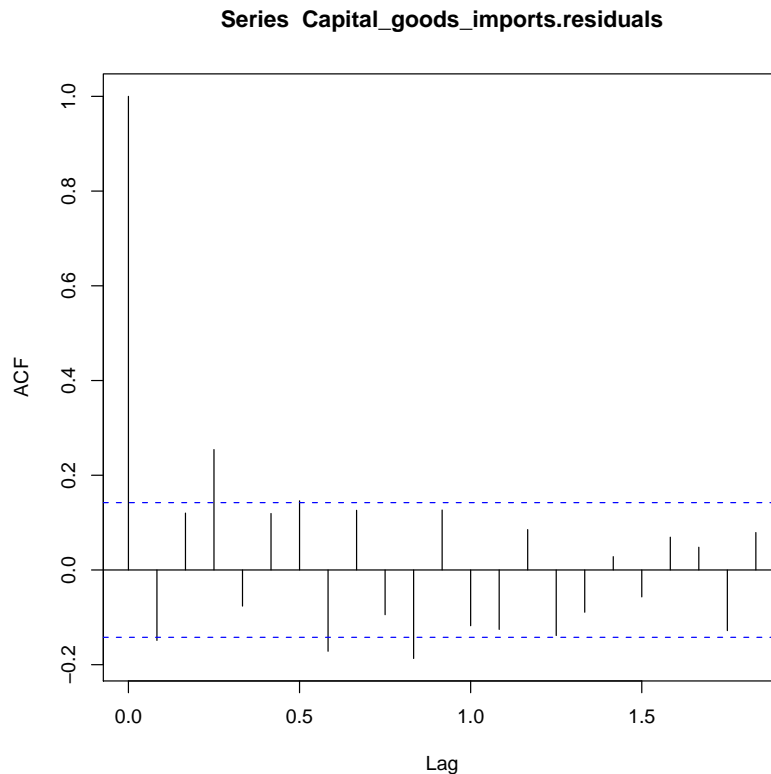
2.3 Diagnostic checks

After seasonal adjustment, a series of diagnostic checks are performed through relevant tests and quality assessment statistics.

2.3.1 Validation of the automodel choice by X-12-ARIMA

A test of validation of the auto model choice by X-12-ARIMA is the randomness of the residuals of the ARIMA model. The Ljung-Box test is conducted on the residuals of the fitted ARIMA model to check whether or not the residuals are white noise. The ACFs of the residuals are plotted to check for randomness.

Figure 4 ACF of residuals



The figure 4 does not reveal significant autocorrelation amongst the residuals.

2.3.2 Presence of identifiable seasonality

The statistic M7 shows the amount of moving seasonality present relative to stable seasonality. It shows the combined result for the test of stable and moving seasonality in the series. A value lesser than 0.7 is desirable to show identifiable seasonality in the series. The value of M7 statistic for Capital goods imports is 0.567

Capital goods imports series show identifiable seasonality on the basis of M7 statistic.

3 Year on year growth versus seasonally adjusted point on point growth

Growth rates can be computed either year on year or point on point. The year on year growth rate is computed as the percentage change with respect to the corresponding month (or quarter) in the preceding year, while the point on point growth rate is computed as the percentage change with respect to the preceding period.

Table 2 shows the year on year growth and seasonally adjusted annualized rate in percent, point on point.

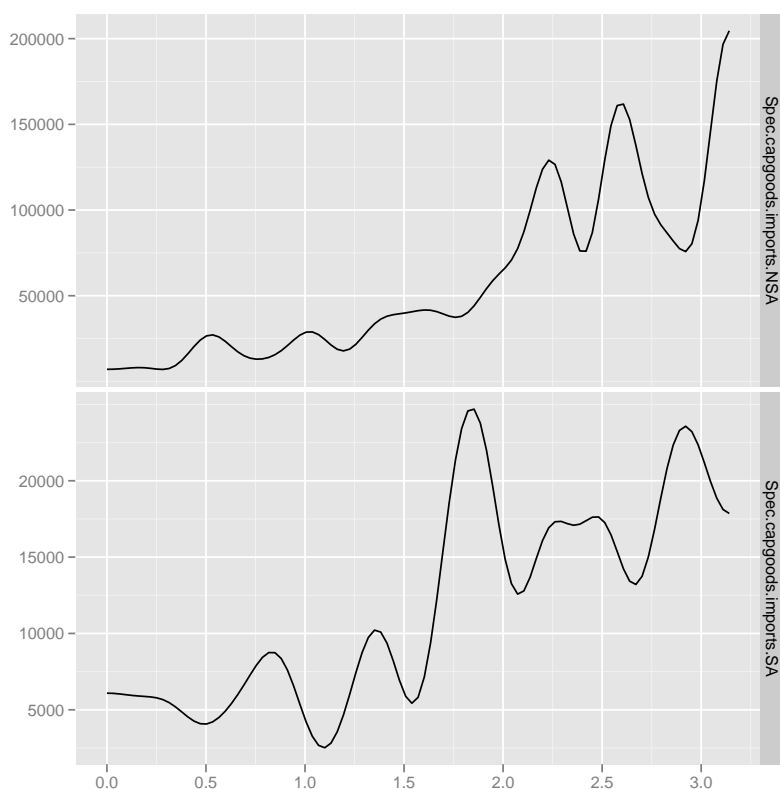
4 Spectral representation

Figure 5 shows the spectral plot of the growth rate of the unadjusted and seasonally adjusted series. Spectral plot, an important tool of the frequency domain analysis shows the portion of variance of the series contributed by cycles of different frequencies.

The x-axis represent frequency from 0 to π (3.14). The seasonal frequencies are $\pi/6$ (0.52 on the x-axis), $\pi/3$ (1.04 on the x-axis), $\pi/2$ (1.57 on the x-axis), $2\pi/3$ (2.09 on the x-axis) and $5\pi/6$ (2.6 on the x-axis). In terms of periods (months); they are 12 months, 6 months, 4 months, 3 months and 2.4 months.

The figure at the lower panel shows that peaks at seasonal frequencies are eliminated after seasonal adjustment. For example the first peak at 0.52 correspond to 12 months which is eliminated after seasonal adjustment. Other peaks seen in the lower panel of the figure are not at seasonal frequencies.

Figure 5 Capital goods imports Spectral plot (NSA and SA)



5 Sliding spans diagnostics

Sliding span diagnostics are descriptive statistics of how the seasonal adjustments and their month-to-month changes vary when the span of data used to calculate them is altered in a systematic way.

It is based on the idea that for a month common to more than one overlapping spans, the percent change of its adjusted value from the different spans should not exceed the threshold value and for a month common to more than one span, the difference between the month on month change from the different spans should not exceed the threshold value (the threshold value being 0.03).

Sliding span gives the percentage of months (A%) for which the seasonal adjustment is unstable (the difference in the seasonally adjusted values for a particular month from more than one span should not exceed 0.03). It also gives the percentage of months (MM%) for which the month on month changes of the seasonally adjusted values is unstable i.e exceeding the threshold value. The seasonal adjustment produced by the procedure chosen should not be used if $A\% > 25.0$ (> 15.0 is considered problematic) or if $MM\% > 40.0$.

For Capital goods imports A% is 18.2 and MM% is 33.7.

The sliding span diagnostics is not reliable when the range of the seasonal factors in a particular span is low (less than 5).

6 Accounting for India-specific moving holiday effects

Accounting for moving holiday effect is a crucial component of pre-treatment of the series before the application of seasonal adjustment method. X-12-ARIMA is capable of handling the moving holiday effects through the inclusion of regressors for Easter Sunday, Labor Day, and Thanksgiving Day. These are important moving holidays for U.S time series.

We use the GENHOL program of X-12-ARIMA to analyse India-specific moving holiday effect. The program generates regressor matrices from holiday date file to enable X-12-ARIMA, estimation of complex moving holiday effects. It has the capability to generate regressors for before the holiday interval, surrounding the holiday interval and past the holiday interval.

The key assumption is that the fundamental structure of a time series changes for a fixed number of days before, after or for a fixed interval surrounding the holidays. We estimate the effect of Diwali which is an important moving holiday in Indian scenario. We estimate the effect with different specifications about the number of days around the festival. However we did not find significant results for diwali effect on capital goods imports.

Table 2 Year on year and point on point growth rates

	Y.o.Y.growth	Point.on.point.growth
2006 Jan	40.90	172.46
2006 Feb	22.10	-89.10
2006 Mar	35.28	116.35
2006 Apr	30.37	6.09
2006 May	54.26	91.26
2006 Jun	48.84	42.95
2006 Jul	72.74	92.53
2006 Aug	39.21	-44.21
2006 Sep	55.07	63.62
2006 Oct	36.62	-126.03
2006 Nov	60.29	186.29
2006 Dec	30.44	-153.65
2007 Jan	15.16	-88.26
2007 Feb	38.83	229.16
2007 Mar	10.24	-48.80
2007 Apr	48.50	77.01
2007 May	6.30	-95.84
2007 Jun	5.27	32.72
2007 Jul	8.79	21.52
2007 Aug	22.35	11.58
2007 Sep	3.87	97.68
2007 Oct	49.93	150.46
2007 Nov	26.92	24.95
2007 Dec	7.00	88.21
2008 Jan	73.02	130.07
2008 Feb	60.07	-14.15
2008 Mar	30.25	-127.77
2008 Apr	63.18	270.42
2008 May	83.90	39.13
2008 Jun	88.43	44.46
2008 Jul	99.19	76.52
2008 Aug	64.33	-62.74
2008 Sep	78.97	-30.22
2008 Oct	51.12	-5.60
2008 Nov	-1.92	-253.76
2008 Dec	83.58	171.25
2009 Jan	-8.72	-222.96
2009 Feb	-18.32	-29.31
2009 Mar	-2.33	-29.66
2009 Apr	-12.38	83.33
2009 May	-11.28	-31.59
2009 Jun	-12.98	13.54
2009 Jul	-37.56	6.13
2009 Aug	-19.93	70.81
2009 Sep	-24.38	-90.49
2009 Oct	-30.88	-30.14
2009 Nov	10	
2009 Dec		
2010 Jan		
