

xtbreak: Testing for structural breaks in Stata

Jan Ditzen¹, Yiannis Karavias², Joakim Westerlund³

¹Free University of Bozen-Bolzano, Bozen, Italy

²Brunel University, UK

³Lund University, Sweden

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Motivation I

Motivation

- In time series or panel time series structural breaks (or change points) in the relationships between key variables can occur.
- Estimations and forecasts depend on knowledge about structural breaks.
- Structural breaks might influence interpretations and policy recommendations.
- Break can be unknown or known and single and multiple breaks can occur.
- Examples: Financial Crisis, oil price shock, Brexit Referendum, COVID19,...
- Question: Can we estimate when the breaks occur and test them?

Motivation

Literature

- Time Series:
 - ▶ Andrews (1993) test for parameter instability and structure change with unknown change point.
 - ▶ Bai and Perron (1998) propose three tests for and estimation of multiple change points.
- Panel (Time) Series
 - ▶ Karavias et al. (2023); Ditzen et al. (2025b) single and multiple breaks in panel data with cross-section dependence.
- `xtbreak` introduces tests for multiple structural breaks in time series and panel data based on Bai and Perron (1998) and Karavias et al. (2023); Ditzen et al. (2025b).

Econometric Model I

- Static linear panel regression model with s breaks:

$$y_{i,t} = x'_{i,t}\beta + w'_{i,t}\delta_j + e_{i,t} \quad (1)$$

- t denotes the time dimension, t and i the cross-sectional dimension, $n = 1, \dots, N$.
- $w_{i,t}$ is a variable affected by a structural break, δ_j is the coefficient of the j -th segment.
- $x_{i,t}$ is a variable unaffected by breaks.
- $e_{i,t}$ is a term of unobservables, including the error term.

Econometric Model II

- We can write the model with s breaks as:

$$y_{i,t} = x'_{i,t}\beta + w'_{i,t}\delta_1 + e_{i,t} \text{ for } t = T_0, \dots, T_1,$$

$$y_{i,t} = x'_{i,t}\beta + w'_{i,t}\delta_2 + e_{i,t} \text{ for } t = T_1, \dots, T_2,$$

$$\vdots$$

$$y_{i,t} = x'_{i,t}\beta + w'_{i,t}\delta_{s+1} + e_{i,t} \text{ for } t = T_s, \dots, T_{s+1}.$$

- We can further assume fixed effects or a common factor structure in $e_{i,t}$, $x_{i,t}$ and $w_{i,t}$
- The aim is to i) estimate the number of breaks $\hat{s}$, ii) the location of the breaks, $\hat{T}_j$ and iii) test for breaks.

Testing for Structural Breaks

- Three hypothesis:
 - (1) H_0 : no breaks versus H_1 : s breaks, where the number of breaks under H_1 , s is known.
 - (2) H_0 : no breaks versus H_1 : $1 \leq s \leq s_{max}$ breaks, where the maximum number of breaks under H_1 , s_{max} .
 - (3) H_0 : s breaks versus H_1 : $s + 1$ breaks.
- What to do if number of breaks is unknown?
- Main idea: if the model has the true number of breaks and the true point in time, then the SSR should be smaller than for a model with a larger or smaller number of breaks.
- No further knowledge of the break points required.

Testing for Structural Breaks I

Hypothesis 1: No breaks vs. s breaks

- H_0 : no breaks versus H_1 : s breaks,
- Simple F-Test:

$$F(\tau_s) = df \hat{\delta}' R' \left(R \hat{V}(\hat{\delta}) R' \right)^{-1} \hat{\delta} R$$

- df is the degree of freedom.
- $\hat{\delta}$ is the OLS estimator for δ with s breaks at dates τ_s
- R imposes restrictions such that $R\delta' = \delta'_1 - \delta'_2, \dots, \delta'_s - \delta'_{s-1}$.
- $\hat{V}(\hat{\delta})$ is a variance estimate.
- If tests are known, then $F(\tau_s) \sim F_{s,df}$.

Testing for Structural Breaks II

Hypothesis 1: No breaks vs. s breaks

- If the breakdates τ_s are not known, then a supremum statistic can be used:

$$\sup F(s) = \sup_{\mathcal{T}_s \in \mathcal{T}_{s,\epsilon}} F(\mathcal{T}_s).$$

- with $\mathcal{T}_{s,\epsilon} = \{(T_1, \dots, T_s) : T_{j+1} - T_j \geq \epsilon T, T_1 \geq \epsilon T, T_s \leq (1 - \epsilon)T\}$.
is the set of permissible break dates with ϵ being a user-defined trimming parameter.
- Asymptotic critical values depending on the number of breaks s and regressors q are given in Bai and Perron (1998, Table 1).
- The test statistic is essentially the maximum SSR of all possible SSR combination with

Testing for Structural Breaks

Hypothesis 2: no breaks versus $1 \leq s \leq s_{max}$ breaks

- Test if a maximum of s breaks occurs.
- "Double Maximum" test, where the maximum of the test using hypothesis 1 for the number of breaks between 1 and s is taken.

$$WD_{\max} F(s_{\max}) = \max_{1 \leq s \leq s_{\max}} \frac{c_{\alpha,1}}{c_{\alpha,s}} \sup F(s),$$

- $c_{\alpha,s}$ is the critical value from Bai and Perron (1998, Table 1).

Testing for Structural Breaks

Hypothesis 3: s breaks vs. $s + 1$ breaks

- Idea: Test if an additional break occurs.

$$F(s + 1|s) = \sup_{1 \leq j \leq s+1} \sup_{\tau \in \hat{\mathcal{T}}_{j,\epsilon}} F(\tau|\hat{\mathcal{T}}_s).$$

- It is essentially the difference of the minimum of combinations of the SSR with s and $s + 1$ breaks.
- Asymptotic critical values depending on the number of breaks s and regressors q are given in Bai and Perron (1998, Table 1).
- Test can be repeated sequentially until hypothesis cannot be rejected any longer to find number of breaks.

Minimising SSR and Dynamic Programming Approach

- Tests are based on minimising the SSR, but how to find the minimal SSR?
- Calculate SSR for all necessary subsamples (Bai and Perron, 2003).
- The estimation for the breakdates is:

$$\hat{T}_s = \arg \min_{T_s \in \mathcal{T}_{s,\epsilon}} SSR(T_s)$$

- Number of possible segments for m breaks and $h = \epsilon T$ is:

$$T(T+1)/2 - (h-1)T + (h-2)(h-1)/2 - h^2m(m+1)/2$$

- For example: Break in period 2 ($T_1 = 2$), then
 $SSR = SSR(1, 2) + SSR(2, T)$.

		End				
		1	2	3	...	T
Start	1	...	SSR(1,2)	SSR(1,3)	...	SSR(1,T)
	2		...	SSR(2,3)	...	SSR(2,T)
	3			...		SSR(3,T)
	...				...	
	T					...

Syntax

- Automatic estimation of number of breaks and break dates:

```
xtbreak depvar [indepvars] [if] [, options1 options2 options3  
options5 options6 ]
```

- Known Breaks:

```
xtbreak test depvar [indepvars] [if] , breakpoints(numlist—datelist  
[,index|fmt(string)]) [options1 options5 ]
```

- Unknown Breaks

```
xtbreak test depvar [indepvars] [if] [, hypothesis(1|2|3)  
breaks(real) options1 options2 options3 options4 options5 ]
```

Empirical Example

Leader Approval Rating

- Relationship between consumer confidence (CCI) and the approval rating of a country's leader.
- Likely exposed to structural breaks over time.
- Dataset from Ditzen et al. (2025a):
 - ▶ 8 countries with monthly data from Jan 1990 - Dec 2021, $T = 383$
 - ▶ Approval Rating from EAP 3.0 Database (Carlin et al., 2023).
 - ▶ Consumer confidence from OECD
- Aim: estimate number of breaks and breakpoints in effect of CCI on approval rating ($appr_{i,t}$).
- Add dummy ($d_{i,t}$) for month before, during and past an election. Dummy is non-breaking.

$$appr_{i,t} = \alpha_i + \delta_{i,s} CCI_{i,t} + \beta el_{i,t} + \epsilon_{i,t}$$

```
. xtbreak d.approval d.CCI , trim(0.05) nobreakvar(ElectionQ) strict maxbreaks(5) python
```

Test for multiple breaks at unknown breakpoints

(Ditzen, Karavias & Westerlund. 2025)

H0: no break(s) vs. H1: $1 \leq s \leq 5$ break(s)

	Test Statistic	Bai & Perron 1% Critical Value	Critical Values 5% Critical Value	10% Critical Value
UDmax	13.91	13.74	10.17	8.78

Sequential test for multiple breaks at unknown breakpoints

(Ditzen, Karavias & Westerlund. 2025)

	Test Statistic	Bai & Perron 1% Critical Value	Critical Values 5% Critical Value	10% Critical Value
F(1 0)	12.63	13.58	9.63	8.02
F(2 1)	26.99	15.03	11.14	9.56
F(3 2)	5.32	15.62	12.16	10.45
Detected number of breaks:		2	2	2

The detected number of breaks indicates the highest number of breaks for which the null hypothesis is rejected.

Estimation of break points

Number of obs = 3064
 Number of Groups = 8
 Obs per group = 383
 SSR = 34584.14
 Trimming = 0.05

#	Index	Date	[95% Conf. Interval]	
1	344	2018m9	2017m3	2020m3
2	363	2020m4	2019m2	2021m6

Empirical Example

Leader Approval Rating

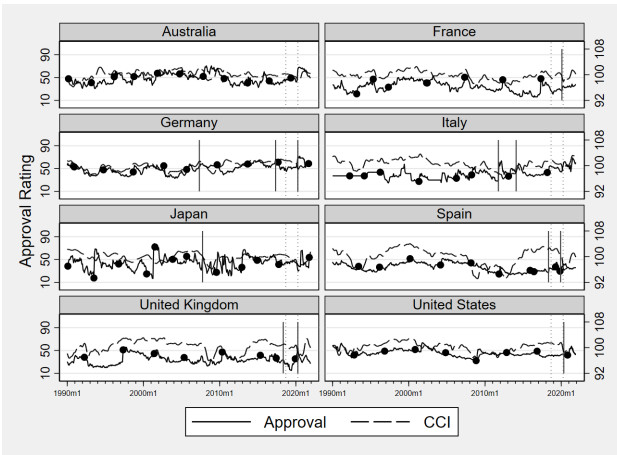


Figure: Leader Confidence. Dashed lines indicate break point estimates on country level, dotted on panel level and dots indicate elections.

Empirical Example

Leader Approval Rating - SSR

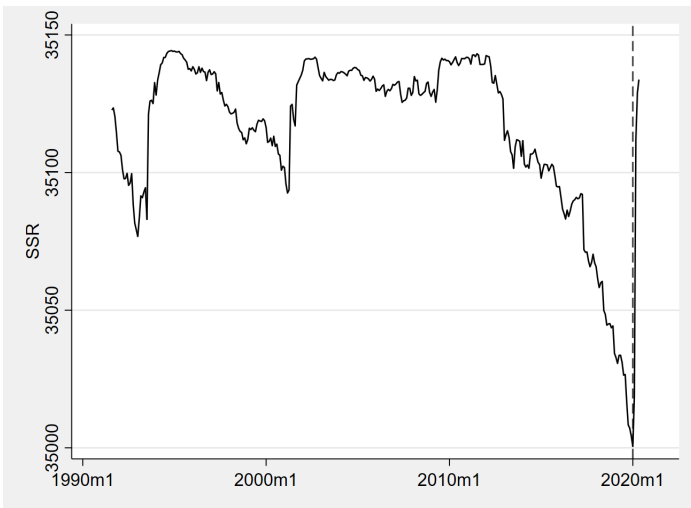


Figure: SSR for a single break over time

Speed

`xtbreak` is slow....

- Estimation and testing of unknown breaks depend on calculation of SSRs for subsamples (segments).
- Number of segments increases with T , trimming ϵ and number of breaks:

		1	2	End 3	...	T
Start	1	...	SSR(1,2)	SSR(1,3)	...	SSR(1,T)
	2		...	SSR(2,3)	...	SSR(2,T)
	3			...		SSR(3,T)
	...				...	
	T					...

		T			
$m=1$	ϵ	20	50	100	500
	0.15	162	912	3,516	85,326
	0.1	186	1,056	4,086	99,426
$m=2$	0.05	209	1195	4631	112901
	0.15	144	800	3,066	74,076
	0.1	178	1,006	3,886	94,426
	0.05	207	1,182	4,581	111,651

- Even for a moderate $T = 100$ and 2 breaks, more than 3,000 SSRs need to be computed.

Speed

SSR - a closer look

- The main bottle neck in terms of speed are the calculations of the SSRs.
- For $N=50$, $T=50$, `xtbreak` takes 10.6 seconds, the SSRs take 10.5 seconds.

- SSR for segment τ_j can be written as

$$SSR(\tau_j) = F \left(\left(\sum_{i=1}^N \tilde{\mathbf{X}}'_{\tau_j,i} \tilde{\mathbf{X}}_{\tau_j,i} \right)^{-1}, \sum_{i=1}^N \tilde{\mathbf{X}}'_{\tau_j,i} \tilde{\mathbf{Y}}_{\tau_j,i} \right), \text{ where}$$

$\tilde{\mathbf{X}}_{\tau_j,i} = \mathbf{X}_{\tau_j,i} \mathbf{M}_{\tau_j,i}$, and $\mathbf{M}_{\tau_j,i}$ is a projection matrix to partial out fixed effects, cross-section averages, etc.

- Four main components:
 - ① Inversion of $\tilde{\mathbf{X}}'_{\tau_j,i} \tilde{\mathbf{X}}_{\tau_j,i}$.
 - ② Selecting subsamples.
 - ③ Loop over number of segments.
 - ④ Loop over number of cross-sections.

Speed

Speed improvements

- On 1): Matrix inversion in mata fast.
- On 2): mix of `panelsetup` and range subscripts *relatively* fast.
- On 3) and 4): `xtbreak` has an option `python` which invokes Python:
 - ▶ Vectorisation of **X** and **Y** as a 3D Arrays, $T \times K \times N$ matrices.
 - ▶ Loop over segments can be parallised.
 - ▶ "Fixed Costs" invoking Python disadvantage

Speed

Speed improvements - benchmarks

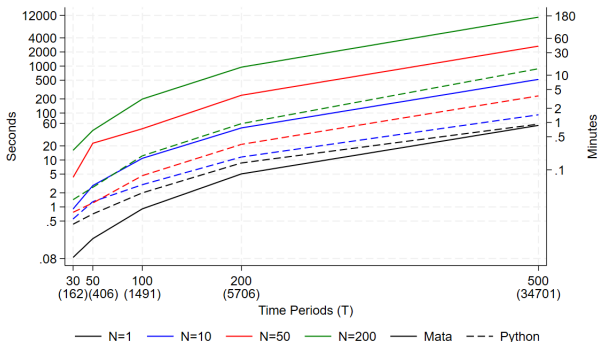


Figure: Timings of SSR calculations. Hypothesis (2) with no break vs. up to 4 breaks, two breaking variables and one non-breaking variable. Number of possible segments in parenthesis. System: Stata 19 SE; Core i7-10610U; 4 Cores.

- Time series ($N=1$) Mata is *marginally* faster.
- Panel Data ($N > 1$) vectorization in Python reduces computation time from 180 minutes to 17 minutes, representing a 10.6-fold speed improvement.

Conclusion

- `xtbreak` allows for the estimation of number and location of breaks and 3 tests.
- Supports time series and (unbalanced) panel data.
- Allows for
 - ▶ fixed effects, unobserved common
 - ▶ different variance estimator and trimmings
 - ▶ non-breaking variables
 - ▶ post estimation functions
- Speed improvements using Python.
- Paper (open access!) in Stata Journal 25(3).



<https://janditzen.github.io/xtbreak/>



The Stata Journal 25(3)

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