The StrucTiSM package

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version 0.5

1 Introduction

This package implements Harvey-style structural time series models. Its name stands for Structural Time Series Models. The classic obligatory reference is Harvey (1989), but more modern excellent treatments abound, such as Commandeur and Koopman (2007). One we particularly like is Pelagatti (2015). At present, the package is rather limited (single-series only, no cycles) but, we believe, useful for standard tasks.

The basic idea is that an observed time series $y_t$ can be thought of as the sum of some components, also known as state variables, or states for short:

$$ y_t = \mu_t + s_t + \epsilon_t \quad (1) $$

where $\mu_t$ is a trend component known as the “level”, $s_t$ is a seasonal component and $\epsilon_t$ is white noise. Each component could be absent. A particular version of a model depends on the characteristics those components are assumed to have.

The trend is basically a random walk process with a drift: the drift is called “slope” and can be 0, or a constant, or itself a random walk. In formulae:

$$ \mu_t = \mu_{t-1} + \beta_{t-1} + \nu_t \quad (2) $$
$$ \beta_t = \beta_{t-1} + \zeta_t \quad (3) $$

where $\nu_t$ and $\zeta_t$ are uncorrelated white noise processes, possibly with zero variance.

The seasonal component can be specified in several ways, which are largely equivalent in practice, but which may make a difference in some cases. The most common ways are to model seasonality either via seasonal dummies (possibly constant, or themselves evolving as random walks), or via trigonometric terms (see Pelagatti (2015), section 3.4 for further details).

In most cases, estimation is performed via numerical maximum likelihood, which is a relatively easy task since these models have a very natural state-space representation so the Kalman filter can be used (for technical details, see the Gretl User’s Guide; for the statistical underpinnings of the procedure, see Hamilton (1994) or Pollock (1999)). However, the special cases when all the components are deterministic are handled separately, because maximum likelihood estimators are available in closed form, and are computed via OLS.

Notable sub-cases are:
• The Local Level model (basically, a random walk plus noise):\(^1\)

\[
y_t = \mu_t + \epsilon_t \quad \mu_t = \mu_{t-1} + \nu_t
\]

• The Local Linear Trend model

\[
y_t = \mu_t + \epsilon_t \quad \mu_t = \mu_{t-1} + \beta_{t-1} + \nu_t
\]

where \(\beta_t\) is itself a random walk process; therefore, this is an I(2) process plus noise.

• The basic structural model

\[
y_t = \mu_t + \gamma_t + \epsilon_t \quad \mu_t = \mu_{t-1} + \beta_{t-1} + \nu_t
\]

Same as the LLT model plus some form of seasonality (usually stochastic dummies).

In this context, the object of estimation are the variances of the structural disturbances. This is performed via ML under a joint normality assumption. Once the variances are estimated, applying the Kalman smoother produces unbiased and efficient predictors of the unobserved states, which can be analysed separately.

2 Package basics

The package is organised in a similar way to other gretl packages, such as SVAR, gig, DPB etcetera. The stages of the work are

• First, you set up a model, as a bundle.

• Next, you call a function which performs estimation of the unknown parameters; this adds to your bundle their estimates plus other relevant quantities.

• Finally, you extract from the bundle the information you need.

You can do this via scripting, or via the GUI.

2.1 The scripting interface

The functions for the first basic step is called STSM\_setup(). It returns an initialised bundle, given the characteristics of the model you want to estimate. Its arguments are:

1. the series you want to analyse;
2. a Boolean entry if you want \(\epsilon_t\) or not

\(^1\)An example is provided in Lucchetti (2011) on how to set up a LL model in gretl. Don’t read it. It refers to an ancient version of gretl and none of the information is accurate, or even applicable, any longer. The only value it has is historical.
3. the trend specification: 1 means “stochastic”, 2 “deterministic” (default = 1)

4. the slope specification: 0 means “none”, 1 “stochastic”, 2 “deterministic” (default = 1)

5. the seasonal specification: here you have 0 for “none”; 1 and 2 allow for a stochastic specification (with trigonometric terms or dummies, respectively); 3 gives you deterministic dummy seasonals.

So for example you’d set up a LLT model via

```r
bundle MyModel = STSM_setup(y, 1, 1, 1, 2)
```

Estimation is carried out via the `STSM_estimate()` function, whose compulsory parameter is the reference to the bundle you set up previously, as in `STSM_estimate(MyModel)`. Optionally, you can add two other arguments: a degree of verbosity, to check on the ML estimating progress in case something goes wrong, and an integer called “mapping”. The mapping parameter enables you to choose what reparametrisation of the variances is used internally for the ML algorithm. 0 corresponds to “no mapping”, 1 to “standard deviations” and 2 to “log variances”; for example, if 2 is chosen, the log-likelihood function is expressed as a function of the logs of $\sigma^2_\nu$, $\sigma^2_\epsilon$ etcetera. You may want to use different settings if you experience convergence problems, but in standard cases the default choice (1, i.e. standard deviations) should work quite well. A fourth, optional parameter controls the technique used for estimating the covariance matrix of the parameters (by default, the inverse Hessian).

In order to fetch information from your bundle after estimation, you just use ordinary bundle syntax, with one exception: you can extract the smoothed estimates of the components as a list by the `STSM_components()` function, as in

```r
list COMPS = STSM_components(Model)
```

This function will perform automatically a series of boring tasks, such as giving the series proper names. For example, if the name of the variable you’re analysing is `foo`, the estimated level will bear the name `foo_level`. If you want to do this by hand, however, the states are available as individual series in the bundle; the full matrix of smoothed states is also available, under the name of `St`.

The function `STSM_components()` also accepts a second, optional, Boolean parameter (the default is 0). If set to 1, the output list will also include the time-varying standard errors for the estimated states. These are taken from the matrix that, inside the model bundle, is labelled as `stSE`. The name of the estimated standard errors are the same as those for the states, with the extra suffix “_se”.

If you just want to decompose a series into components by using an “off-the-shelf” model, we provide two convenience functions called `LLT` and `BSM`, respectively, which take a series as input and return the states as a list. The optional Boolean parameter for extracting the states’ standard errors applies here too. A third, optional parameter can be used to retrieve the model bundle for later usage. That is, the lines

```r
3. At present, there’s no provision for auxiliary residuals. They can be added later.
bundle model = null
list comps = LLT(y, 0, &model)

are equivalent to

bundle model = STSM_setup(y, 1, 1, 1, 2)
STSM_estimate(&model)
list comps = STSM_components(&model)

2.2 An example

In the following example we use the famous “airline” dataset from Box and Jenkins (provided among gretl’s sample datasets as bjg.gdt) to estimate a Basic Structural model and plot the smoothed states. The code

```gfn
include StrucTiSM.gfn
open bjg.gdt # The immortal "airline" dataset

# set up the model
scalar irregular = 1 # yes
scalar trend = 1     # stochastic
scalar slope = 2     # deterministic
scalar seasonal = 2  # stochastic dummies
Airline = STSM_setup(lg, irregular, trend, slope, seasonal)

# perform estimation
STSM_estimate(&Airline)

# extract the states and plot them
comps = STSM_components(Airline)
gnuplot lg lg_level --time-series --with-lines \
--single-yaxis --output=display
scatters comps --time-series --output=display
```

produces the listing below.

Note that, differently from other programs, StrucTiSM reports standard deviations rather than variances in the estimation output.¹

<table>
<thead>
<tr>
<th>Structural model for lg, 1949:01 - 1960:12 (T = 144)</th>
</tr>
</thead>
<tbody>
<tr>
<td>coefficient          std. error  z  p-value</td>
</tr>
<tr>
<td>------------------------------------------------------</td>
</tr>
<tr>
<td>Irregular: 0.0113924              0.00567347  2.008 0.0446 **</td>
</tr>
<tr>
<td>Trend:     0.0264475              0.00359817  7.350 1.98e-13 ***</td>
</tr>
<tr>
<td>Seasonal (dums) 0.00800572      0.00273532  2.927 0.0034 ***</td>
</tr>
</tbody>
</table>

¹It should also be noted that special care must be taken when reading the output, as the p-value reported cannot be interpreted as a proper test for zeroing the corresponding parameter. The reason is that a test for $\sigma = 0$ implies the evaluation of the log-likelihood and its derivatives at a point on the frontier of the parameter space, so usual asymptotics don’t apply. See Pelagatti (2015), page 131.
Figure 1: BSM on the airline data

Average log-likelihood = 1.27187

Specification:

Stochastic trend, no slope, dummy seasonals (stoch.), irregular component

and the plots are shown in figure 1.

The following example, instead, analyses the Nile data, the canonical example employed in all the articles contained in the special issue of the Journal of Statistical Software devoted to state-space modelling (see Commandeur et al. (2011)). It shows how to build a confidence band around a smoothed state and draw it:

include StrucTiSM.gfn
open nile.gdt
LL = STSM_setup(nile,1,1,0,0)
STSM_estimate(LL)
X = STSM_components(LL, 1)
list Plot = nile_level nile
plot Plot
   options time-series with-lines
2.3 Forecasting

For a thorough exposition of the approach we follow, the best reference is probably section 4.11 in Durbin and Koopman (2012). In brief, forecasting on the basis of an already estimated model is performed by running the Kalman filter on that model, in which a suitable number of missing observations are appended to the dependent variable.

The function that the package provides for this purpose is called STSM_fcast and it works by adding two new items to a model bundle: both are vectors with \( h \) elements, where \( h \) is the desired forecast horizon. They are contained under the names `fcast` and `fcastvar`, and contain the point forecasts and their variances, respectively.

By default, the function prints out the point forecasts and the corresponding standard errors; this behaviour can be turned off by providing 0 as the third parameter to the function (see section 3).

For example, the following script

```
set verbose off
include StrucTiSM.gfn
open nile.gdt --quiet

# estimate a local level model on the Nile data
model = STSM_setup(nile, 1, 1, 0, 0)
# estimate silently
scalar err = STSM_estimate(&model, 0)
# forecast
STSM_fcast(&model, 4)
```

should produce this output
Out of sample forecast for nile

<table>
<thead>
<tr>
<th>horizon</th>
<th>forecast</th>
<th>std.err.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>798.368</td>
<td>143.527</td>
</tr>
<tr>
<td>2</td>
<td>798.368</td>
<td>148.557</td>
</tr>
<tr>
<td>3</td>
<td>798.368</td>
<td>153.422</td>
</tr>
<tr>
<td>4</td>
<td>798.368</td>
<td>158.138</td>
</tr>
</tbody>
</table>

Slightly more elaborate examples are provided in the forecasting.inp script, in the examples directory. If necessary, you can also obtain forecasts for the latent states, by passing a fourth Boolean parameter. Again, see section 3 for more details.

2.4 Exogenous variables

You may include exogenous regressors in your model. In this case equation (1) becomes

\[ y_t = x_t' \beta + \mu_t + s_t + \epsilon_t \]  

An example is given in the dedicated directory, where we use the dataset made popular by Harvey and Durbin (1986) on the effects of seat belt legislation in UK road fatalities. The file’s name is roadacc.inp, and it contains a specification akin to the one presented in Commandeur and Koopman (2007), section 7.2.

Please note that, as yet, models without stochastic components cannot include exogenous variables. Use OLS for that.

2.5 The GUI

You access this window via the Model > Time Series > Structural TS menu. Things to note:

- You can select one of the three stock models from the drop-down menu, or put together your own combination, by ticking the “custom model” tick box. You may add exogenous variables via the appropriate box, either for stock models or custom ones.
• After pressing “OK”, estimation will be performed and the results displayed. If you click on the Graph button, a summary graph of the states will be produced.

• The “Save bundle content” icon gives you access to the individual bundle elements, which include the smoothed states, the system matrices, and more.

• You can save the model bundle by clicking the Save button in the output window. After that, you can extract the components by applying the \texttt{STSM\_components} function to the bundle you just saved.

3 Function list (in alphabetical order)

\texttt{BSM(series y, bool se, model *mod)}

Estimates a Basic Structural Model of $y_t$ and returns a list holding the components.

• $y$, the dependent variable

• $se$, include in the list also the estimated standard errors for the smoothed states (optional, default=no)

• $mod$, if not null, contains the estimated model upon successful completion

\texttt{LLT(series y, bool se, model *mod)}

Estimates a Local Linear Trend model of $y_t$ and returns a list holding the components.

• $y$, the dependent variable

• $se$, include in the list also the estimated standard errors for the smoothed states (optional, default=no)

• $mod$, if not null, contains the estimated model upon successful completion

\texttt{STSM\_components(bundle mod, bool se)}

Extracts the states to a list of series.

• $mod$, the estimated model

• $se$, include in the list also the estimated standard errors for the smoothed states (optional, default=no)
STSM_estimate(bundle *mod, int verbose, int mapping, int vcvmethod)

Estimates the variances of the model and performs the state smoothing. The arguments are:
  • mod, pointer to a bundle created via STSM_setup
  • verbose, verbosity (optional, default=1),
  • mapping type of reparametrisation: 0 = Variances, 1 = Std. Dev (default),
    2 = logarithm
  • vcvmethod 0 = OPG, 1 = Hessian (default), 2 = QML

Returns an error code.

STSM_fcast(bundle *mod, int horizon, bool verbose, bool do_states)

Forecasts the dependent variable and stores results into the bundle as fcast and fcastvar. The arguments are:
  • mod, pointer to a bundle created via STSM_setup; it must contain estimation results.
  • horizon, an integer with the forecasting horizon. If 0 or omitted, a “sensible” default based on current periodicity is used.
  • verbose Boolean. If non-zero, a printout is given with point forecasts and associated standard errors (default = yes).
  • do_states Boolean. If non-zero, the predicted values for the unobservable components are also stored into the bundle mod under the names sfcast and sfcastvar.

Returns an error code.

NOTE: At present, models with exogenous variables are not supported.

STSM_printout(bundle *mod)

Prints out the estimates.

STSM_setup(series y, bool epsilon, int trend, int slope, int seasonal, list X)

Returns an initialised bundle. The arguments are:
  • y, the dependent variable
• \textit{epsilon}, Boolean, presence of $\epsilon_t$ in eq. (1) (optional, default=yes),

• \textit{trend} type of trend: $1 =$ stochastic, $2 =$ deterministic (optional, default=1),

• \textit{slope} $0 =$ none, $1 =$ stochastic, $2 =$ deterministic (optional, default=1),

• \textit{seasonal} Seasonal, $0 =$ none, $1 =$ stochastic with trigonometric terms, $2 =$ stochastic with dummies, $3 =$ deterministic dummies (optional, default = 2)

• \textit{X list}, exogenous variables in the measurement equation (optional, default = null)

References


Changelog

<table>
<thead>
<tr>
<th>Version</th>
<th>Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.1</td>
<td>Initial release</td>
</tr>
<tr>
<td>0.2</td>
<td>Several bug fixes (thanks to Silvia Rodriguez for her bug report); exogenous variables in the measurement equation; optional export of the variance series for the smoothed states; switch to LBFGS for optimisation.</td>
</tr>
<tr>
<td>0.3</td>
<td>Handling models with no stochastic latent states via OLS as “special cases”.</td>
</tr>
<tr>
<td>0.4</td>
<td>Bump version requirement to avoid windows bug; changed plot titles in GUI; added some error checking.</td>
</tr>
<tr>
<td>0.5</td>
<td>Add STSM_fcast and make it possible to retrieve the model bundle from shortcut functions.</td>
</tr>
<tr>
<td>0.51</td>
<td>Fix bug with forecasting with models with no orregular component.</td>
</tr>
</tbody>
</table>