A Newton’s Method for Benchmarking Time Series according to a Growth Rates Preservation Principle

Tommaso Di Fonzo and Marco Marini
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Abstract

This work presents a new technique for temporally benchmarking a time series according to the growth rates preservation principle (GRP) by Causey and Trager (1981). A procedure is developed which (i) transforms the original constrained problem into an unconstrained one, and (ii) applies a Newton’s method exploiting the analytic Hessian of the GRP objective function. We show that the proposed technique is easy to implement, computationally robust and efficient, all features which make it a plausible competitor of other benchmarking procedures (Denton, 1971; Dagum and Cholette, 2006) also in a data-production process involving a considerable amount of series.

JEL Classification Numbers: C22, C61, C82

Keywords: Benchmarking, Movement preservation, Linearly equality constrained non-linear optimization, Newton’s method.

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I. INTRODUCTION

The growth rates preservation (GRP) benchmarking procedure by Causey and Trager (1981; see also Trager, 1982, and Bozik and Otto, 1988) is based on a movement preservation principle, according to which the sum of squared differences between the growth rates of the target and of the preliminary series is minimized\(^1\).

This benchmarking procedure basically looks for a solution to a constrained non-linear program (NLP), according to which \( f(\mathbf{x}) \), a smooth, non-convex function of the \( n \) unknown items of vector \( \mathbf{x} \), has to be minimized subject to a set of \( m \) linear equality constraints, \( \mathbf{A}\mathbf{x} = \mathbf{b} \), where \( \mathbf{A} \) is a known, full row rank \((m \times n)\) matrix, \( m<n \), and \( \mathbf{b} \) is a known \((m \times 1)\) vector containing the benchmarks.

Both the original algorithm by Causey and Trager (1981) and a recent proposal by Brown (2010) are first-order (i.e., gradient-based) feasible directions methods, which use the steepest descent (SD) and the non-linear conjugate gradient (CG) algorithms, respectively, to solve the above NLP problem. However, using only first-derivatives information may result in poorly efficient procedures, characterized by slow convergence and possible troubles in finding actual minima of the objective function.

Still remaining at first-order techniques, more performing unconstrained quasi-Newton (QN) optimization procedures may be considered, which exploit approximate rather than exact second derivatives, provided the original constrained problem be transformed into an unconstrained one. In addition, improvements in both efficiency and robustness may be obtained by considering the true Hessian matrix of the objective function.

In this paper, (i) we present the explicit expression of the Hessian matrix of the GRP objective function, (ii) show how the original constrained benchmarking problem can be transformed in an equivalent unconstrained non-linear problem, (iii) propose a Newton’s method with Hessian modification (MN) to calculate GRP benchmarked estimates, and (iv) compare the performance of MN with gradient-based procedures (SD, CG, QN), in order to show the effectiveness of the proposed benchmarking procedure in terms of both computational efforts and quality of the results.

The paper is organized as follows. In section II the GRP benchmarking procedure is described, and the way it takes into account a movement preservation principle is discussed, as compared to the classical benchmarking procedure by Denton (1971), modified by Cholette (1984). The benchmarked estimates through this procedure, which is based on a constrained quadratic minimization problem and can be expressed in closed form, are generally considered as a good approximation of the GRP benchmarked estimates (this issue is discussed by Di Fonzo and Marini, 2010).

\(^1\) Bloem et al. (2001, p. 100) claim that this objective function is grounded on is an “ideal” movement preservation principle, formulated as an explicit preservation of the period-to-period rate of change of the preliminary series.
In section III analytic expressions of gradient vector and Hessian matrix of the GRP criterion are presented, and by exploiting the Hessian we check the non-convexity of the objective function. While the gradient vector can be deduced by Causey and Trager (1981, see also Fagan, 1995), as far as we know the result concerning the Hessian matrix is new.

In section IV it is shown how a linear equality constrained problem can be transformed in an unconstrained problem with a reduced number of variables. This permits the user to exploit unconstrained optimization techniques. In addition, numerical results to efficiently transform and reduce the problem are presented.

Line-search algorithms for unconstrained minimization are reviewed in section V. The focus is on Newton-type methods as long as on classical first-order algorithms, namely steepest descent and nonlinear conjugate gradient. Feasible directions algorithms are considered in section VI, where the “projected versions” of the steepest descent and of the nonlinear conjugate gradient algorithms are described.

In order to analyze the distinctive features of the considered procedures, in section VII are presented applications to the artificial series used by Denton (1971), and to several real-life series, namely 61 quarterly series from the EU Quarterly Sector Accounts (EUQSA), and 236 monthly series from the Canadian Monthly Retail Trade Survey (MRTS). Section VIII presents some final remarks and conclusions, and draws future research lines.

II. GROWTH RATES PRESERVATION AND TEMPORAL BENCHMARKING

Let $b_{T_r}, T = 1,\ldots,m$, and $p_{T_t}, t = 1,\ldots,n$, be, respectively, the temporal benchmarks and the high-frequency preliminary values of an unknown target variable $x_t$. Let $s$ be the aggregation order (e.g., $s = 4$ for quarterly-to-annual aggregation, $s = 12$ for monthly-to-annual aggregation, $s = 3$ for monthly-to-quarterly aggregation), and let $A$ be a $(m \times n)$ temporal aggregation matrix, converting $n$ high-frequency values in $m$ low-frequency ones (we assume $n = s \cdot m$).

If we denote with $x$ the $(n \times 1)$ vector of high-frequency values, and with $b$ the $(m \times 1)$ vector of low-frequency values, the aggregation constraints can be expressed as $Ax = b$.

Depending on the nature of the involved variables (e.g., flows, averages, stocks), the temporal aggregation matrix $A$ usually can be written as

$$A = I_m \otimes a^T$$

where the $(s \times 1)$ vector $a$ may assume one of the following forms:

1. flows: $a = 1_s = (1 \ 1 \ \ldots \ 1)^T$,
2. averages: $a = \frac{1}{s} 1_s$, 

3. stocks (end-of-the-period): \( a = (0 \ 0 \ \ldots \ 1)^T \),

4. stocks (beginning-of-the-period): \( a = (1 \ 0 \ \ldots \ 0)^T \).

Denoting by \( p \) the \((n \times 1)\) vector of preliminary values \((Ap \neq b)\), we look for a vector of benchmarked estimates \( x^* \) which should be “as close as possible” to the preliminary values, and such that \( Ax^* = b \) (e.g., for flows variables, \( \sum x^*_t = b_T, T = 1, \ldots, m \)).

To this end, some characteristics of the original series \( p_t \) should be kept into consideration. For example, in an economic time series framework, the preservation of the temporal dynamics (however defined) of the preliminary series is often a major interest of the practitioner. For flows series, Causey and Trager (1981; see also Monsour and Trager, 1979, and Trager, 1982) consider a criterion to be minimized explicitly related to the growth rate, which is a natural measure of the movement of a time series:

\[
f(x) = \sum_{t=2}^{n} \left( \frac{x_t}{x_{t-1}} - \frac{p_t}{p_{t-1}} \right)^2,
\]

and look for values \( x^*_t, t = 1, \ldots, n \), which minimize the criterion (2) subject to the aggregation constraints \( \sum x_t = b_T, T = 1, \ldots, m \). In other words, the benchmarked series is estimated in such a way that its temporal dynamics, as expressed by the growth rates \( \frac{x^*_t}{x^*_{t-1}}, t = 2, \ldots, n \), be “as close as possible” to the temporal dynamics of the preliminary series, where the “distance” from the preliminary growth rates \( \frac{p_t}{p_{t-1}} \) is given by the sum of the squared differences.

In this paper we consider a more general formulation of the GRP benchmarking problem, valid not only for flows variables linked by a simple summation, that is:

\[
\min_f(x) \quad \text{subject to} \quad Ax = b
\]

where \( A \) is the temporal aggregation matrix (1). The criterion (2) is clearly a non-linear and, as we shall see in the following, non-convex function. The constrained minimization problem (3) has not linear first-order conditions for a stationary point, and thus it is not possible to find an explicit, analytic expression for the solution. On the other hand, provided that both \( p_t \) and \( x_t, t = 1, \ldots, n-1 \), be different from zero, \( f(x) \) is a twice continuously differentiable function, making it possible the use of several iterative minimization algorithms (Nocedal and Wright, 2006).
A. Modified Denton PFD

Denton (1971) proposed a benchmarking procedure grounded on the *Proportionate First Differences* between the target and the original series. Cholette (1984) slightly modified the result of Denton, in order to correctly deal with the starting conditions of the problem. The PFD benchmarked estimates are thus obtained as the solution to the constrained quadratic minimization problem

\[
\min_{\mathbf{x}} \sum_{t=2}^{n} \left( \frac{x_t}{p_t} - \frac{x_{t-1}}{p_{t-1}} \right)^2 \quad \text{subject to} \quad \mathbf{Ax} = \mathbf{b}.
\]  

(4)

In matrix notation, the PFD benchmarked series is contained in the \((n \times 1)\) vector \(\mathbf{x}^{PFD}\) solution to the linear system (Di Fonzo and Marini, 2010)

\[
\begin{bmatrix}
\mathbf{M} & \mathbf{A} \\
\mathbf{A} & 0
\end{bmatrix}
\begin{bmatrix}
\mathbf{x}^{PFD} \\
\lambda
\end{bmatrix}
= 
\begin{bmatrix}
0 \\
\mathbf{b}
\end{bmatrix},
\]  

(5)

where \(\lambda\) is a \((n \times 1)\) vector of Lagrange multipliers, \(\mathbf{M} = \mathbf{P}^{-1} \Delta_n^T \Delta_n \mathbf{P}^{-1}\), \(\mathbf{P} = \text{diag}(p)\), and \(\Delta_n\) is the \(((n-1) \times n)\) first differences matrix:

\[
\begin{pmatrix}
-1 & 1 & 0 & \cdots & 0 & 0 \\
0 & -1 & 1 & \cdots & 0 & 0 \\
\vdots & \vdots & \vdots & \ddots & \vdots & \vdots \\
0 & 0 & 0 & \cdots & 1 & 0 \\
0 & 0 & 0 & \cdots & -1 & 1
\end{pmatrix}
\]

Notice that \(\Delta_n^T \Delta_n\) has rank \(n-1\) (Cohen *et al.*, 1971, p. 122), so \(\mathbf{M}\) is singular. However, given that matrix \(\mathbf{A}\) has full row rank, and provided no preliminary value is equal to zero\(^2\), the coefficient matrix of system (5) has full rank (Di Fonzo and Marini, 2010).

Causey and Trager (1981) use \(\mathbf{x}^{PFD}\) as starting values of the iterative algorithm developed to solve the NLP problem (3). This basically depends on two facts:

1. the optimization procedure starts at a feasible point, as \(\mathbf{x}^{PFD}\) clearly is, and at each iteration moves to another feasible point;

\(^2\) When some \(p_i\) is null, a standard practice in the benchmarking literature (see, for example, Cholette and Chhab, 1991, p. 413) consists in setting the originally null preliminary data at a very small value, e.g. \(p_i = 0.001\).
2. In the literature (Cholette, 1984, Bloem et al. 2001, Dagum and Cholette, 2006) it is often claimed that the PFD procedure produces results very close to the GRP benchmarking, and thus $x^{PFD}$, which is considered as a “good” approximation to the GRP estimates, is a natural candidate to be used as starting point.

Di Fonzo and Marini (2010) discuss this latter issue, showing that PFD and GRP benchmarked estimates are close when the variability of the preliminary series and/or its bias are low with respect to the target variable. When this is not the case (e.g. preliminary series with large growth rates and/or bias), the quality of the approximation worsens. In addition, GRP benchmarking almost always results in a better movement preservation as compared to Denton PFD$^3$.

### III. GRADIENT VECTOR AND HESSIAN MATRIX OF THE GRP CRITERION

Computational studies on a number of test problems of varying complexity demonstrate that the calculation and treatment of the Hessian matrix are fundamental to the observed performance of NLP optimization algorithms. Second order information though costly, because its calculation is often cumbersome, leads to quadratic convergence to a (possibly local) optimal solution, whereas gradient information leads to convergence with a linear convergence rate. There are various alternatives for exploiting second order information about the function of interest. Basically, the Hessian matrix can be calculated analytically or approximated by using finite differences techniques.

In this section we present the analytical expression of the gradient vector of the GRP criterion (2), which has been originally derived by Causey and Trager (1981, see also Fagan, 1995). Then we calculate the analytical expression of the Hessian matrix of the criterion, which can be exploited by Newton-type NLP optimization procedures.

The gradient vector of function (2) is the $(n \times 1)$ vector

$$\nabla f(x) = g(x) = \{g_i\}_{i=1}^n,$$

where

---

$^3$ Empirical comparisons between the Cholette-Dagum regression based benchmarking approach, which can be seen as a generalization of the PFD procedure (Dagum and Cholette, 2006), and the Causey and Trager approach, are shown in Harvill Hood (2005) and Titova et al. (2010).
Let us denote the elements of the Hessian matrix, $\nabla^2 f(x) = H(x)$, as

$$h_{ij} = \frac{\partial^2 f(x)}{\partial x_i \partial x_j} = \frac{\partial g_{ij}}{\partial x_i}, \quad i, j = 1, \ldots, n.$$ 

Notice that the Hessian matrix is both symmetric and tri-diagonal, that is its non-zero items are $h_{t,i}, t = 1, \ldots, n, h_{j,1}, t = 2, \ldots, n$, and $h_{t+1, t}, t = 1, \ldots, n - 1$. After some calculations, we find:

$$h_{1} = 2\frac{x_2}{x_1^3} \left( 3\frac{x_2}{x_1} - 2\frac{p_2}{p_1} \right)$$

$$h_{t,i} = \frac{2}{x_{i-1}^3} + 2\frac{x_{i+1}}{x_i^3} \left( 3\frac{x_{i+1}}{x_i} - 2\frac{p_{i+1}}{p_i} \right) \quad t = 2, \ldots, n - 1$$

$$h_{n,i} = \frac{2}{x_{n-1}^3}$$

$$h_{ij} = -\frac{2}{x_i^3} \left( 2\frac{x_j}{x_i} - \frac{p_j}{p_i} \right) \quad i = j + 1, j = 1, \ldots, n - 1 \lor i = j - 1, j = 2, \ldots, n.$$ 

For example, assuming $n = 4$ we have:

$$g(x) = \begin{bmatrix}
-2\frac{x_2}{x_1^3} \left( \frac{x_2}{x_1} - \frac{p_2}{p_1} \right) \\
\frac{2}{x_1} \left( \frac{x_2}{x_1} - \frac{p_2}{p_1} \right) - 2\frac{x_3}{x_2^3} \left( \frac{x_3}{x_2} - \frac{p_3}{p_2} \right) \\
\frac{2}{x_2} \left( \frac{x_3}{x_2} - \frac{p_3}{p_2} \right) - 2\frac{x_4}{x_3^3} \left( \frac{x_4}{x_3} - \frac{p_4}{p_3} \right) \\
\frac{2}{x_3} \left( \frac{x_4}{x_3} - \frac{p_4}{p_3} \right)
\end{bmatrix},$$

while the lower triangle of the Hessian matrix is:
9

This last formula can be used in a simple numerical example to check that the GRP criterion (2) is non-convex. Consider the (4 x 1) vectors \( \mathbf{x} = (1 \ 2 \ 3 \ 4)^T \) and \( \mathbf{p} = (5 \ 6 \ 7 \ 8)^T \), respectively. Simple calculations give

\[
H(\mathbf{x}) = \begin{bmatrix}
2 \frac{x_2}{x_1^3} \left( \frac{x_2}{x_1} - \frac{p_2}{p_1} \right) & -\frac{2}{x_1^2} \left( \frac{x_2}{x_1} - \frac{p_2}{p_1} \right) & \frac{2}{x_1^2} + \frac{x_3}{x_2} \left( \frac{x_3}{x_2} - \frac{p_3}{p_2} \right) & \frac{2}{x_1^2} + \frac{x_3}{x_2} \left( \frac{x_3}{x_2} - \frac{p_3}{p_2} \right)

0 & -\frac{2}{x_2^2} \left( \frac{x_3}{x_2} - \frac{p_3}{p_2} \right) & -\frac{x_4}{x_3} \left( \frac{x_4}{x_3} - \frac{p_4}{p_3} \right) & \frac{2}{x_2^2}

0 & 0 & -\frac{x_4}{x_3} \left( \frac{x_4}{x_3} - \frac{p_4}{p_3} \right) & \frac{2}{x_2^2}
\end{bmatrix}
\]

Because its Hessian has a negative determinant, the GRP criterion (2) is non-convex. In addition, the upper left (3 x 3)

\[
H(\mathbf{x}) = \begin{bmatrix}
19 & -6.75 & 0 & 0

-6.75 & 3.575 & -0.9 & 0

0 & -0.9 & 0.9938 & -0.3333

0 & 0 & -0.3333 & 0.2222
\end{bmatrix}
\]

has a positive determinant, equal to 6.8345, thus \( H(\mathbf{x}) \) is an indefinite (neither positive nor negative definite) matrix. Thus, unlike the convex case, function \( f(\mathbf{x}) \) is not guaranteed to have a unique, global minimum. This is an important feature of the minimization problem (3), to be taken into considerations when, in order to solve it, we use minimization procedures which are generally local.

IV. FROM A CONSTRAINED TO AN UNCONSTRAINED MINIMIZATION PROBLEM

One possible approach to solving the linear equality constrained minimization problem (3) is to eliminate the constraints, and to solve the resulting problem with algorithms for unconstrained minimization.

In this section we show that the equality constrained problem (3) can be transformed into an equivalent unconstrained problem, after which an unconstrained minimization method can be used to solve it.
As we shall see, the process of eliminating the equality constraints (and reconstructing the solution of the original problem from the solution of the transformed problem) involves standard linear algebra operations. Moreover, for most temporal benchmarking problems the pattern of the constraint matrix $A$ (see section II) makes it possible to develop a simple and numerical stable approach to the elimination of the variables, which requires neither complex nor time consuming computation programs. Thus, unlike the cases where it is better to retain the equality constraints, since eliminating them can make the problem harder to understand and analyze, or ruin the efficiency of an algorithm that solves it\footnote{This could happen, for example, when $x$ has very large dimension, and eliminating the equality constraints would destroy sparsity of some other useful structure of the problem (Boyd and Vandenberghe, 2004, p. 143).}, for our problem the proposed approach turns out to be simple, cheap and effective in computational terms.

### A. Eliminating the Linear Equality Constraints

We start by assuming that the temporal aggregation matrix $A$ defining the constraints in problem (3) has full row rank $m < n$, which means that the constraints are independent (i.e., not redundant). It should be noted that this property is always satisfied by matrices $A$ as defined in (1).

As many variables ($m$ out of $n$) as independent constraints can be eliminated by considering a re-parameterization of the affine feasible set defined by the constraints:

$$ F = \{ x \in \mathbb{R}^n : Ax = b \}. \quad (6) $$

Since any $n$-dimensional vector can be written uniquely as the sum of a range-space and a null space-component, we can write (Nocedal and Wright, 2006):

$$ x = y + z, \quad (7) $$

with $y \in R(A^T)$ and $z \in N(A)$, where

$$ R(A^T) = \{ y \in \mathbb{R}^n : y = A^T \lambda \text{ for some } \lambda \in \mathbb{R}^m \} $$

and

$$ N(A) = \{ z \in \mathbb{R}^n : Az = 0 \}, $$

denote the range-space of matrix $A^T$ and the null-space of matrix $A$, respectively. If we denote by $Y$ a $(n \times m)$ basis matrix for $R(A^T)$, and by $Z$ a $(n \times (n-m))$ basis matrix for $N(A)$, expression (7) can be written as

$$ x = Yx_Y + Zx_Z, \quad (8) $$
where \( x_y \) and \( x_z \) are \((m \times 1)\) and \(( (n - m) \times 1)\) vectors, respectively. Notice that matrix \( Z \) is such that \( AZ = 0 \).

For any feasible point \( x \), the pre-multiplication by \( A \) of expression (8) gives \( AYx_y = b \), which means that, for any choice of matrix \( Y \), \( x_y \) is uniquely determined as

\[
x_y = (AY)^{-1}b.
\]

Ultimately, it follows that any feasible \( x \) can be written as

\[
x = \bar{x} + Zx_z,
\]

where \( \bar{x} = Y(AY)^{-1}b \) is a feasible \((n \times 1)\) vector (i.e., \( A\bar{x} = b \)). In other words, the \( n \) constrained variables in \( x \) have been transformed into the \( n - m \) unconstrained variables in \( x_z \).

**B. Generating an Elimination Matrix by QR factorization**

Matrix \( Z \) in (10) is called *elimination matrix* (Boyd and Vandenberghe, 2004, p. 524). It is not uniquely defined, and its choice should be made carefully, because it could have a deep impact on the performance of the optimization procedure (Nocedal and Wright, 2006, pp. 430-431).

We propose to compute a null-space matrix for \( A \) by a QR factorization of matrix \( A^T \), which permits to define an orthonormal basis of \( \mathbb{R}^n \) “ideal from the point of view of numerical stability” (Nocedal and Wright, 2006, p. 433). We discuss how this result can be obtained, and show that for \( A \) as defined by (1), this factorization involves simple and readily available matrices, which need not to be calculated by any numerical procedure.

Let us consider the orthonormal QR factorization (Nocedal and Wright, 2006):

\[
A^T \Pi = QR,
\]

where \( \Pi \) is an \((m \times m)\) permutation matrix, \( Q \) is an \((n \times n)\) orthogonal matrix (i.e., \( Q^TQ = QQ^T = I_n \)), and \( R \) is an upper triangular \((n \times m)\) matrix, respectively.

Now, let us partition matrices \( Q \) and \( R \) as:

\[
Q = \begin{bmatrix} Q_1 & Q_2 \end{bmatrix} \quad R = \begin{bmatrix} R_1 \\ 0 \end{bmatrix},
\]

Other methods for generating null-space matrices can be found in Griva et al. (2009, pp. 86-91).

This fact prevents problems deriving from possible large dimensions of the series to be benchmarked, since in practice no computing effort is required to perform the QR factorization.
where \( Q_1, Q_2 \) and \( R_1 \) are \((n \times m), (n \times (n-m))\) and \((m \times m)\) matrices, respectively. Since both \( \Pi \) and \( Q \) are orthogonal matrices, it follows that \( AQ = \Pi R^T \), or

\[
AQ_1 = \Pi R_1^T \quad \text{and} \quad AQ_2 = 0.
\]

Thus, \( Y = Q_1 \) is a basis for the range-space of \( A^T \), and \( Z = Q_2 \) is a basis for the null-space of \( A \), with \( Y^T Y = I_n \) and \( Z^T Z = I_{n-m} \).

The pattern of the constraint matrix, \( A = I_m \otimes a^T \) (see section II), makes it possible to compute a \( QR \) factorization of \( A^T \) involving matrices formulated in compact form and once for all, ready to be implemented in a program code without any further (possibly complex and time consuming) elaboration.

A simple, and effective choice for the matrices involved in (11)-(12) is the following:

\[
\Pi = I_m, \quad Q_1 = I_m \otimes \kappa 1_s, \quad Q_2 = I_m \otimes K, \quad R_1 = \kappa^{-1} I_m,
\]

where the scalar quantity \( \kappa \) and the \((s \times (s-1))\) matrix \( K \) depend on the type of aggregation:

<table>
<thead>
<tr>
<th>Flows</th>
<th>Average</th>
<th>Stocks (End/Begin-of-period)</th>
</tr>
</thead>
<tbody>
<tr>
<td>( \kappa = -\frac{1}{\sqrt{s}} )</td>
<td>( \kappa = \frac{s}{\sqrt{s}} )</td>
<td>( \kappa = 1 )</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Flows and average</th>
<th>End-of-period stocks</th>
<th>Beginning-of-period stocks</th>
</tr>
</thead>
<tbody>
<tr>
<td>( K = \begin{bmatrix} \sqrt{\frac{s-1}{s}} &amp; 0 &amp; \ldots &amp; 0 \ -\sqrt{\frac{1}{s(s-1)}} &amp; \sqrt{\frac{s-2}{s-1}} &amp; \ldots &amp; 0 \ -\sqrt{\frac{1}{s(s-1)}} &amp; -\sqrt{\frac{1}{(s-1)(s-2)}} &amp; \ldots &amp; 0 \ \vdots &amp; \vdots &amp; \ddots &amp; \vdots \ -\sqrt{\frac{1}{s(s-1)}} &amp; -\sqrt{\frac{1}{(s-1)(s-2)}} &amp; \ldots &amp; -\sqrt{\frac{1}{2}} \ -\sqrt{\frac{1}{s(s-1)}} &amp; -\sqrt{\frac{1}{(s-1)(s-2)}} &amp; \ldots &amp; \sqrt{\frac{1}{2}} \end{bmatrix} )</td>
<td>( K = \begin{bmatrix} 1 \end{bmatrix}_{s-1} )</td>
<td>( K = \begin{bmatrix} 0^T \ 1 \end{bmatrix}_{s-1} )</td>
</tr>
</tbody>
</table>

Notice that in any case it is \( K^T K = I_{s-1} \), while for both types of stocks we have \( Q_1 = A^T \).
It can be easily shown that, according to this choice of $Q_1$ and $Q_2$, matrix $Q$ is orthonormal, as one can see by checking the following relationships:

\[ Q_1^T Q_1 = I_m \]
\[ Q_2^T Q_2 = I_{n-m} \]
\[ Q_1^T Q_2 = 0 \]
\[ Q_2^T Q_1 = 0 \]
\[ QQ^T = Q^T Q = I_n, \]

where the zero matrices have dimensions $(m \times m(s-1))$ and $(m(s-1) \times m)$, respectively.

For example, for flows variables and $s = 4$, as for the quarterly-to-annual benchmarking, it is

\[ \kappa = -0.5 \quad \text{and} \quad K = \begin{bmatrix} 0.8660 & 0 & 0 \\ -0.2887 & 0.8165 & 0 \\ -0.2887 & -0.4082 & -0.7071 \\ -0.2887 & -0.4082 & 0.7071 \end{bmatrix}, \]

while for $s = 12$, as for the monthly-to-annual benchmarking, it is $\kappa = -0.2887$ and

\[ K = \begin{bmatrix} 0.9574 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ -0.0870 & 0.9535 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ -0.0870 & -0.0953 & 0.9487 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ -0.0870 & -0.0953 & -0.1054 & 0.9428 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ -0.0870 & -0.0953 & -0.1054 & -0.1179 & 0.9354 & 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ -0.0870 & -0.0953 & -0.1054 & -0.1179 & -0.1336 & 0.9258 & 0 & 0 & 0 & 0 & 0 & 0 \\ -0.0870 & -0.0953 & -0.1054 & -0.1179 & -0.1336 & -0.1543 & 0.9129 & 0 & 0 & 0 & 0 & 0 & 0 \\ -0.0870 & -0.0953 & -0.1054 & -0.1179 & -0.1336 & -0.1543 & -0.1826 & 0.8944 & 0 & 0 & 0 & 0 \\ -0.0870 & -0.0953 & -0.1054 & -0.1179 & -0.1336 & -0.1543 & -0.1826 & -0.2236 & 0.8660 & 0 & 0 & 0 \\ -0.0870 & -0.0953 & -0.1054 & -0.1179 & -0.1336 & -0.1543 & -0.1826 & -0.2236 & -0.2887 & 0.8165 & 0 & 0 \\ -0.0870 & -0.0953 & -0.1054 & -0.1179 & -0.1336 & -0.1543 & -0.1826 & -0.2236 & -0.2887 & -0.4082 & -0.7071 & 0 & 0 \\ -0.0870 & -0.0953 & -0.1054 & -0.1179 & -0.1336 & -0.1543 & -0.1826 & -0.2236 & -0.2887 & -0.4082 & 0.7071 & 0 & 0 \end{bmatrix}. \]
C. The Reduced Unconstrained Minimization Problem

The optimization problem with equality constraints (3) can be transformed into an equivalent unconstrained problem by incorporating the constraints into the objective function. For, we need only to consider the restricted variables \( \mathbf{x} = \bar{\mathbf{x}} + Z \mathbf{x}_z \), and the function

\[
\tilde{f}(\mathbf{x}_z) = f(\bar{\mathbf{x}} + Z \mathbf{x}_z).
\]  

(13)

The argument of this function, \( \mathbf{x}_z \), is a vector with \( n - m \) elements, instead of \( n \) as in the original function \( f \). The unconstrained minimum of \( \tilde{f} \), say \( \mathbf{x}_z \), is however the solution to the original constrained problem.

Since \( Z^T Z = I_{n-m} \) and \( Z^T Y = Q_z^T Q_1 = 0 \), \( \mathbf{x}_z \) can be written as \( \mathbf{x}_z = Z^T \mathbf{x} \), and thus the Jacobean of the transformation is

\[
\frac{\partial \mathbf{x}_z}{\partial \mathbf{x}} = Z^T.
\]

If we assume differentiability of \( f \), gradient and Hessian of the reduced function can be expressed in terms of the original function:

\[
\nabla \tilde{f}(\mathbf{x}_z) = Z^T [\nabla f(\mathbf{x})]
\]

\[
\nabla^2 \tilde{f}(\mathbf{x}_z) = Z^T [\nabla^2 f(\mathbf{x})] Z.
\]

(14)

The relationship of the properties of stationary points to the derivatives (14) are the conditions that determine a minimum of the reduced objective function (13). Thus \( \mathbf{x}^* = \bar{\mathbf{x}} + Z \mathbf{x}_z^* \) is a minimum if and only if

- \( Z^T [\nabla f(\mathbf{x}^*)] = 0 \)

- \( Z^T [\nabla^2 f(\mathbf{x}^*)] Z \) is positive definite, and

- \( A \mathbf{x}^* = \mathbf{b} \).

The first two relationships are standard conditions for a minimum, while the third condition derives from the constrained nature of the problem. Considered together, these relationships provide the basis for the solution to the original optimization problem (3).

V. Line-Search Algorithms for Unconstrained Minimization

A general algorithm for solving the unconstrained minimization problem

\[
\min_{\mathbf{x}_z} \tilde{f}(\mathbf{x}_z)
\]

(15)
can be stated as follows:

1. Specify some initial guess of the solution: \( x_{Z,0} = Z^\top x_0 \);  

2. For \( k = 0,1,\ldots \), if \( x_{Z,k} \) is optimal, then stop. Otherwise:
   a. determine a search direction \( d_k \);
   b. determine a step length \( \alpha_k \) that leads to an improved estimate of the solution
      \[
      x_{Z,k+1} = x_{Z,k} + \alpha_k d_k .
      \]  

Once the direction \( d_k \) has been computed, the step length \( \alpha_k \) is found by solving some auxiliary one-dimensional problem (Nocedal and Wright, 2006). It is typically required that the search direction \( d_k \) be a descent direction for the function \( \tilde{f} \) at the point \( x_{Z,k} \). This means that for “small” steps taken along \( d_k \) the function value is guaranteed to decrease:

\[
\tilde{f}(x_{Z,k} + \alpha d_k) < \tilde{f}(x_{Z,k}) \quad \text{for} \quad 0 < \alpha \leq \varepsilon
\]

for some \( \varepsilon > 0 \).

This algorithm with its three major steps - the optimality test, computation of \( d_k \), and computation of \( \alpha_k \) through a line-search approach - has been the basis for many successful optimization algorithms, and has been used to develop many software packages for nonlinear optimization. However, it is not the only approach possible. Another effective nonlinear optimization approach is the trust-region method (Nocedal and Wright, 2006). In this paper we follow the line-search approach due to its effectiveness and simplicity, also in terms of software implementation.

### A. Newton’s Method with Hessian Modification

In its classical form, Newton’s method basically consists in determining \( d_k \) in (16) as the solution to the Newton equations

\[
\left[ \nabla^2 \tilde{f}(x_{Z,k}) \right] d_k = -\left[ \nabla \tilde{f}(x_{Z,k}) \right].
\]  

---

\(^7\) In agreement with Causey and Trager (1981), we assume \( x_0 = x^{PFD} \), solution to system (5).
Since it can fail or diverge, and even if it does converge, it might not converge to a minimum, Newton’s method is rarely used in its classical form. Possible solutions to guarantee that the method will converge to a stationary point and possibly a local minimum, if one exists, is to use the Newton direction within the general recursion (16), and to consider a modification of the Hessian matrix in order to have a positive definite matrix in the Newton equations (17). Thus, a practical version of Newton’s method, that is guaranteed to converge and does not assume that $\nabla^2 \tilde{f}(x_{Z,k})$ is positive definite for all values of $k$, can be summarized as follows.

1. Specify some initial guess of the solution, $x_{Z,0}$, and specify a convergence tolerance $\varepsilon$.

2. For $k = 0, 1, \ldots$, if $\left\| \nabla \tilde{f}(x_{Z,k}) \right\| < \varepsilon$, then stop. Otherwise:
   
   a. Compute a modified factorization of the Hessian:

   $$
   \nabla^2 f(x_{Z,k}) + E = LDL^T,
   $$

   where $L$ and $D$ are lower triangular and diagonal, respectively, $(n-m) \times (n-m)$ matrices. Then, solve

   $$
   (LDL^T) \mathbf{d}_k = -\nabla \tilde{f}(x_{Z,k})
   $$

   for the search direction $\mathbf{d}_k$. Notice that $E$ will be zero if $\nabla^2 \tilde{f}(x_{Z,k})$ is positive definite.

   b. Perform a line search to determine the new estimate of the solution (16).

A principal advantage of the Newton’s method with Hessian modification is that it converges rapidly when the current estimate of the variables is close to the solution. Its main disadvantage is represented by possible high computational costs, since it requires the derivation, computation, and storage of the Hessian matrix, and the solution of a system of linear equations. This last task could give raise to high computational costs if the dimension of the problem $(n-m)$ is not small and/or the problem is not sparse.

However, for the problem in hand, in section IV we have shown the analytical expressions and the patterns of gradient and Hessian matrix of the problem, so we can take advantage of sparsity, and greatly reduce the computational costs of Newton’s method, making it an effective tool in practice.

**B. Steepest Descent and Quasi-Newton Methods**

Both steepest descent and quasi-Newton methods can be seen as compromises to Newton’s method (Griva *et al.*, 2009), that reduce one or more of its costs. In exchange, these methods generally have slower convergence rates.
These methods can be interpreted as computing the search direction $d_k$ by solving the linear system

$$B_k d_k = -\begin{bmatrix} \nabla \tilde{f}(x_{Z,k}) \end{bmatrix},$$

(18)

where $B_k$ is a positive-definite matrix. Since in the case of Newton’s method, $B_k = \nabla^2 \tilde{f}(x_{Z,k})$, assuming that the Hessian matrix is positive definite, intuitively $B_k$ should be some approximation to $\nabla^2 \tilde{f}(x_{Z,k})$.

**Steepest Descent Method**

The steepest-descent method computes the search direction by assuming $B_k = I_{n \times m}$, which gives the search direction $d_k = -\begin{bmatrix} \nabla \tilde{f}(x_{Z,k}) \end{bmatrix}$, and then uses a line search to determine the updated approximate solution $x_{Z,k+1}$ according to (16).

This is an old, widely known and cheap method, whose performance is usually very low. It is much simpler than Newton’s method because it does not require the computation of second derivatives, no system of linear equations must be solved to compute the search direction, and no matrix storage is needed. On the negative side, it has a slower convergence rate than Newton’s method, and sometimes it converges so slowly that $x_{Z,k+1} - x_{Z,k}$ is below the precision of computer arithmetic and the method fails.

**Quasi-Newton Methods**

Quasi-Newton methods are currently among the most widely used Newton-type methods for nonlinear optimization problems of moderate size, where matrices can be stored. They are incorporated in many software libraries, and they are effective in solving a wide variety of small to mid-size problems, in particular when the Hessian is hard to compute.

There are many different quasi-Newton methods, but they are all based on approximating the Hessian $\nabla^2 \tilde{f}(x_{Z,k})$ by another matrix $B_k$ that is available at lower cost. Then the search direction is obtained by solving equation (18). If the matrix $B_k$ is positive definite, then this is equivalent to minimizing the quadratic model

$$q(d_k) = \tilde{f}(x_{Z,k}) + \left[\nabla \tilde{f}(x_{Z,k})\right]^T d_k + \frac{1}{2} d_k^T B_k d_k.$$

There are several advantages to this approach. First, an approximation $B_k$ can be found using only first-derivative information. Second, the search direction can be computed using only $O(n^2)$ operations (vs. $O(n^3)$ for Newton’s method in the nonsparse case). There are also disadvantages, but they are minor. Quasi-Newton methods do not converge quadratically,
but they can converge superlinearly (Nocedal and Wright, 2006). At the precision of computer arithmetic, there is not much practical difference between these two rates of convergence. Also, quasi-Newton methods still require matrix storage, so they are not normally used to solve large problems\(^8\).

The various quasi-Newton methods differ in the choice of \(B_k\). A variety of methods are obtained by imposing conditions on the approximation \(B_k\). These conditions are usually properties of the Hessian matrix that the approximation should share, like symmetry and positive definiteness. Due to its effectiveness, the most widely used expression for \(B_k\) is the update formula by Broyden, Fletcher, Goldfarb, and Shanno (BFGS):

\[
B_{k+1} = B_k - \frac{(B_k s_k)(B_k s_k)^T}{s_k^T B_k s_k} + \frac{y_k y_k^T}{y_k^T s_k},
\]

where \(s_k = x_{Z,k+1} - x_{Z,k}\), \(y_k = \nabla \tilde{f}(x_{Z,k+1}) - \nabla \tilde{f}(x_{Z,k})\), and \(B_0 = I_{n-m}\).

C. Nonlinear Conjugate Gradient

Conjugate gradient methods are generally considered as an excellent choice to solve a nonlinear unconstrained minimization problem, since they do not require the evaluation of the Hessian matrix neither the storage of an approximation of it. Nonlinear conjugate gradient algorithms are of considerable interest from both theoretical and practical points of view, particularly for their convergence properties (Hager and Zhang, 2006), a very easy implementation effort in computer programs, and their efficiency in solving large-scale problems.

Starting from an initial guess \(x_{Z,0}\), the nonlinear conjugate gradient method generates a sequence \(x_{Z,k}\) according to the relationship (16), where the positive step size \(\alpha_k\) is obtained by a line search, and the direction \(d_k\) is recursively defined by

\[
d_k = \begin{cases} 
-\tilde{g}_0 & \text{for } k = 0 \\
-\tilde{g}_k + \beta_k d_{k-1} & \text{for } k \geq 1 \end{cases},
\]

where \(\tilde{g}_k = \nabla \tilde{f}(x_{Z,k})\), and \(\beta_k\) is the CG update parameter. Different CG methods correspond to different choices for the scalar \(\beta_k\) (Hager and Zhang, 2006, Andrei, 2008). Table 1 provides a (partial) list of some choices for the CG update parameters.

\(^8\) This drawback can be overcome by using a “limited” version of the algorithm, like the limited BFGS (LBFGS) method (Nocedal and Wright, 2006).
Table 1. Various choices for the CG update parameter \( y_k = \tilde{g}_k - \tilde{g}_{k-1} \)

<table>
<thead>
<tr>
<th>CG update parameter</th>
<th>Authors</th>
</tr>
</thead>
<tbody>
<tr>
<td>( \beta^\text{HS}<em>k ) = ( \frac{\tilde{g}<em>k^T y</em>{k-1}}{d</em>{k-1}^T y_{k-1}} )</td>
<td>Hestenes and Stiefel (1952)</td>
</tr>
<tr>
<td>( \beta^\text{FR}_k ) = ( \frac{\tilde{g}<em>k^T \tilde{g}<em>k}{\tilde{g}</em>{k-1}^T \tilde{g}</em>{k-1}} )</td>
<td>Fletcher and Reeves (1964)</td>
</tr>
<tr>
<td>( \beta^\text{PRP}<em>k ) = ( \frac{\tilde{g}<em>k^T y</em>{k-1}}{\tilde{g}</em>{k-1}^T \tilde{g}_{k-1}} )</td>
<td>Polak and Ribière (1969) and Polyak (1969)</td>
</tr>
<tr>
<td>( \beta^\text{PRP+}<em>k ) = ( \max {0, \frac{\tilde{g}</em>{k+1}^T y_k}{\tilde{g}_k^T \tilde{g}_k} } )</td>
<td>Powell (1984)</td>
</tr>
<tr>
<td>( \beta^\text{CD}_k ) = ( \frac{\tilde{g}<em>k^T \tilde{g}<em>k}{-d</em>{k-1}^T \tilde{g}</em>{k-1}} )</td>
<td>Fletcher (1987) (CD stands for Conjugate Descent)</td>
</tr>
<tr>
<td>( \beta^\text{DY}_k ) = ( \frac{\tilde{g}<em>k^T \tilde{g}<em>k}{d</em>{k-1}^T y</em>{k-1}} )</td>
<td>Dai and Yuan (1999)</td>
</tr>
</tbody>
</table>

Notice that if \( \tilde{f} \) is a strongly convex quadratic, then in theory all six choices for the update parameter in table 1 are equivalent with an exact line search. For non-quadratic functions, however, each choice for the update parameter leads to different performance.

Since numerical experience indicates that the PRP+ algorithm tends to be more robust and efficient (Gilbert and Nocedal, 1992; Nocedal and Wright, 2006, pp. 122-124), in this paper we use \( \beta^\text{PRP+} \) as CG update parameter. We consider also a restarting strategy\(^9\) suggested by Powell (1977), which consists in setting \( \beta_k = 0 \) whenever two consecutive gradients are far from orthogonal, as measured by the condition (Nocedal and Wright, 2006, p. 125)

\[
\left| \frac{\tilde{g}_k^T \tilde{g}_{k-1}}{\tilde{g}_k^T \tilde{g}_k} \right| \geq 0.1 .
\]  

VI. PROJECTED STEEPEST DESCENT AND CONJUGATE GRADIENT DIRECTIONS

Causey and Trager (1981) developed a benchmarking procedure grounded on a constrained Steepest Descent (SD) algorithm. Brown (2010) suggests a similar procedure can be applied by using the non-linear Conjugate Gradient (CG) algorithm.

In both cases the minimization problem is solved in the original variables \( x \), by using a feasible directions method according to which the iterations are given by

\(^9\) As Nocedal and Wright (2006, p. 124) stress, “Restarting serves to periodically refresh the algorithm, erasing old information that may not be beneficial”.

\[ x_{k+1} = x_k + \alpha_k v_k, \]

where \( \alpha_k \) is a positive step length, and \( v_k \) is such that \( Ax_k = 0 \). Thanks to this property, if \( x_k \) is feasible (\( Ax_k = b \)), then \( x_{k+1} \) is feasible too (i.e., \( v_k \) is a feasible direction).

The main idea is to “project” at each iteration the unconstrained search direction \( d_k \in \mathbb{R}^n \) onto the null-space of matrix \( A \) by means of the \((n \times n)\) orthogonal projection matrix

\[ V_k = \frac{1}{\nu_k} \left[ I_n - A^T (AA^T)^{-1} A \right] = \frac{1}{\nu_k} N, \]

where \( \nu_k = (d_k^T N d_k)^{1/2} \), and to compute \( v_k = -V_k d_k \). Since \( Ax_k = 0 \), \( v_k \) is a feasible direction. It can be shown (see the Appendix 1) that matrix \( V_k \) is an orthogonal projection matrix onto the affine feasible set \( F \) defined by the constraints.

Causey and Trager (1981) compute the unconstrained search direction as the steepest descent direction, namely \( d_k = -g_k \). Brown (2010) suggests the update formula \( d_k = -g_k + \beta^{PRP} d_{k-1} \), within a non-linear CG-PRP algorithm with a restart procedure (Powell, 1977; see section V).

**VII. Solvers’ Efficiency and Quality**

In this section we present numerical results about the performance of the techniques considered so far on the artificial series used by Denton (1971) in his seminal paper on benchmarking (section VII-A), and in benchmarking 61 quarterly series and 236 monthly series to their annual counterparts (section VII-B).

The GRP-benchmarked series are computed by applying the following unconstrained non-linear optimization algorithms to the reduced problem (15) obtained by transformation and elimination of some original variables:

- Steepest Descent (SD),
- Conjugate Gradient (CG),
- Quasi-Newton BFGS (QN-BFGS),
- Newton’s method with Hessian modification (MN).

Even though this is not the main focus of the paper, when presenting the results we will look at the ability of the GRP benchmarked estimates in preserving the dynamics of the preliminary series, as compared to the Denton’s PFD solution. We use the two indices (Di Fonzo and Marini, 2010):
where the series $x_{\text{GRP}}^*$ has been calculated using the algorithms described so far.

Index $r_i$ can be seen as the ratio between two mean absolute differences between the growth rates of the benchmarked (GRP and PFD, respectively) and the preliminary series. Sometimes this index can be larger than 1, thus indicating that, according to this metric, the movement is better preserved by Denton PFD. When $q = 2$, the index (22) is simply the square root of the ratio between the Causey and Trager movement preservation criteria (2), computed for the GRP and the PFD benchmarked estimates, respectively. Obviously, we expect the GRP technique always reaches a lower (or at least equal) value of the chosen criterion than PFD, and thus the index $r_2$ should be never larger than 1.

We have used the Matlab function minFunc (Schmidt, 2006), which is a free analogous of the fminunc of the Optimization Toolbox of Matlab (The Mathworks, 2009). A valuable feature of minFunc is that the scripts of the function are available to the user, who can change them according to her/his needs.\(^\text{10}\)

As for the options used, the conjugate gradient’s update parameter ($\beta_k$) is computed according to the PRP$^+$ formula (see table 1), and the restart condition (21) is considered. Convergence is achieved when the norm of the reduced gradient of the objective function is negligible. More precisely, a GRP benchmarked series $x^* = \bar{x} + Zx^*_z$ is obtained when

$$
\left\| \nabla \tilde{f}(x^*_z) \right\|_1 = \sum_{i=1}^{n-m} |\tilde{g}_i(x^*_z)| \leq 10^{-7},
$$

where $\tilde{g}_i(x^*_z), 1, \ldots, n-m$, is the generic element of the reduced gradient vector $\nabla \tilde{f}(x^*_z)$. If condition (23) is not satisfied after 5,000 iterations, the algorithm ends, and returns the most recent (feasible) solution.\(^\text{11}\)

For comparisons’ completeness, we consider also the GRP benchmarked series produced by the DOS-executable programme BMK1.exe, based on the projected steepest descent.

\(^{10}\) For example, the original function does not compute the PRP$^+$ variant of the CG algorithm, and considers a restart condition slightly different from (21).

\(^{11}\) The experiments were run on a PC equipped with a 32-bit Intel I5 processor with 4GB of RAM memory and Windows 7 Professional.
algorithm by Causey and Trager (1981, see section VI), which has been used for a long time
by the U.S. Bureau of the Census.

The convergence condition of this programme is

\[ \frac{f(x_{k-1})}{f(x_k)} < 1.00001, \]

which must be fulfilled within 200 iterations. No information on the number of function
evaluations is given, and the \( x^{PFD} \) series is returned as the final solution if the algorithm has a
breakdown (this never happened for the series we consider in the paper).

Due to the limited possibilities of “tuning” the optimization options of BMK1, we used it as a
sort of “black-box”. The comparisons could thus seem rather unfair. Indeed, in our view such
comparisons should only serve to give an idea of the improvements (if any) we can obtain by
using the procedures we present in this paper, as compared to the only (as far as we know)
currently available tool for GRP benchmarking.

According to the specialized literature (Mittelmann and Pruessner, 2006), in order to
compare different solvers/algorithms for NLP problems we should consider (i) efficiency, (ii)
robustness, and (iii) quality of solution of the solvers.

Efficiency, which refers to the amount of computation resources needed to find the solution,
is generally measured in terms of solver resource time (runtime). Robustness refers to the
ability of the solver to succeed in finding one solution, and is generally measured by the
number of problems for which a feasible solution is produced (the labelling of a solution as
either “successful” or not, is usually summarized by a solve status return code). While
considering these two aspects is sufficient when dealing with convex minimization problems
(such as in linear programs or for certain quadratic programs), where the found minimum is
generally the global one, for non-convex models, which may admit several local minima,
other factors involving solution quality play an important role as well. For example,
one solver may indeed be more efficient (i.e., faster), but the solution may be worse than that
of a solver which is slower in terms of elapsed time.

For the problem in hand, however, robustness is not a concern, since all the techniques we
consider are “feasible point methods” - i.e. at each iterate they produce series in line with the
temporal aggregation constraints - designed in such a way as they always give solutions “not
worse” than \( x^{PFD} \). In other words, in any case a feasible solution, say \( \hat{x} \), is obtained, such
that \( A\hat{x} = b \), and \( f(\hat{x}) \leq f(x^{PFD}) \).

Therefore, if we were only interested in the efficiency in finding a local minimum, we would
simply look for the fastest solver. Instead, if we wish that the comparison takes into account
also the quality of the solution, it seems sensible to consider the best solution within the
available ones,
\[ \hat{x} = \arg \min_{\tilde{x}} f(\tilde{x}) \]

and to refer to the relative objective value error between \( \hat{x} \) and \( \hat{x} \). More precisely, given a positive small tolerance \( \delta \), the expression\(^{12}\)

\[
\frac{f(\tilde{x}) - f(\hat{x})}{f(\hat{x})} \leq \delta
\]

(24)

can be used to define a simple quality ranking between the solutions provided by different solvers, which turns out to be effective when a large number of problems has to be considered. Clearly, the “true” best objective value corresponds to a choice of \( \delta = 0 \), but actually a tolerance close to 0 is used (e.g., \( \delta = 0.0001 \)). Thus we say that the solution \( \hat{x} \) is

1. the best, if expression (24) holds for \( \delta = 0.0001 \);
2. very accurate, if expression (24) holds for \( \delta = 0.001 \);
3. accurate, if expression (24) holds for \( \delta = 0.01 \);
4. acceptable, if expression (24) holds for \( \delta = 0.1 \).

In other words, we consider very accurate a solution whose objective function is within 0.1% of the best possible solution, accurate within 1%, and acceptable within 10%. A solution for which the objective value is 10% larger than the best one, is considered of bad quality.

The main concern in presenting an efficiency comparison involving several solvers, is in removing some of the ambiguity in interpreting the results, mostly if the number of problems is high (in our case, each series to be benchmarked gives rise to a NLP problem). At this end, we accompany the above quality information with the performance profiles (Dolan and Morè, 2002), a descriptive tool providing a wealth of information such as efficiency, robustness and probability of success of the technique in a very impressive graphical form, which can also include information on quality of solution, as it has been previously defined. We briefly summarize this effective tool in the next section.

### A. Performance Profiles

Dolan and Morè (2002) define an efficiency comparison\(^{13}\) in terms of a set \( P \) of \( n_{p} \) problems to be solved, and a set \( S \) of \( n_{s} \) optimization algorithms (solvers). Let \( t_{p,s} \) be (say) the solver resource time used by solver \( s \) on problem \( p \). A performance ratio can be defined as

---

\(^{12}\) The relative objective value error is usually defined by considering the absolute values of both the numerator and denominator of expression (24). Here this is not necessary, because it is always \( f(\tilde{x}) \leq f(\hat{x}) \) and \( f(\hat{x}) > 0 \).

\(^{13}\) In order to avoid confusion in the terminology, we changed the original term “benchmark”, used by Dolan and Morè (2002), with “efficiency comparison”.
For solvers $s$ that do not solve problem $p$, we adopt the convention $\rho_{p,s} = \infty$ (in practice, we set a value $\rho_{\infty} = 2 \max \rho_{p,s}$). The performance profile of a solver $s \in S$ is defined as the fraction of problems where the performance ratio is at most $\tau$:

$$\rho_s(\tau) = \frac{1}{n_p} \text{size}\{p \in P : \rho_{p,s} \leq \tau\}. \quad (26)$$

Thus $\rho_s(\tau) : \mathbb{R} \to [0,1]$ is the probability that a performance ratio $\rho_{p,s}$ is within $\tau$ of the best ratio. The function in equation (26) is the cumulative distribution function for the performance ratio in equation (25). Furthermore, it is piecewise constant, monotonically increasing and continuous from the right at each of the breakpoints. Note that the best solver for a particular problem attains the lower bound $\rho_{p,s} = 1$.

A performance profile seeks to capture how well the solver performs relative to the other solvers in $S$ on the set of problems in $P$. Note, in particular, that $\rho_s(1)$ is the fraction of problems for which solver $s \in S$ performs the best and that for $\tau$ sufficiently large, $\rho_s(\tau)$ is the fraction of problems solved by $s \in S$. In general, $\rho_s(\tau)$ is the fraction of problems with a performance ratio $\rho_{p,s}$ bounded by $\tau$, and thus solvers with high values for $\rho_s(\tau)$ are preferable.

The profile gives much information, including information about solver robustness and efficiency. If a user is only interested in solver efficiency, then he can examine profile values $\rho_s(\tau)$ for $\tau = 1$ of different solvers $s$. The values $\rho_s(1)$ specify the probability that a solver will `win' over all other solvers. For the profile defined in terms of computing time, we define a `win' as the solver who finds any optimal solution in the least amount of time. It is clearly possible to choose different definitions of “win” based on different performance ratios (e.g., defined in terms of number of iterations, of function evaluations, of objective functions at the minimum).

If a user is only interested in the probability of success of a solver for the problem set $P$, then the user may examine

$$\lim_{\tau \to \infty} \rho_s(\tau), \quad (27)$$

For ratios $\tau$ approaching $\infty$, we are looking at the probability of success of a solver given unlimited resource time.

If the user is also interested in information on quality of the solution returned by a solver (which is of particular interest for non-convex problems, as the one of interest for us, see
section III), the ratio (25) can be modified as follows. If $o_{p,s}$ is the value of the objective function at the solution found by solver $s$ for problem $p$, and $b_p$ is the best value within those found by all solvers $s \in S$ for problem $p$, we define a new performance ratio as

$$
\rho_{p,s} = \begin{cases} 
\frac{t_{p,s}}{\min \{t_{p,s} : 1 \leq s \leq n_s\}} & \text{if } \left| \frac{o_{p,s} - b_p}{b_p} \right| \leq \delta \\
\rho_M & \text{if } \left| \frac{o_{p,s} - b_p}{b_p} \right| > \delta 
\end{cases}
$$

(28)

where $\delta$ is, as before, a user-defined relative objective function difference threshold, and $\rho_M$ is an upper bound on $\rho_{p,s}$ over all problems $p$ and solvers $s$. The ratio (25) is similar as before, except that we consider a solver successful only if the returned solution is within $\delta$ of the best solution found.

### B. Denton (1971) series

The first example we consider is the series used in the seminal paper of Denton (1971). It consists of a five-year artificial quarterly series, with a fixed seasonal pattern invariant from year to year. The values are 50, 100, 150 and 100 in the four quarters, for a total yearly amount of 400. The annual benchmarks are assumed to be 500, 400, 300, 400 and 500 in the five successive years. The corresponding discrepancies (i.e., the differences between the known benchmarks and the annual sums of the preliminary series) are therefore 100, 0, -100, 0 and 100, respectively.

The performance of the GRP benchmarked series as compared to the PFD one has been analyzed by Di Fonzo and Marini (2010). Here suffice to say that, as expected, the GRP procedure shows better results as regards the movement preservation ($r_1 = 0.539$ and $r_2 = 0.553$).

Figure 1 and Table 2 show the different performances obtained by the considered procedures. The Newton’s method, which uses the analytic Hessian formula, need very few iterations and function evaluations (in both cases, 4) to converge, whereas after 4 iterations the other algorithms are rather far from the minimum. However, all the procedures succeed in finding the minimum of the objective function. According to the quality ranking defined in section VII, all solvers yield “very accurate” solutions, the “best” being given by quasi-Newton and modified Newton’s methods.

---

14 In figure 1 BMK1 is not present, because it does not provide the needed information.
The steepest descent (as we implemented it) appears to be less performing as compared to the conjugate gradient (a larger objective function, 36 iterations vs. 15, and 113 function evaluations vs. 57). Notice that the two steepest descent-based techniques - BMK1 and SD - show very similar performance, with a slight preference for BMK1, both in terms of target criterion and number of iterations. As for the quasi-Newton BFGS performance, the objective function and the number of function evaluations are less than SD and CG, but the number of iterations is larger.

**Table 2: Denton series: iterations, function evaluations and final GRP function**

<table>
<thead>
<tr>
<th>Algorithm</th>
<th>n. of iterations</th>
<th>n. of function evaluations</th>
<th>Objective function</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steepest descent (SD-BMK1)</td>
<td>30</td>
<td>n.a.</td>
<td>0.04412603</td>
</tr>
<tr>
<td>Steepest descent (SD)</td>
<td>36</td>
<td>113</td>
<td>0.04412774</td>
</tr>
<tr>
<td>Conjugate gradient (CG)</td>
<td>15</td>
<td>57</td>
<td>0.04412700</td>
</tr>
<tr>
<td>Quasi-Newton (QN-BFGS)</td>
<td>39</td>
<td>41</td>
<td>0.04411658</td>
</tr>
<tr>
<td>Newton with Hessian modification (MD)</td>
<td>4</td>
<td>4</td>
<td>0.04411656</td>
</tr>
</tbody>
</table>

**Figure 1: Denton (1971) series: GRP objective function in the first 14 iterations steps**
C. EUQSA and MRTS series

The EUQSA dataset consists of 61 raw (not seasonally adjusted) quarterly series from the European Quarterly Sector Accounts, which are not in line with their known annual counterpart. The preliminary series span the period from 1999-Q1 to 2005-Q4 (28 quarters), and annual benchmarks are available for each variable\footnote{A complete description of both EUQSA and MRTS datasets can be found in Di Fonzo and Marini (2011a).}

As shown in Di Fonzo and Marini (2011b, Appendix 2), these variables present temporal discrepancies which are in some cases very small (less than 0.5\% of the original level) and in other cases rather large (up to 50\% of the original level). As it is usual in National Accounts, the temporal discrepancies for a single variable are often either all negative or all positive, which is a clear indication that the preliminary quarterly series are biased with respect to the annual benchmarks.

We consider also 236 monthly series of the Canadian Monthly Retail Trade Survey. For 226 out of 236 series, the dataset covers the period from January 1991 to December 2003, while the remaining 10 series start on January 1999. When these flow series are seasonally adjusted (SA), the temporal aggregation constraints valid for the raw series are typically “destroyed”, since the annual sum of the SA series might show differences with the annual totals from the raw series, due to the fact that a non-deterministic seasonal component is normally assumed.

We mimic the situations faced by a data-producer wishing to restore the temporal additivity relationships between the SA and the raw data. The X12-ARIMA procedure was applied to the 236 monthly series with automatic options. Obviously, we did not use the optional spec FORCE (U.S. Census Bureau, 2009), so the yearly sums of the SA series are in general different from those of the original series\footnote{We stress that the quality of seasonal adjustment is not a primary concern of the paper. We have replicated the exercise performing the seasonal adjustment by TRAMO-SEATS, and the results we found as regards the different impact of the GRP and PFD benchmarking procedures on the temporal profiles of the SA series, were not significantly affected.}.

The computations have been done using the interface program Demetra (version 2.2, see Eurostat, 2007). The SA series resulting from X12-ARIMA have thus been considered as preliminary SA series to be temporally benchmarked.

The temporal discrepancies are quite variable (see Di Fonzo and Marini, 2011b, Appendix 3), but less marked than those of the EUQSA series. In fact, the mean absolute percentage discrepancy ranges from 0.02\% to 4.52\%.

Table 3 reports on the quality, according to the previously defined metric, of the solutions found for the 61 EUQSA series and the 236 MRTS series. The first column refers to the series benchmarked according to Denton PFD, which is used as starting point by all the NLP
solvers considered in this work. Clearly, Denton PFD is not a true GRP benchmarking procedure, but it is generally considered a good approximation of it. In this comparison it is used as a sort of “baseline”: for the whole set of 297 series, and with reference to the GRP objective function (2), Denton PFD yields solutions which are acceptable in about 80% of cases, accurate in about 37% and very accurate in about 2%, thus confirming the good approximation property generally claimed in literature. Anyway, in about 20% of cases this does not hold true, as the solutions by Denton PFD attain a GRP criterion which is more than 10% larger than the best one.

Table 3: EUQSA and MRTS series: quality of the solutions found with different GRP benchmarking procedures

<table>
<thead>
<tr>
<th>Quality of solution (tol.%)</th>
<th>Denton PFD</th>
<th>SD BMK1</th>
<th>SD</th>
<th>CG</th>
<th>QN BFGS</th>
<th>Newton</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUQSA (61 series)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bad (&gt;10%)</td>
<td>26</td>
<td>1</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Acceptable (10%)</td>
<td>35</td>
<td>60</td>
<td>57</td>
<td>58</td>
<td>60</td>
<td>61</td>
</tr>
<tr>
<td>Accurate (1%)</td>
<td>15</td>
<td>60</td>
<td>49</td>
<td>51</td>
<td>54</td>
<td>61</td>
</tr>
<tr>
<td>Very accurate (0.1%)</td>
<td>3</td>
<td>60</td>
<td>30</td>
<td>34</td>
<td>44</td>
<td>61</td>
</tr>
<tr>
<td>Best (0.01%)</td>
<td>0</td>
<td>51</td>
<td>21</td>
<td>25</td>
<td>38</td>
<td>61</td>
</tr>
<tr>
<td>MRTS (236 series)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bad (&gt;10%)</td>
<td>33</td>
<td>7</td>
<td>6</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Acceptable (10%)</td>
<td>203</td>
<td>229</td>
<td>230</td>
<td>235</td>
<td>236</td>
<td>236</td>
</tr>
<tr>
<td>Accurate (1%)</td>
<td>96</td>
<td>227</td>
<td>207</td>
<td>216</td>
<td>218</td>
<td>236</td>
</tr>
<tr>
<td>Very accurate (0.1%)</td>
<td>3</td>
<td>212</td>
<td>102</td>
<td>125</td>
<td>162</td>
<td>236</td>
</tr>
<tr>
<td>Best (0.01%)</td>
<td>0</td>
<td>94</td>
<td>46</td>
<td>74</td>
<td>153</td>
<td>235</td>
</tr>
<tr>
<td>TOTAL (297 series)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bad (&gt;10%)</td>
<td>59</td>
<td>8</td>
<td>10</td>
<td>4</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Acceptable (10%)</td>
<td>238</td>
<td>289</td>
<td>287</td>
<td>293</td>
<td>296</td>
<td>297</td>
</tr>
<tr>
<td>Accurate (1%)</td>
<td>111</td>
<td>287</td>
<td>256</td>
<td>267</td>
<td>272</td>
<td>297</td>
</tr>
<tr>
<td>Very accurate (0.1%)</td>
<td>6</td>
<td>272</td>
<td>132</td>
<td>159</td>
<td>206</td>
<td>297</td>
</tr>
<tr>
<td>Best (0.01%)</td>
<td>0</td>
<td>145</td>
<td>67</td>
<td>99</td>
<td>191</td>
<td>296</td>
</tr>
<tr>
<td>TOTAL (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bad (&gt;10%)</td>
<td>19.87</td>
<td>2.69</td>
<td>3.37</td>
<td>1.35</td>
<td>0.34</td>
<td>0</td>
</tr>
<tr>
<td>Acceptable (10%)</td>
<td>80.13</td>
<td>97.31</td>
<td>96.63</td>
<td>98.65</td>
<td>99.66</td>
<td>100</td>
</tr>
<tr>
<td>Accurate (1%)</td>
<td>37.37</td>
<td>96.63</td>
<td>86.20</td>
<td>89.90</td>
<td>91.58</td>
<td>100</td>
</tr>
<tr>
<td>Very accurate (0.1%)</td>
<td>2.02</td>
<td>91.58</td>
<td>44.44</td>
<td>53.54</td>
<td>69.36</td>
<td>100</td>
</tr>
<tr>
<td>Best (0.01%)</td>
<td>0.00</td>
<td>48.82</td>
<td>22.56</td>
<td>33.33</td>
<td>64.31</td>
<td>99.66</td>
</tr>
</tbody>
</table>
Passing now to consider the “true” NLP solvers, the a priori expectation of a predominance of the Newton’s method with Hessian modification is fully confirmed by the results: the Hessian-based procedure never results in solutions of bad quality, and produces by far the best results for almost all series, the unique exception being one of the MRTS series, for which the solution is very accurate, but cannot be considered as the best.

All the gradient-based procedures produce some solutions of bad quality (1 series out of 296 for QN-BFGS, 4 for CG, 8 for SD-BMK1 and 10 for SD). Furthermore, we note that the SD-BMK1 algorithm is uniformly better than the SD solver, and produces very accurate solutions in over 91% of cases, a very good performance as compared to more sophisticated optimization algorithms, as CG and QN-BFGS are.

Table 4 presents some information on the computational efforts made by each solver, namely median, standard deviation and maximum values of number of iterations, function valuations, and elapsed time. We restrict this comparison on very accurate solutions only (reported in the first column), that is on those problems where solvers achieve a final objective function satisfying condition (24) with $\delta = 10^{-3}$. It is confirmed the good performance of the Newton’s method, that solved all problems within few iterations and function evaluations, with a maximum runtime under 0.1 seconds.

**Table 4: EUQSA and MRTS series: statistics on iterations, function evaluations and runtime for very accurate solutions ($\delta = 10^{-3}$)**

<table>
<thead>
<tr>
<th>Algorithm</th>
<th># series</th>
<th>Iterations</th>
<th>Func. Evaluations</th>
<th>Runtime</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>med</td>
<td>std</td>
<td>max</td>
</tr>
<tr>
<td>EUQSA (61 series)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SD-BMK1</td>
<td>60</td>
<td>11</td>
<td>18</td>
<td>70</td>
</tr>
<tr>
<td>SD</td>
<td>30</td>
<td>35</td>
<td>95</td>
<td>352</td>
</tr>
<tr>
<td>CG</td>
<td>34</td>
<td>10</td>
<td>499</td>
<td>2922</td>
</tr>
<tr>
<td>QN-BFGS</td>
<td>44</td>
<td>13</td>
<td>40</td>
<td>263</td>
</tr>
<tr>
<td>MN</td>
<td>61</td>
<td>1</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>MRTS (236 series)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SD-BMK1</td>
<td>212</td>
<td>13</td>
<td>11</td>
<td>64</td>
</tr>
<tr>
<td>SD</td>
<td>102</td>
<td>38</td>
<td>662</td>
<td>3307</td>
</tr>
<tr>
<td>CG</td>
<td>125</td>
<td>17</td>
<td>590</td>
<td>4967</td>
</tr>
<tr>
<td>QN-BFGS</td>
<td>162</td>
<td>37</td>
<td>154</td>
<td>1060</td>
</tr>
<tr>
<td>MN</td>
<td>236</td>
<td>1</td>
<td>1</td>
<td>6</td>
</tr>
</tbody>
</table>

SD: steepest descent; CG: conjugate gradient; QN: quasi-Newton; MN: modified Newton
Table 5 shows the same statistics on the subset of series for which each solver did not achieve a very accurate solution. For these problems, SD-BMK1 often reached the maximum number of iterations allowed by the programme (201). Steepest descent algorithms often display slow convergence rates and zigzagging when the objective function is flat around the minimum, as it might be the case for these series and other cases where SD shows a similar behavior. On the other hand, very often CG and QN-BFGS stop after few iterations, when a significant descent direction is not found.

Table 5: EUQSA and MRTS series: statistics on iterations, function evaluations and runtime for not very accurate solutions ($\delta = 10^{-3}$)

<table>
<thead>
<tr>
<th>Algorithm</th>
<th># series</th>
<th>EUQSA (61 series)</th>
<th>MRTS (236 series)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>med</td>
<td>std</td>
<td>max</td>
</tr>
<tr>
<td>SD-BMK1</td>
<td>1</td>
<td>201</td>
<td>0</td>
</tr>
<tr>
<td>SD</td>
<td>31</td>
<td>1</td>
<td>897</td>
</tr>
<tr>
<td>CG</td>
<td>27</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>QN-BFGS</td>
<td>17</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>MN</td>
<td>0</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

SD: steepest descent; CG: conjugate gradient; QN: quasi-Newton; MN: modified Newton

Looking at these solutions, the movements in the original series are better preserved by the Newton’s method. Tables 6 and 7 report median, standard deviation, minimum and maximum values of $r_1$ and $r_2$ indices, as defined by (22). The median value of $MD$ is always smaller than those of other algorithms. Gradient-based solvers do not move away from the starting condition (i.e. the Denton PFD solution), and thus $r_2 = 1$ in most cases. However, it should be noted that the impact of these differences in the movements of the benchmarked series is relatively small, since it is practically impossible to detect them on a time-series graph.

Figures 2 and 3 show the performance profiles, where the $X$-axis is expressed in log-2-scale, based on runtime for, respectively, $\delta = 0.1$ and $\delta = 0.001$ in formula (28). The profiles refer to all series (297), and show the performance, as measured by the resource time, when

17 In Appendix B we present the performance profiles distinct by dataset, based on runtime and also on number of iterations and of function evaluations. In this last case, SD-BMK1 is missing, since the programme does not provide the needed information.
acceptable solutions ($\delta = 0.1$) and very accurate solutions ($\delta = 0.001$) are considered. The former case gives us information about the efficiency of the solvers, while the latter shows their quality.

The best performance of the Newton’s method, both in terms of efficiency and quality, is now confirmed also visually: the solutions are almost always of better quality ($\rho_i(1)$) is about 0.6 for acceptable solutions, and 0.7 for very accurate solutions), and required less computation efforts than the other solvers. The quasi-Newton algorithm shows a valuable level of efficiency (almost all successful solutions in less time) as compared to the other gradient-based methods, followed by the conjugate gradient solver. It is also confirmed the good quality performance of SD-BMK1: for $\delta = 0.001$ and large $\tau$, its curve is higher than the other gradient based methods\(^{18}\).

Table 6: EUQSA series: statistics on $r_1$ and $r_2$ indices for not very accurate solutions ($\delta = 10^{-3}$), and comparison with modified Newton’s results

<table>
<thead>
<tr>
<th>Algorithm</th>
<th># series out of 61</th>
<th>$r_1^1$ med</th>
<th>std</th>
<th>min</th>
<th>max</th>
<th>$r_1^2$ med</th>
<th>std</th>
<th>min</th>
<th>max</th>
</tr>
</thead>
<tbody>
<tr>
<td>SD-BMK1</td>
<td>1</td>
<td>0.323</td>
<td>0.000</td>
<td>0.323</td>
<td>0.323</td>
<td>0.233</td>
<td>0.000</td>
<td>0.233</td>
<td>0.233</td>
</tr>
<tr>
<td>MN</td>
<td></td>
<td>0.133</td>
<td>0.000</td>
<td>0.133</td>
<td>0.133</td>
<td>0.108</td>
<td>0.000</td>
<td>0.108</td>
<td>0.108</td>
</tr>
<tr>
<td>SD</td>
<td>31</td>
<td>1.000</td>
<td>0.186</td>
<td>0.230</td>
<td>1.004</td>
<td>1.000</td>
<td>0.198</td>
<td>0.181</td>
<td>1.000</td>
</tr>
<tr>
<td>MN</td>
<td></td>
<td>0.979</td>
<td>0.213</td>
<td>0.133</td>
<td>1.005</td>
<td>0.987</td>
<td>0.212</td>
<td>0.108</td>
<td>0.999</td>
</tr>
<tr>
<td>CG</td>
<td>27</td>
<td>1.000</td>
<td>0.153</td>
<td>0.389</td>
<td>1.000</td>
<td>1.000</td>
<td>0.155</td>
<td>0.361</td>
<td>1.000</td>
</tr>
<tr>
<td>MN</td>
<td></td>
<td>0.979</td>
<td>0.169</td>
<td>0.306</td>
<td>1.005</td>
<td>0.988</td>
<td>0.162</td>
<td>0.324</td>
<td>0.999</td>
</tr>
<tr>
<td>QN-BFGS</td>
<td>17</td>
<td>1.000</td>
<td>0.108</td>
<td>0.556</td>
<td>1.000</td>
<td>1.000</td>
<td>0.095</td>
<td>0.609</td>
<td>1.000</td>
</tr>
<tr>
<td>MN</td>
<td></td>
<td>0.981</td>
<td>0.106</td>
<td>0.552</td>
<td>1.005</td>
<td>0.997</td>
<td>0.094</td>
<td>0.608</td>
<td>0.999</td>
</tr>
</tbody>
</table>

SD: steepest descent; CG: conjugate gradient; QN: quasi-Newton; MN: modified Newton

\(^{18}\) We think that one possible reason for this interesting result could be the line-search procedure worked out by Causey and Trager (1981), which looks for a step-length $\alpha$, within a specific bounded interval, whose limits depend on the objective function. This point is currently under study.
Table 7: MRTS series: statistics on $r_1$ and $r_2$ indices for not very accurate solutions \((\delta = 10^{-3})\), and comparison with modified Newton’s results

<table>
<thead>
<tr>
<th>Algorithm</th>
<th># series</th>
<th>$r_1$ med</th>
<th>$r_1$ std</th>
<th>$r_1$ min</th>
<th>$r_1$ max</th>
<th>$r_2$ med</th>
<th>$r_2$ std</th>
<th>$r_2$ min</th>
<th>$r_2$ max</th>
</tr>
</thead>
<tbody>
<tr>
<td>SD-BMK1</td>
<td>24</td>
<td>0.908</td>
<td>0.122</td>
<td>0.614</td>
<td>1.005</td>
<td>0.859</td>
<td>0.222</td>
<td>0.195</td>
<td>0.971</td>
</tr>
<tr>
<td>MN</td>
<td></td>
<td>0.874</td>
<td>0.158</td>
<td>0.449</td>
<td>1.015</td>
<td>0.845</td>
<td>0.238</td>
<td>0.146</td>
<td>0.971</td>
</tr>
<tr>
<td>SD</td>
<td>134</td>
<td>1.000</td>
<td>0.071</td>
<td>0.595</td>
<td>1.000</td>
<td>1.000</td>
<td>1.22</td>
<td>0.195</td>
<td>1.000</td>
</tr>
<tr>
<td>MN</td>
<td></td>
<td>0.996</td>
<td>0.089</td>
<td>0.449</td>
<td>1.015</td>
<td>0.996</td>
<td>0.130</td>
<td>0.146</td>
<td>0.999</td>
</tr>
<tr>
<td>CG</td>
<td>111</td>
<td>1.000</td>
<td>0.047</td>
<td>0.526</td>
<td>1.000</td>
<td>1.000</td>
<td>1.082</td>
<td>0.163</td>
<td>1.000</td>
</tr>
<tr>
<td>MN</td>
<td></td>
<td>0.996</td>
<td>0.054</td>
<td>0.449</td>
<td>1.003</td>
<td>0.996</td>
<td>0.130</td>
<td>0.146</td>
<td>0.999</td>
</tr>
<tr>
<td>QN-BFGS</td>
<td>74</td>
<td>1.000</td>
<td>0.018</td>
<td>0.843</td>
<td>1.000</td>
<td>1.000</td>
<td>0.029</td>
<td>0.747</td>
<td>1.000</td>
</tr>
<tr>
<td>MN</td>
<td></td>
<td>0.997</td>
<td>0.018</td>
<td>0.847</td>
<td>1.000</td>
<td>0.997</td>
<td>0.029</td>
<td>0.745</td>
<td>0.999</td>
</tr>
</tbody>
</table>

SD: steepest descent; CG: conjugate gradient; QN: quasi-Newton; MN: modified Newton

Figure 2: EUQSA and MRTS series: performance profiles for acceptable solutions \((\delta = 10^{-1})\)
In this work, we present a Newton’s method with Hessian modification for benchmarking a time series according to the growth rates preservation principle by Causey and Trager (1981). This method exploits the analytic Hessian of the GRP objective function, making full use of all the derivative information at disposal. In addition, we show that the proposed technique is easy to implement and robust, making it a plausible competitor of the classical modified Denton’s PFD benchmarking procedure, also in a data-production process involving a considerable amount of series.

From the analysis of the artificial series of Denton (1971), and of quarterly and monthly real-life time series, it is strongly demonstrated that the new proposed technique overwhelmingly outperforms first-order (gradient-based) techniques, as the projected steepest descent technique originally proposed by Causey and Trager (1981), a technique based on the conjugate gradient algorithm (according to the recent proposal by Brown, 2010), and a Quasi-Newton method which at each iteration makes use of an approximated Hessian according to the BFGS algorithm.

Our future work will be concentrated in (i) expanding these results also to the extrapolation case, when the benchmarks (one or more) for the most recent years are unavailable, and the relevant preliminary values have to be benchmarked, (ii) developing benchmarking
techniques focussed on growth rates preservation principles other than GRP, for example by considering the absolute value instead of the square of the difference between target and preliminary growth rates:

\[
\sum_{t=2}^{n} \left| \frac{x_t}{x_{t-1}} - \frac{p_t}{p_{t-1}} \right|^2,
\]

(iii) considering also the 'annual' growth rates in the movement to be preserved (i.e., \( \frac{x_t}{x_{t-s}} \) instead of, or combined with, \( \frac{x_t}{x_{t-1}} \), see Fagan, 1995), and (iv) investigating the possibility of including the GRP principle in a reconciliation framework, where a system of time series has to be benchmarked in order to be in line with both temporal and contemporaneous constraints (Dagum and Cholette, 2006; Fortier and Quenneville, 2009; Di Fonzo and Marini, 2011a).

As regards the first point, we are also studying the “GRP-analog” of the regression-based benchmarking model by Dagum and Cholette (2006), according to which (in a simplified form) the benchmarked estimates are the solution to the constrained minimization problem of an objective function in the proportionate corrections \( \frac{x_t - p_t}{p_t} \):

\[
\sum_{t=2}^{n} \left( \frac{x_t - p_t}{p_t} - \rho \frac{x_{t-1} - p_{t-1}}{p_{t-1}} \right)^2,
\]

where \( 0 < \phi < 1 \) is a smoothing parameter, usually fixed by the user, which turns out to be useful mostly in extrapolation situations (Quenneville et al., 2003). A rather natural extension would in fact consider

\[
\sum_{t=2}^{n} \left[ \left( \frac{x_t}{x_{t-1}} - 1 \right) - \phi \left( \frac{p_t}{p_{t-1}} - 1 \right) \right]^2 \quad \text{or} \quad \sum_{t=2}^{n} \left[ \frac{x_t}{x_{t-1}} - 1 \right] - \phi \left( \frac{p_t}{p_{t-1}} - 1 \right) \right].
\]
REFERENCES


APPENDIX A. Feasible direction according to Causey and Trager (1981)

Given an \((n \times 1)\) (unconstrained) direction vector \(d\), we are looking for an \((n \times 1)\) vector \(v\), solution to the following constrained linear problem:

\[
\min_v v^T d \quad s.t. \quad v^T v = 1 \quad \text{and} \quad Av = 0. \tag{29}
\]

In other terms, we wish that the direction \(v\) have unitary norm \((v^T v = 1)\), and be feasible \((Av = 0)\).

Consider the Lagrangean function

\[
L = v^T d + \frac{\lambda^*}{2}(v^T v - 1) + \lambda^T (Av) \tag{30}
\]

where \(\lambda^*\) and \(\lambda\) are a scalar and a \((m \times 1)\) vector of Lagrange multipliers, respectively. The first order condition is given by

\[
\begin{align*}
\frac{\partial L}{\partial v} &= 0 \\
\frac{\partial L}{\partial \lambda^*} &= 0 \\
\frac{\partial L}{\partial \lambda} &= 0 \\
\Rightarrow \quad d + \lambda^* v + A^T \lambda &= 0 \\
v^T v &= 1. \tag{31}
\end{align*}
\]

Pre-multiplying the first equation in (31) by matrix \(A\) and solving for \(\lambda\), we find

\[
\lambda = - (AA^T)^{-1} Ad, \tag{32}
\]

and, by substitution in (31),

\[
\lambda^* v = - \left[I_n - A^T (AA^T)^{-1} A\right] d \tag{33}
\]

Noting that matrix \(N = \left[I_n - A^T (AA^T)^{-1} A\right]\) is idempotent \((N^T N = N)\), and given that \(v^T v = 1\), by taking the square of both sides of (33), we obtain:

\[
(\lambda^*)^2 v^T v = d^T Nd \quad \Rightarrow \quad \lambda^* = \nu = \left(d^T Nd\right)^{\frac{1}{2}}. \tag{34}
\]

Finally, by denoting \(V = \frac{1}{\nu} N\), and after substitution in (33), we obtain the result:

\[
v = -V d. \tag{35}
\]
APPENDIX B. Performance Profiles

Figure 4: EUQSA series: performance profiles for acceptable solutions ($\delta = 10^{-1}$)
Figure 5: EUQSA series: performance profiles for very accurate solutions ($\delta = 10^{-3}$)
Figure 6: MRTS series: performance profiles for acceptable solutions ($\delta = 10^{-1}$)
Figure 7: MRTS series: performance profiles for very accurate solutions ($\delta = 10^{-3}$)