Catalogue no. 11-522-XIE

Statistics Canada International Symposium Series - Proceedings

Symposium 2003: Challenges in Survey Taking for the Next Decade

2003

Statistics Canada Statistique Canada

Canada

Proceedings of Statistics Canada Symposium 2003
Challenges in Survey Taking for the Next Decade

SEASONAL ADJUSTMENT OF SHORT SERIES

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ABSTRACT

The purpose of this work consists in evaluating changes in the quality performances of two different and widely used programs for seasonal adjustment, X-12-Regarima and Tramo-Seats, when the length of time series is progressively reduced. The comparisons are carried-out by using appropriate and homogeneous quality indicators for the analysis of the adjustment performed by the two programs. A wide array of EU/Euroarea time series is analysed. It is found that, although the quality of the adjustment progressively reduces for both approaches when the sample is shortened, the deterioration in quality indicators is greater for the model-based approach.

KEYWORDS: Quality Indicators; Seasonal Adjustment; Short Time Series.

1. INTRODUCTION

Tramo-Seats (henceforth TS) and X-12-Regarima (X12) are two programs for seasonal adjustment of time series based on different approaches. The first program uses model-based canonical decomposition to extract the signals, while the second uses empirical filters based on moving averages to estimate the classical components. Both programs have been recommended by Eurostat, the Statistical Office of the European Communities, for the seasonal adjustment of time series in European Member States.

Nowadays, a cause of major concern at Eurostat is the seasonal adjustment of short time series. At the Member States level, a number of reasons explain why series can be defined over a short sample, i.e. changes in methodologies and definitions, moving to new statistical classifications, the use of new sources of information, etc.. At the Eurostat level, imminent and future further enlargements of the European Union will certainly increase the number of infra-annual statistics defined over short samples, particularly estimates of European/Eurozone series obtained by Eurostat by means of aggregation of the national available data.

The effects of shortening the sample period on the performances of seasonal adjustment procedures have been considered in various respects by previous literature.

Cholette (1979) has analysed plots of gain functions and phases of X-11 filters in estimating central and concurrent seasonal factors for series with lengths of 36, 48, 60 and 84 observations and concluded that seasonal adjustment of series shorter than five years should generally be avoided. Hood, Ashley and Findley (2000) have considered 54 simulated time series defined over 12 years and found that, when the sample is reduced to 4 years, both X12 and TS suffer from a deterioration of the quality of seasonal adjustments, defined in terms of relative root mean squared and absolute deviations from the 'true' values. However, they found the deterioration to be greater for TS (about 60% the average increase of statistics) rather than for X12 (about 30% of increase). Matas Mir and Rondonetti (2003) have conducted a similar exercise on X12 and on a number of simulated series. The authors conclude that the discrepancies between the adjusted short (5 years) and long (20 years) series are high at the beginning of the sample (first 2 years), whilst these become in most cases low at the end of the sample period, the most scrutinised by users, analysts and policy-makers. Finally, Findley and Martin (2003) have conducted a theoretical frequency domain comparison between TS and X12 in terms of squared gain and phase delay functions. Their results are that seasonal adjustment near the centre of the series can be more problematic than concurrent adjustment. Furthermore, squared gains of both TS and X12 filters are found to be influenced by the estimated Airline coefficients, and the phase

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delays of concurrent TS filters by the estimated Airline coefficients.

In this paper we provide new and more complete empirical evidence on the effects of shortening the sample period for seasonal adjustment of time series. The comparison between TS and X12 is carried out by using a wide array of homogeneous quality indicators for the seasonal adjustment (Ladiray and Mazzi, 2003). The series used are drawn from the NewCronos data-base of Eurostat. For each series, two/three alternative lengths are considered: short series (5 years of data), medium series (10 years) and full sample, or long, series.

Our main findings can be summarised as follows. In accordance with the previous literature, we find that the quality of seasonal adjustment progressively reduces when shorter time series are considered. However, the deterioration is found to be proportionally greater passing from long to medium, than from medium to short time series. Another important finding is that X12 performs, on average, slightly better than TS when the sample is reduced, a result possibly due to the higher instability of model-based approaches when a large proportion of data in the time series is ruled out.

The scheme of the paper is as follows. Section 2 contains a brief review of methods and statistics for comparisons of performances of TS and X12. Section 3 details on results obtained. Section 4 concludes.

2. METODOLOGY FOR COMPARISON

To assess empirically the quality of the different approaches, two main problems have to be solved. The first one consists in the definition of quality indicators that should be computed for the different approaches, the second one is a computational problem, as TS and X12 do not provide the user with a common set of quality statistics.

2.1 Quality Measures

There is nowadays no theoretical consensus on the measures to be used in order to assess the quality of a seasonal adjustment, and that explains the large number of criteria proposed so far in the literature. In effect, several aspects of the seasonal adjustment can be addressed and, for each of them, different criteria can be defined. Here we follow a strategy for quality assessment derived from Ladiray and Mazzi (2003).

How different the various approaches really are? Users pay a lot of attention to the growth rates of the seasonally adjusted series. The mean and the range of the series of the growth rate differences are therefore computed and checked. Furthermore, the various seasonally adjusted series should deliver more or less the same message and their growth rates should have the same sign. To measure the degree of consistency in growth rates, a statistic is computed measuring the global percentage of concordance between the series obtained through TS and X12.

Quality of the seasonal adjustment X12 proposes a set of M and Q-statistics to assess the quality of the seasonal adjustment[2]. These statistics have been adapted - whenever feasible - to the estimates obtained with TS.

Roughness of the components Dagum (1979) has proposed two measures of roughness of the seasonally adjusted series. The first one is the L_2-norm of the differenced series: $R_1 = \sum_{t=2}^{T} \left(A_t - A_{t-1} \right)^2 = \sum_{t=2}^{T} \left(\nabla A_t \right)^2$, where A_t indicates the seasonally adjusted series. The second one is based on the 13-term Henderson filter: the adjusted series is smoothed with the Henderson filter and R_2 is defined as the L_2-norm of the residuals: $R_2 = \sum_{t=1}^{T} \left(A_t - H_{13} A_t \right)^2 = \sum_{t=1}^{T} \left[\left(I - H_{13} \right) A_t \right]^2$. The rationale of these measures of roughness is that the involved filters (the first difference and the I - H_{13} operator) are high-pass filters that remove most of the low frequencies components corresponding to trend-cycle variations. In other words, these statistics measure the size of the deviations from a smooth trend, namely the size of an “irregular component”. This is why Pfefferman et al. (1984) suggested a “natural” third measure, a measure of similarity between seasonally adjusted data and trend:

[2] For a precise definition and the interpretation of these statistics, see Ladiray and Quenneville (2001).

$R_3 = \sum_{t=1}^{T}\left(A_t - TC_t\right)^2$. Indeed, there is no fundamental reason why a seasonally adjusted series should be smooth as the irregular, which is one of the components of the time series, is included in the seasonally adjusted series. Gomez and Maravall (1999) prefer to focus on the other components, namely the trend-cycle and the seasonality. Regarding seasonality, they use the criterion $Mar(S) = \sum_{t=1}^{T}\left[\left(1 + B + \ldots + B^{11}\right)S_t\right]^2$. The smoothness of the trend-cycle is measured by the L_2-norm of the first and the second differences: $Mar1(TC) = \sum_{t=2}^{T}\left(\nabla TC_t\right)^2$ and $Mar2(TC) = \sum_{t=3}^{T}\left(\nabla^2 TC_t\right)^2$. All these measures can be computed on the estimates obtained from TS and X12 and on the complete series or only on the last three years.

Idempotency and characteristics of the irregular component A seasonal (and trading-day and holiday) adjustment that leaves detectable residual seasonality and calendar effects in the adjusted series is usually regarded as unsatisfactory. Then, X12 and TS are run on the seasonally adjusted series and the usual tests proposed by these software used to check for idempotency. The irregular component should not present any structure or residual seasonality. The irregulars derived from the various approaches are analysed both with the TRAMO automatic modelling module and the Regarima software. The usual tests proposed by the software are used to check for randomness of the irregular components.

Stability of the seasonally adjusted series Even if no residual effects are detected, the adjustment will be unsatisfactory if the adjusted values undergo large revisions when they are recalculated as new data become available. Frequent and substantial revisions cause data users to lose confidence in the usefulness of adjusted data. Such instabilities can be the unavoidable result of highly variable seasonal or trend movements in the series to be adjusted. In any case, they should be measured and checked. X12 includes two types of stability diagnostics: sliding spans and revision histories (see Findley et al. (1998), U.S. Bureau of Census (2002)). Some of these diagnostics are used here, in particular the mean and standard deviation of the absolute revisions (AR) after k periods, and the two most important sliding spans: A(%), that is the percentage of observations with unstable adjustments, and MM(%), the percentage of observations with unstable period-to-period percent changes.

2.2 Software and parameters

TS (version 98) and X12 (version 0.2.8) have been used in the applications. A dedicated SAS program manages the two programs and calculates all quality statistics described above. Some specific features have been implemented in order to simulate different adjustment policies. For example, the series can be cleaned from calendar effects or outliers before any adjustment is performed. The decomposition model can be, or not, fixed by the user etc. The software used for seasonal adjustment can be freely downloaded at the Bank of Spain and the US Bureau of the Census web sites[3].

3. EMPIRICAL RESULTS

We consider as an example of our analysis monthly extra-EU15 exports defined over the sample 1989.1-2003.2. Over this sample (long series), we define short (1999.1-2003.2) and medium (1996.1-2003.2) series. As a first step, we perform an ANOVA analysis in order to assess the presence or not of monthly seasonality in the series. An F-type test, not reported here to save space, clearly rejects the null of no seasonality, with a p-value less than 0.01% for all samples.

The analysis of residuals after seasonal adjustments reported in Table 1 shows a deterioration of M-statistics when the sample is reduced. This is synthesised by the Q-test, with TS having larger increases in final results, especially when passing from long to medium series. The statistics M8 and M9 obtained for the short series through TS are greater than 1, implying the presence of seasonal evolving movements that can bias final estimation of seasonal coefficients. Consequently, the seasonally adjusted data obtained with TS should be considered with great caution.

[3] Details on the SAS program and options used to run TS and X12 for the analyses can be obtained from the authors upon request.

Table 1: M-statistics for the quality of the seasonal adjustment (Exports extra-EU15)

Statistics	Long series (89-03)		Medium series (96-03)		Short series (99-03)	
	TS	X12	TS	X12	TS	X12
M1	0,484	0,609	0,054	0,889	0,668	1,171
M2	0,177	0,302	0,031	0,475	0,781	0,418
M3	0,439	0,597	0,000	0,759	0,708	0,734
M4	0,118	0,095	0,267	0,067	0,575	0,088
M5	0,276	0,333	0,000	0,376	0,334	0,352
M7	0,178	0,203	0,412	0,335	0,901	0,355
M8	0,429	0,450	4,030	0,150	2,597	0,296
M9	0,287	0,291	0,362	0,132	1,801	0,267
M10	0,416	0,442	3,907	0,137	-	-
M11	0,323	0,385	2,861	0,133	-	-
Q	0,292	0,355	0,638	0,394	0,725	0,548

The analysis of the irregular component reported in Table 2 shows that, for all series but the long obtained through X12, we could identify a seasonal component. For short series, the Lijung-Box statistics give values very close to the critical ones. Further, there seems to be autocorrelation at lag one for TS, as suggested by the DW statistic. The residuals are normally distributed and no outliers, working days and Eeaster effects are found for both programs.

Table 2: Characteristics of the irregular component (Exports extra-EU15)

Series	ARIMA model	p-Lijung	DW	p-Norm	Ls	Tc	Ao	Working days	Easter effect
Long series TS	(0,0,1)(0,1,1)	0,064	1,944	0,734	0	0	0	N	N
Long series X12	(0,0,1)(0,0,0)	0,058	1,865	0,020	0	0	2	N	Y
Medium series TS	(2,0,3)(0,0,1)	0,124	1,964	0,527	0	0	0	N	N
Medium series X12	(0,0,1)(0,0,1)	0,079	1,857	0,000	0	0	3	N	N
Short series TS	(0,1,1)(0,1,1)	0,029	2,908	0,935	0	0	0	N	N
Short series X12	(0,1,1)(0,1,1)	0,068	2,715	0,163	0	0	0	N	N

Table 3 reports on results of revision analyses. X12 shows better results for long and medium series for all statistics, and the opposite for short series. In general, we have a deterioration of statistics going from long to short time series, but not from long to medium series. Sliding spans statistics, not computed here for short series due to the lack of data, are under critical values of 25% (A) and 40% (MM).

Table 3: Revisions analysis and sliding spans (Exports extra-EU15)

	Long series (89-03)		Medium series (96-03)		Short series (99-03)	
Statistics	TS	X12	TS	X12	TS	X12
Mean AR 1 month	0,561	0,299	0,594	0,239	0,787	1,352
Mean AR 2 months	0,484	0,249	0,705	0,263	1,246	1,832
Mean AR 3 months	0,651	0,242	0,676	0,257	1,497	2,029
Mean AR 4 months	0,621	0,262	0,673	0,248	1,720	2,308
Mean AR 5 months	0,628	0,362	0,574	0,310	2,074	2,611
Mean AR 6 months	0,230	0,384	0,619	0,258	2,408	2,815
Std AR 1 month	0,918	0,240	0,465	0,215	0,790	2,046
Std AR 2 months	0,825	0,206	0,455	0,234	0,851	2,138
Std AR 3 months	1,008	0,109	0,495	0,191	0,939	2,159
Std AR 4 months	1,246	0,189	0,521	0,205	1,020	1,800
Std AR 5 months	1,046	0,304	0,423	0,205	0,980	1,818
Std AR 6 months	0,258	0,354	0,421	0,159	0,783	2,079
A (en %)	4,86	3,47	0	0	-	-
MM (en %)	16,08	5,59	0	1,69	-	-

According to the indicators of smoothness shown in Table 4, there is evidence that the short series obtained with X12 are somehow smoother. A comparison between these results and those obtained for revisions clearly shows the inverse relationship between the two measures. In terms of variability, a number of indicators are very close for the two programs (see for example the MAR statistics), a circumstance reflecting a high degree of similarity in final outcomes.

Table 4: Roughness measures (Exports extra-EU15)

Statistics	Long series (89-03)		Medium series (96-03)		Short series (99-03)	
	TS	X12	TS	X12	TS	X12
R_1	1432,768	1584,931	1058,715	2489,561	3045,356	2769,479
R_1, Last 3 years	1503,545	1519,512	892,519	1745,431	1619,325	2202,051
R_2	1,433	1,573	0,719	2,006	2,626	2,096
R_2, Last 3 years	1,092	1,119	0,695	1,312	1,091	1,564
R_3	1,253	1,640	0,530	2,086	2,681	2,123
R_3, Last 3 years	0,942	1,121	0,501	1,311	1,123	1,587
Mar1 (TC)	626,943	614,246	807,596	791,562	1387,729	955,035
Mar1 (TC), Last 3 years	823,227	856,533	814,771	807,746	1455,786	829,510
Mar2 (TC)	299,962	171,331	311,315	212,825	1676,870	289,624
Mar2 (TC), Last 3 years	417,157	247,789	353,016	243,345	1694,602	291,795
Mar (S)	0,045	0,041	0,187	0,010	0,254	0,011
Mar (S), Last 3 years	0,028	0,018	0,208	0,010	0,256	0,011

The differences in growth rates between short and long/medium series are greater for TS as far as concerns both mean and standard deviation. Concordance rates of seasonally adjusted series are again favourable to X12 (see Table 5). On average, the short series is more 'close' to the long series than the medium series. This implies that a great deal of differences is concentrated in the central part of the series.

Table 5: Mean and standard deviation of differences in rates of growth, concordance rates of seasonally adjusted series (Exports extra-EU15)

Statistics	TS	X12
1. Mean (Δ% short – Δ% medium)	0,0733	0,0373
2. Mean (Δ% short – Δ% long)	0,0530	0,0451
3. Standard deviation (Δ% short – Δ% medium)	4,2772	2,3007
4. Standard deviation (Δ% short – Δ% long)	4,7194	2,7303
5. Concordance rate of s.a. series (short and long series)	71%	73%
6. Concordance rate of s.a. series (short and medium series)	55%	73%

From a qualitative point of view, the same results have been obtained by considering a detailed analysis of imports for France, not reported here to save space. Again, we have obtained slightly better results for X12 for almost all statistics considered, and a greater stability in the final part of the series for both methods.

We now ask whether previous results can be generalised. In this respect, a set of 20 time series covering four short-term indicators has been considered (see Table 6). For each series, the whole sample (long series) has been truncated and the short series defined as the part of data at the end of the sample.

Table 6: Data set used in empirical analyses

Series	Countries	Frequency	Sample (Long series)	Sub-sample (Short series)
Harmonised unemployment rate (%)	EU15, France, Germany, UK	Monthly	1995.01- 2003.02	1999.01- 2003.02
Industrial production index (trading days adjusted)	EU15, France, Germany, UK	Monthly	1995.01- 2003.02	1999.01- 2003.02
GDP at current prices	EU15, Eurozone, France, Germany, Italy, UK	Quarterly	1990.1-2003.1	1998.1- 2003.02
Harmonised index of consumer prices (1996=100)	EU15, Eurozone, France, Germany, Italy, UK	Monthly	1996.01-2003.02	1999.01- 2003.02

A preliminary ANOVA analysis has been conducted over the 20 series in order to assess, through an F-type test, the presence of a seasonal component at the monthly/quarterly frequencies. The results are summarised in Table 7. At both the 5% and 1% critical levels, 19 over the 20 series possess a seasonal component for the whole sample (excluding prices for France). The series without seasonal component become 17 for the short sample (adding to prices for France the series of prices for EU15 and the Eurozone) at the 5%, and 13 at the 1% (added all series but UK for prices, and UK and the Eurozone for GDP). Notwithstanding the results above, in what follows we have performed the seasonal adjustment on the whole set of 20 series.

Table 7: Results of ANOVA analyses

	Long series	Short series
5% significance level	19	17
1% significance level	19	13

The results on M-statistics reported in Table 8 clearly indicate for TS a decrease in quality passing from long to short series (from 9 to 16 cases with M-statistics greater than 1), and a substantial stability of results with X12. In both cases, we note a deterioration in M2 (contribution of variance of the irregular over all variance computed on the raw detrended series), while for M8 and M9 (tests of yearly evolutionary seasonality due to short-term variations) we have a worsening for TS and an improvement for X12.

Table 8: M-statistics for the quality of the seasonal adjustment

	Number of cases with statistics greater than 1			
Statistics	TS		X12	
	Long series	Short series	Long series	Short series
M1	2	3	6	7
M2	0	3	0	2
M3	1	0	2	2
M4	1	0	1	1
M5	0	0	0	0
M7	2	2	2	1
M8	2	5	2	0
M9	1	3	1	0
TOTAL	9	16	14	13

Whilst the length of the series does not seem to influence findings of non seasonal ARIMA coefficients in modelling the irregular component, we notice a general and almost equal deterioration for seasonal parameters in both programs. At the same time, a high deterioration is observed in terms of autocorrelation. As obvious, the presence of extreme values, trading days and Easter effects is minor with short series.

Table 9: Characteristics of the irregular component

Statistics		TS		X12	
		Long series	Short series	Long series	Short series
Non zero coefficients in the non seasonal part of the ARIMA model		15	16	15	15
Non zero coefficients in the seasonal part of the ARIMA model		13	17	10	18
P-Lijung < 5%		5	9	0	5
DW > 2.15		8	17	4	12
DW < 1.85		1	1	3	2
Trading days effect		0	3	2	3
Easter effect		0	1	3	1
Outliers :	Ls	1	0	1	0
	Tc	4	4	2	1
	Ao	5	2	18	3

Tables 10 and 11 show the differences obtained between short and long series in terms of revision analysis and variability of seasonally adjusted data. These differences are grouped into classes for easy of exposition.

For both revision and stability measures one can notice a greater concordance between long and short series with X12 than with TS. Globally, the differences are closer to zero with X12 than with TS, implying a greater stability of the revision process going from long to short series. The same conclusions are obtained from stability analyses. One has littler differences between long and short series with X12.

Considering concordance of growth rates of seasonally adjusted short and long series, we obtain slightly better results with X12. With TS 85% of growth rates are in the same direction against 86% for X12.

On unemployment series and prices, the differences between short and long series are close to 0 with X12 (Table 12). For the other two series, TS has some advantages. Concerning standard deviation, X12 performs again slightly better as the values obtained are close to 0.

Table 10: Revisions analysis

Statistics	TS				X12			
	Between -0,05 and 0	Between 0 and 0,05	Between 0,05 and 0,15	Greater than 0,15	Between -0,05 and 0	Between 0 and 0,05	Between 0,05 and 0,15	Greater than 0,15
Mean AR 1 month	2	6	3	3	7	5	2	0
Mean AR 2 months	2	7	1	4	4	8	1	1
Mean AR 3 months	3	5	1	5	3	7	2	2
Mean AR 4 months	2	6	1	5	6	5	1	2
Mean AR 5 months	2	6	1	5	4	6	2	2
Mean AR 6 months	2	6	1	5	6	5	1	2
Std AR 1 month	3	5	2	4	5	7	1	1
Std AR 2 months	6	3	3	2	4	7	2	1
Std AR 3 months	5	4	3	2	4	8	1	1
Std AR 4 months	2	6	1	5	4	8	1	1
Std AR 5 months	2	7	1	4	4	8	1	1
Std AR 6 months	3	6	0	5	6	7	1	0
TOTAL	34	67	18	49	57	81	16	14

4. CONCLUSIONS

In this paper we have compared the relative performances of TS and X12 in adjusting progressively shorter time series. Our analysis has concentrated on the induced effects on a number of statistics for the quality of the seasonal adjustment process, after having made most of them comparable for the two programs.

Our main findings can be summarised as follows. In line with the previous literature, we have found that the quality of the seasonal adjustment progressively reduces when shorter time series are considered. Therefore, analysts should exert great caution when studying seasonally adjusted data defined over a short period.

However, what our limited examples have shown is that the deterioration in quality passing from long to short series is proportionally greater going from long to medium, than from medium to short time series. This result implies that instabilities in the seasonal adjustment process are greater at the beginning than at the end of the sample, a circumstance of some relevance for policy purposes.

Table 11: Roughness measures

Statistics	TS					X12				
	Less than -0,03	Between -0,03 and 0	Between 0 and 0,05	Between 0,05 and 0,15	Greater than 0,15	Less than -0,03	Between -0,03 and 0	Between 0 and 0,05	Between 0,05 and 0,15	Greater than 0,15
R_1	1	3	5	3	2	0	2	6	5	1
R_1, Last 3 years	2	8	2	0	2	5	4	5	0	0
R_2	3	3	4	1	3	1	2	6	3	2
R_2, Last 3 years	2	4	5	1	2	4	4	4	1	1
R_3	4	1	4	2	3	2	2	4	5	1
R_3, Last 3 years	3	5	2	1	3	4	3	4	2	1
Mar1 (TC)	0	4	5	2	3	0	5	5	3	1
Mar1 (TC), Last 3 years	1	5	5	1	2	1	4	8	1	0
Mar2 (TC)	0	7	4	0	3	0	4	9	0	1
Mar2 (TC), Last 3 years	1	4	6	0	3	0	5	8	1	0
Mar (S)	0	8	4	0	2	0	14	0	0	0
Mar (S), Last 3 years	0	8	4	1	1	0	14	0	0	0
TOTAL	17	60	50	12	29	17	63	59	21	8

Table 12: Mean and standard deviation of differences in rates of growth

		TS	X12
Mean	Unemployment	-0,0106	0,0046
	Prices	0,0015	0,0007
	Ind. Production	0,0001	-0,0041
	GDP	0,0090	0,0196
Standard deviation	Unemployment	0,2935	0,3171
	Prices	0,1286	0,1835
	Ind. Production	0,6398	0,3976
	GDP	0,3075	0,2682

Another important finding is that X12 performs, on average, slightly better than TS when the sample is reduced. This result is likely to be due to the higher instability of model-based approaches when a large proportion of data in the time series is ruled out.

The results here summarised have been obtained using real data directly drawn from the Eurostat data bases. On the contrary, most of the works appeared so far in the literature have studied the problems at hand using simulated time series.

Whilst we are fully aware that our approach could be biased as all factors affecting the final quality of the seasonal adjustment can not be taken into account, we believe that simulations often pose other relevant problems, the most important being the choice of the data generation process, and the choice of the characteristics of the series (normality, relevance of the various components, …).

In this respect, a line for future research could be the use of 'partially simulated' series drawn from data generation processes whose characteristics are obtained from real data-sets.

ACKNOWLEDGEMENT

We thank Yannick Doser for having provided us with support for most of the elaborations reported in this paper.

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