

# Forecasting: principles and practice

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1.3 Seasonality and trends

# Time series components

## ##Time series patterns

**Trend** pattern exists when there is a long-term increase or decrease in the data.

**Seasonal** pattern exists when a series is influenced by seasonal factors (e.g., the quarter of the year, the month, or day of the week).

**Cyclic** pattern exists when data exhibit rises and falls that are *not of fixed period* (duration usually of at least 2 years).

## ##Time series decomposition

$$Y_t = f(S_t, T_t, E_t)$$

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# STL decomposition

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- STL: “Seasonal and Trend decomposition using Loess”,
- Very versatile and robust.
- Unlike X-12-ARIMA, STL will handle any type of seasonality.
- Seasonal component allowed to change over time, and rate of change controlled by user.
- Smoothness of trend-cycle also controlled by user.
- Robust to outliers
- Not trading day or calendar adjustments.
- Only additive.

## ##Euro electrical equipment

# Forecasting and decomposition

## ##Forecasting and decomposition

- Forecast seasonal component by repeating the last year
- Forecast seasonally adjusted data using non-seasonal time series method. E.g.,
  - Holt's method — next topic
  - Random walk with drift model
- Combine forecasts of seasonal component with forecasts of seasonally adjusted data to get forecasts of original data.
- Sometimes a decomposition is useful just for understanding the data before building a separate forecasting model.