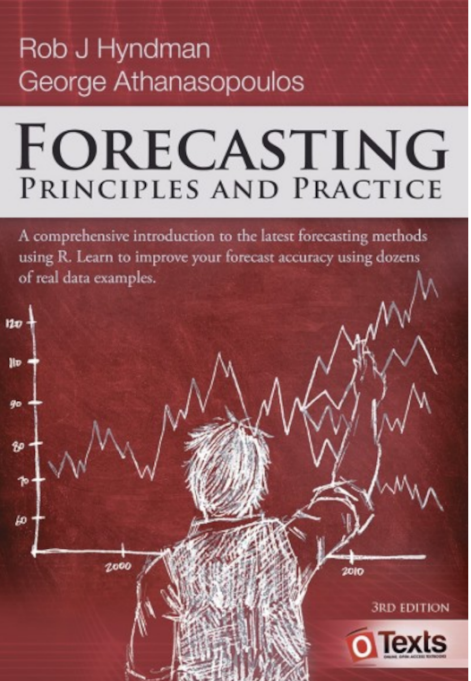


7. Time series regression models

7.1 The linear model

OTexts.org/fpp3/

Multiple regression and forecasting

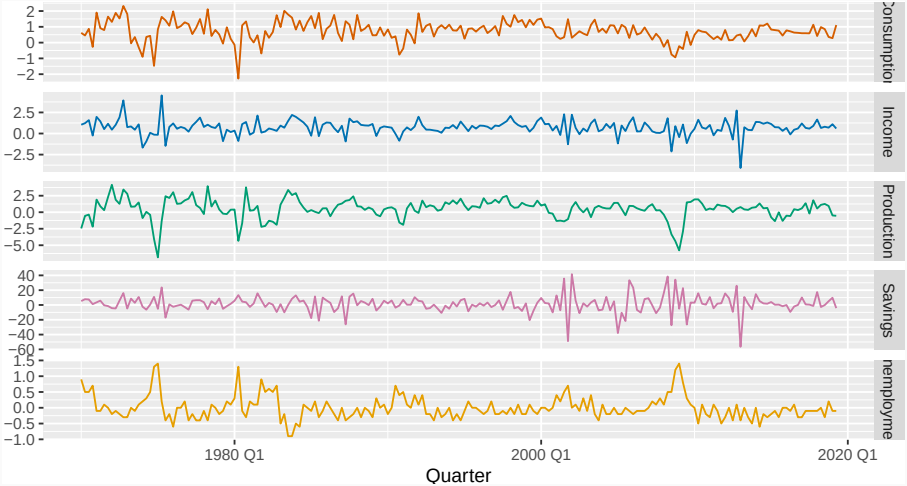
$$y_t = \beta_0 + \beta_1 x_{1,t} + \beta_2 x_{2,t} + \cdots + \beta_k x_{k,t} + \varepsilon_t.$$

- y_t is the variable we want to predict: the "response" variable
- Each $x_{j,t}$ is numerical and is called a "predictor". They are usually assumed to be known for all past and future times.
- The coefficients $\beta_1, \ldots, \beta_k$ measure the effect of each predictor after taking account of the effect of all other predictors in the model.

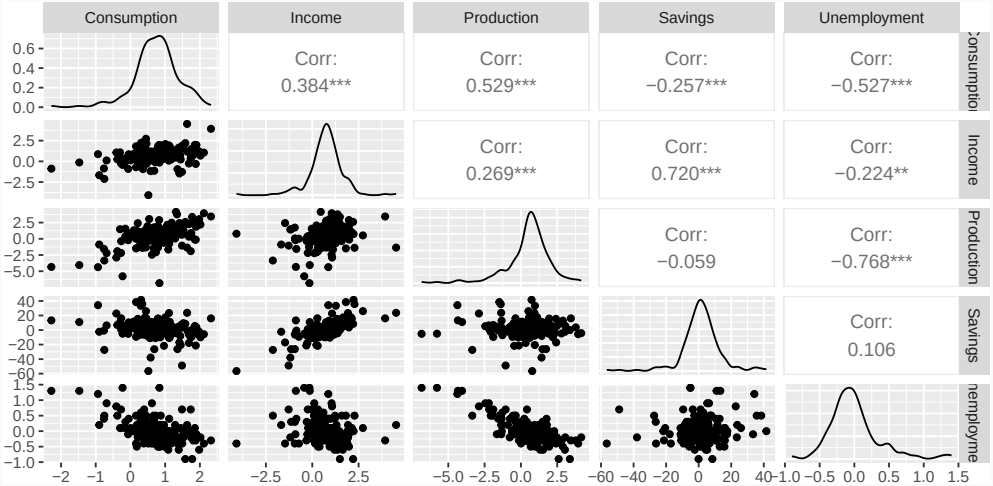
That is, the coefficients measure the **marginal effects**.

- ε_t is a white noise error term

Example: US consumption expenditure



Example: US consumption expenditure

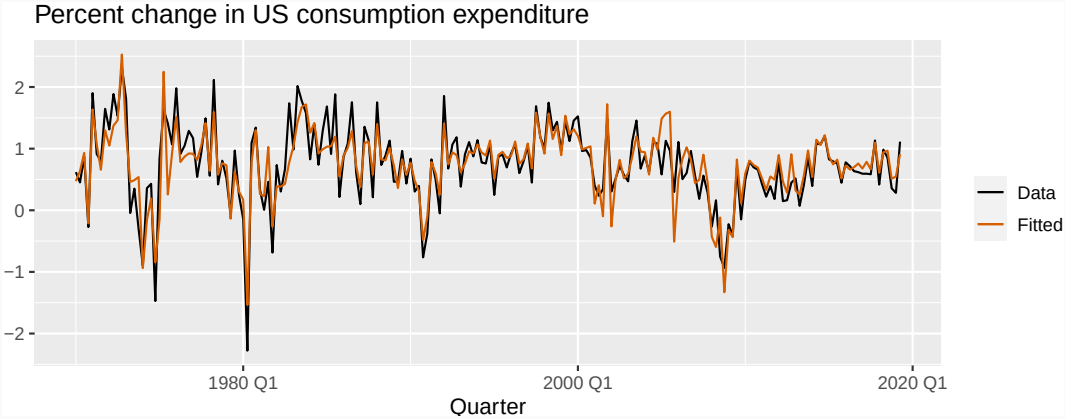


Example: US consumption expenditure

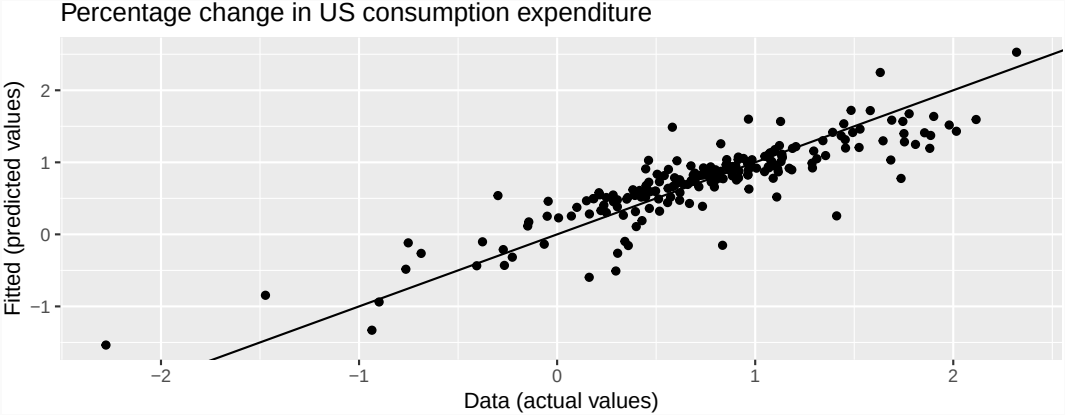
```
fit_consMR <- us_change |>
  model(lm = TSLM(Consumption ~ Income + Production + Unemployment + Savings))
report(fit_consMR)
```

```
## Series: Consumption
## Model: TSLM
##
## Residuals:
##     Min      1Q  Median      3Q     Max
## -0.906 -0.158 -0.036   0.136   1.155
##
## Coefficients:
##              Estimate Std. Error t value Pr(>|t|)
## (Intercept)   0.25311    0.03447    7.34  5.7e-12 ***
## Income        0.74058    0.04012   18.46  < 2e-16 ***
## Production    0.04717    0.02314    2.04    0.043 *
## Unemployment -0.17469    0.09551   -1.83    0.069 .
## Savings      -0.05289    0.00292  -18.09  < 2e-16 ***
## ---
## Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
##
## Residual standard error: 0.31 on 193 degrees of freedom
## Multiple R-squared: 0.768,   Adjusted R-squared: 0.763
## F-statistic:  160 on 4 and 193 DF, p-value: <2e-16
```

Example: US consumption expenditure



Example: US consumption expenditure



Example: US consumption expenditure

```
fit_consMR |> gg_tsresiduals()
```