

## OECD Composite Leading Indicators signal continued weakening outlook for major OECD economies

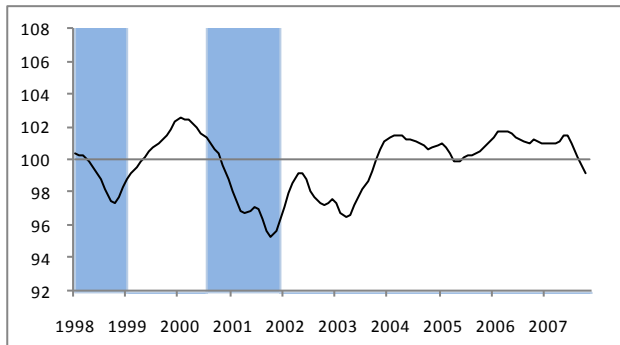
The latest composite leading indicators (CLIs) suggest that a moderate downturn in economic activity lies ahead in the OECD area. October 2007 data indicate a weakening outlook for all the major seven economies. The latest data for major OECD non-member economies point to continued steady expansion in China, India and Brazil but a weakening outlook for Russia.

The CLI for the **OECD area** decreased by 0.5 point in October and is 2.0 points lower than a year ago. The CLI for the **United States** fell by 0.6 point in October and it is 0.5 point lower than a year ago. The **Euro area's** CLI decreased by 0.1 point in October and stands 1.9 point lower than a year ago. In October 2007, the CLI for **Japan** fell by 1.6 point, and indicates a strong slowdown (8.5 points lower than a year ago) driven mainly by the "dwellings started" component of the CLI, which reflects a backlog due to administrative changes in Japan's Building Standard Law.

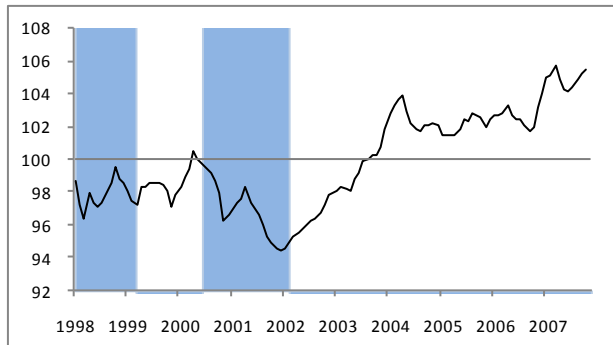
The CLI for the **United Kingdom** decreased by 0.1 point in October and it stands at the same level as a year ago. The CLI for **Canada** was unchanged in October and is 1.7 point higher than a year ago. For **France**, the CLI decreased by 0.1 point in October and is 1.2 point lower than a year ago. The CLI for **Germany** fell by 0.4 point in October and is 3.0 points lower than a year ago. For **Italy** the CLI increased by 0.2 point in October but it stands 2.1 points lower than a year ago.

The CLI for **China** increased by 0.2 point in October 2007 and stands 3.6 points higher than a year ago. The CLI for **India** rose by 0.8 point in September and is 0.9 point higher than a year ago. The CLI for **Russia** fell by 0.4 point in October 2007, and its level is 1.7 point lower than a year ago. In September 2007 the CLI for **Brazil** rose by a revised 0.8 point and stands 4.3 points higher than a year ago.

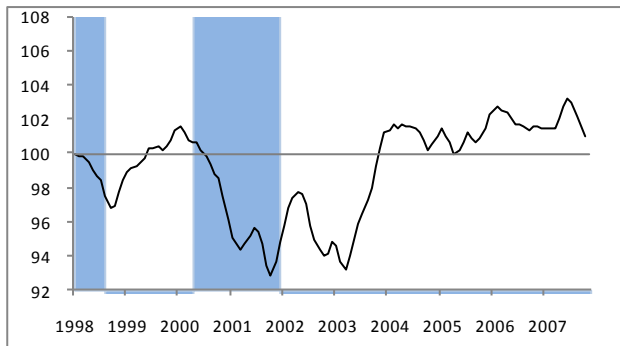
**Moderate downturn in the OECD area**



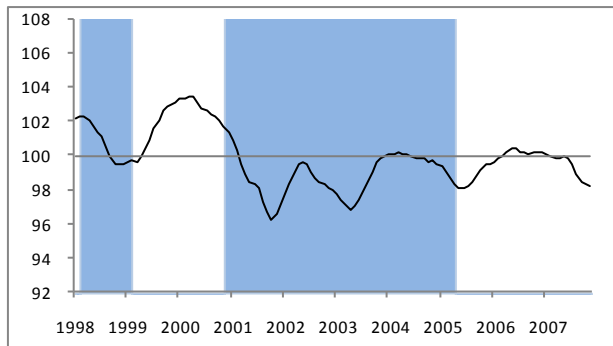
**Strong expansion in China**



**Moderate downturn in the United States**

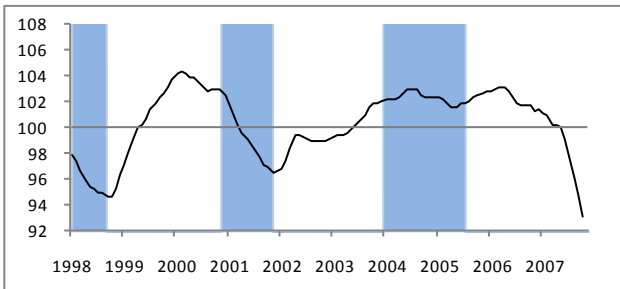


**Moderate slowdown in the Euro area**

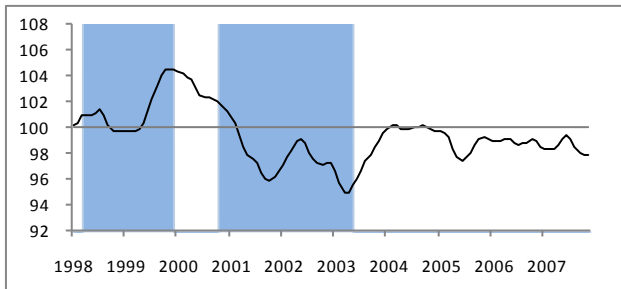


The above graphs show each countries growth cycle outlook based on the CLI which may signal turning points in economic activity approximately six months in advance. Shaded areas represent observed growth cycle downturns (measured from peak to trough) in the reference series (economic activity).

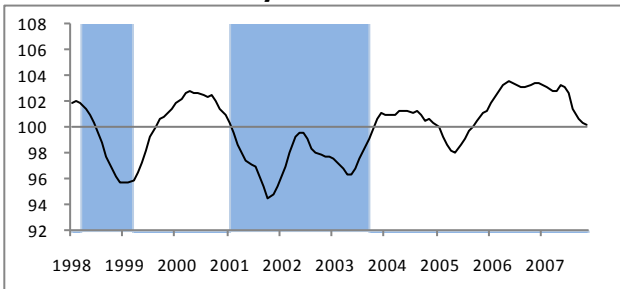
**Strong slowdown in Japan**



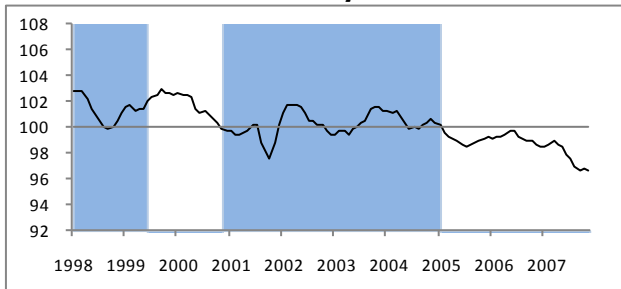
**Moderate slowdown in France**



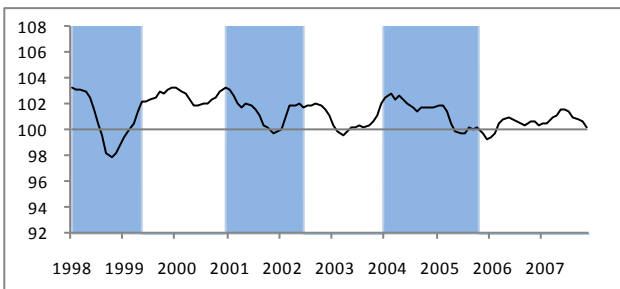
**Downturn in Germany**



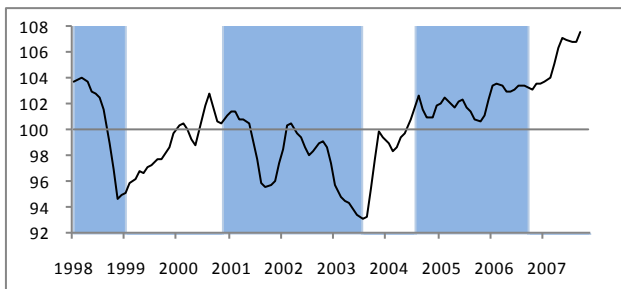
**Continued slowdown in Italy**



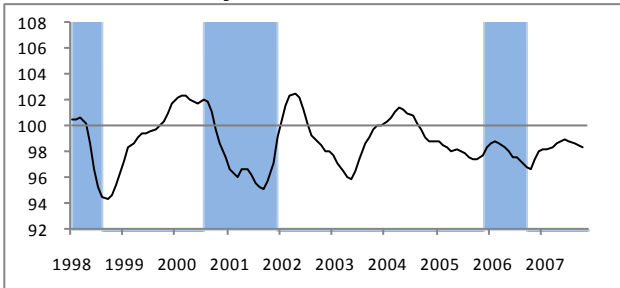
**Possible downturn in the United Kingdom**



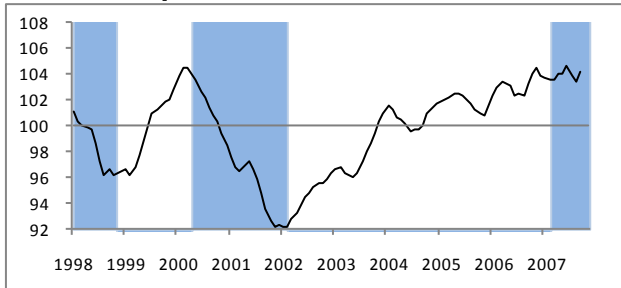
**Strong expansion in Brazil**



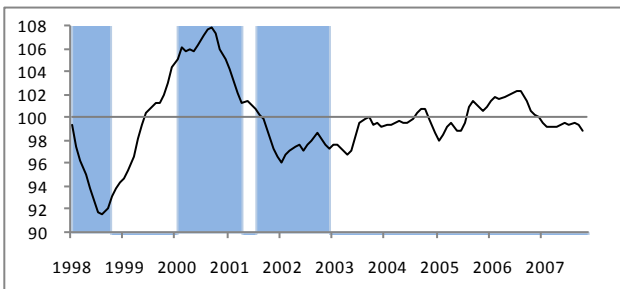
**Moderate recovery in Canada**



**Moderate expansion for India**



**Moderate slowdown in Russia**



The above graphs show each countries' growth cycle outlook based on the CLI which may signal turning points in economic activity approximately six months in advance. Shaded areas represent observed growth cycle downturns (measured from peak to trough) in the reference series (economic activity).

**Table 1: Composite Leading Indicators**

	Ratio to trend, amplitude adjusted (long term average =100)					Change from previous month (point)					Year on Year change (point)	Growth cycle outlook**
	2007					2007						
	Jun	Jul	Aug	Sep	Oct	Jun	Jul	Aug	Sep	Oct		
<b>OECD Area</b>	101.5	101.1	100.2	99.7	99.3	0.0	-0.4	-0.8	-0.5	-0.5	-2.0	moderate downturn
<b>Euro Area</b>	99.8	99.5	98.9	98.4	98.4	-0.1	-0.3	-0.6	-0.5	-0.1	-1.9	moderate slowdown
<b>Major Five Asia*</b>	103.5	103.0	102.7	102.7	102.3	-0.2	-0.5	-0.3	0.0	-0.4	-0.4	moderate downturn
<b>Major Seven</b>	101.8	101.3	100.4	99.8	99.2	0.1	-0.4	-0.9	-0.6	-0.6	-2.0	moderate downturn
<b>Canada</b>	98.9	98.8	98.6	98.4	98.3	0.1	-0.1	-0.2	-0.2	0.0	1.7	moderate recovery
<b>France</b>	99.4	99.1	98.5	98.0	97.9	0.4	-0.2	-0.6	-0.5	-0.1	-1.2	moderate slowdown
<b>Japan</b>	99.1	97.8	96.0	94.6	93.1	-0.9	-1.3	-1.8	-1.3	-1.6	-8.5	strong slowdown
<b>Germany</b>	103.2	102.7	101.5	100.7	100.4	-0.1	-0.4	-1.2	-0.8	-0.4	-3.0	downturn
<b>Italy</b>	97.9	97.5	96.8	96.6	96.8	-0.5	-0.4	-0.7	-0.2	0.2	-2.1	slowdown
<b>United Kingdom</b>	101.6	101.5	101.0	100.7	100.6	0.0	-0.1	-0.5	-0.2	-0.1	0.0	possible downturn
<b>United States</b>	103.3	103.0	102.2	101.7	101.1	0.5	-0.3	-0.8	-0.5	-0.6	-0.5	moderate downturn
<b>Brazil</b>	107.0	106.8	106.8	107.6		-0.2	-0.2	0.0	0.8		4.3	strong expansion
<b>China</b>	104.1	104.3	104.9	105.3	105.5	-0.1	0.2	0.6	0.4	0.2	3.6	strong expansion
<b>India</b>	104.7	103.9	103.4	104.2		0.6	-0.8	-0.5	0.8		0.9	moderate expansion
<b>Russia</b>	99.5	99.4	99.4	99.3	98.9	0.2	-0.1	0.0	-0.1	-0.4	-1.7	moderate slowdown

\* China, India, Indonesia, Japan and Korea.

\*\* Growth cycle phases of the CLI are defined as follows: expansion (increase above 100), downturn (decrease above 100), slowdown (decrease below 100), recovery (increase below 100). CLI data for 29 OECD member countries and 6 OECD Non-member economies available at: [http://stats.oecd.org/wbos/default.aspx?datasetcode=MEI\\_CLI](http://stats.oecd.org/wbos/default.aspx?datasetcode=MEI_CLI)

**Table 2: Historical Performance of CLI and Recent Cyclical Turning Points in the Reference Series**

	CLI Historical Performance				Recent confirmed Turning Point dates in the reference series					
	Lead (+) / Lag (-) at all turning points				Dates marked with (P) are provisional turning points					
	start year	median	mean	st. dev.	peak	trough	peak	trough	peak	trough
<b>OECD Area</b>	1965	5	5	3.8	Aug 2000	Dec 2001				
<b>Euro Area</b>	1965	6	7	8.4	Dec 2000			Mar 2005 P		
<b>Major Five Asia*</b>	1995	4	6	6.3	Aug 2000	Feb 2002				
<b>Major Seven</b>	1965	5	5	4.5	Dec 2000	Nov 2001				
<b>Canada</b>	1966	6	6	8.0	Aug 2000	Dec 2001	Dec 2005	Sep 2006 P		
<b>France</b>	1967	7	7	5.7	Nov 2000	May 2003				
<b>Japan</b>	1959	8	7	5.4	Dec 2000	Nov 2001	Jan 2004	Jul 2005 P		
<b>Germany</b>	1961	3	4	4.3	Feb 2001	Sep 2003 P				
<b>Italy</b>	1965	8	8	10.7	Dec 2000			Jan 2005 P		
<b>United Kingdom</b>	1972	7	7	5.0	Jan 2001	Jun 2002	Jan 2004 P	Oct 2005 P		
<b>United States</b>	1955	6	7	3.6	May 2000	Dec 2001				
<b>Brazil</b>	1979	4	5	4.5	Dec 2000	Jul 2003	Aug 2004	Sep 2006 P		
<b>China</b>	1983	4	6	6.5	Jul 2000	Feb 2002				
<b>India</b>	1995	1	1	0.8	May 2000	Feb 2002				Mar 2007 P
<b>Russia</b>	1994	10	7	9.3	Aug 2001	Dec 2002				

\* China, India, Indonesia, Japan and Korea

P= provisional (see Methodological Notes on next page)

## Methodological Notes

The OECD CLI is designed to provide early signals of turning points (peaks and troughs) between upswings and downswings in the growth cycle of economic activity. The CLI is an instrument of analysis that has to be used carefully. Whilst it has a long-term average = 100, the CLI provides qualitative information on short-term economic movements rather than quantitative measures. Therefore, the main message of CLI movements over time is the direction up or down in the growth cycle where the cyclical phases are defined as follows: expansion – CLI increasing and above 100; downturn – CLI decreasing but above 100; slowdown – CLI decreasing and below 100; recovery – CLI increasing but below 100.

The CLIs are aggregated time series which summarize information contained in a number of key short-term economic indicators known to be linked to GDP. They have been compiled using a modified version of the method developed by the US National Bureau of Economic Research. The CLI system comprises a set of component series selected from a wide range of economic indicators all sharing the common property of indicating swings in future economic activity (224 series are used in total, about 5-10 for each country).

Cyclical turning points are directly captured in the (amplitude adjusted) de-trended or ratio to trend form of the CLI as compiled from its de-trended component series. The monthly change (point) of the CLI provides information on short-term movements while the change (point) from the same month previous year supplies short-term trend information (Table 1). In practice, turning points in industrial production or GDP have been found about six months (on average) after the signals of turning points had been detected in the CLI. The historical performance (lead/lag at turning points) of the CLIs for individual countries and areas are set out in Table 2.

In general, the monthly index of industrial production covering all industry sectors (IIP) is used for the reference series as a proxy measure for quarterly GDP, because historical turning points of IIP have coincided with those of GDP for most OECD countries. Recent confirmed turning points in the reference series are set out in Table 2, where the most recent ones are noted provisional until they have been verified against those of the quarterly GDP. This is done in order to ensure consistency between the final reference chronology and GDP.

Access to time series data and methodological information for *OECD Composite Leading Indicators (CLI)*, *standardized consumer and business confidence indicators*, *business tendency survey indicators* by sector and *consumer opinion survey indicators* is provided by the OECD Business Cycle Analysis Database available at the OECD web site at <http://stats.oecd.org/mei/default.asp?rev=2>

The **OECD-Total** covers the following 29 countries: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey, United Kingdom, and United States.

The **G7 area** covers Canada, France, Germany, Italy, Japan, United Kingdom and United States.

The **Euro area** (not including Slovenia) covers the following 12 countries: Austria, Belgium, Finland, France, Germany, Greece, Italy, Ireland, Luxembourg, the Netherlands, Portugal, and Spain.

The **Major Five Asia area** covers China, India, Indonesia, Japan and Korea.

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