

OECD Composite Leading Indicators signal a downswing in all major OECD economies

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

The CLI for the **OECD area** fell by 0.3 point in December 2007 and was 2.1 points lower than in December 2006. The CLI for the **United States** fell by 0.7 point in December and it was 1.8 point lower than a year ago. The **Euro area's** CLI decreased by 0.4 point in December and stood 2.2 points lower than a year ago. In December, the CLI for **Japan** increased by 0.8 point, but it was 4.5 points lower than a year ago. The CLI for Japan is strongly influenced by its "dwellings started" component, which showed a sharp drop in the third quarter of 2007 following the modification of the Building Standard Law. Steps to improve the regulatory process led to a significant rebound in housing starts in the fourth quarter. The CLI, however, has a weakening tendency when the effect of this component is filtered out.

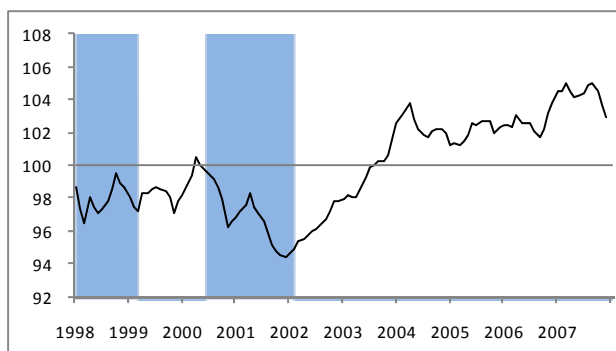
The CLI for the **United Kingdom** fell by 0.2 point in December 2007 and it was 0.1 point lower than a year ago. The CLI for **Canada** decreased 1.0 point in December and was 1.9 point lower than a year ago. For **France**, the CLI decreased by 0.4 point in December and was 1.1 point lower than a year ago. The CLI for **Germany** fell by 0.1 point in December and was 2.4 points lower than a year ago. For **Italy**, the CLI decreased by 1.2 point in December and stood 3.4 points lower than a year ago.

The CLI for **China** was down by 0.7 point in December 2007 and stood 0.9 point lower than a year ago. The CLI for **India** rose by 0.7 point in November 2007 but was 0.2 point lower than in November 2006. The CLI for **Russia** fell by 0.2 point in December, but its level was 1.3 point higher than a year ago. In December 2007 the CLI for **Brazil** dropped 0.6 point, but it stood 4.9 points higher than a year ago.

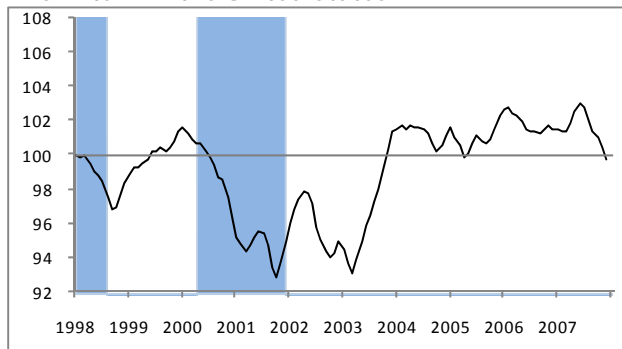
Moderate slowdown in the OECD area



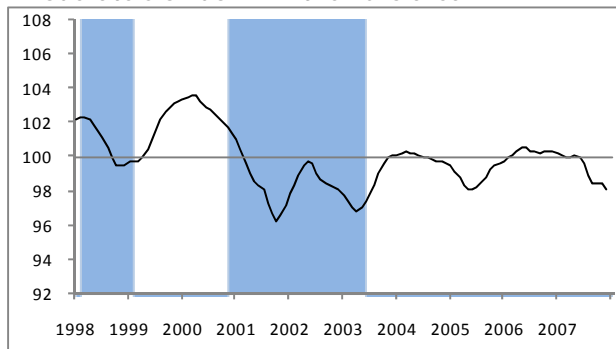
Possible downturn in China



Downturn in the United States

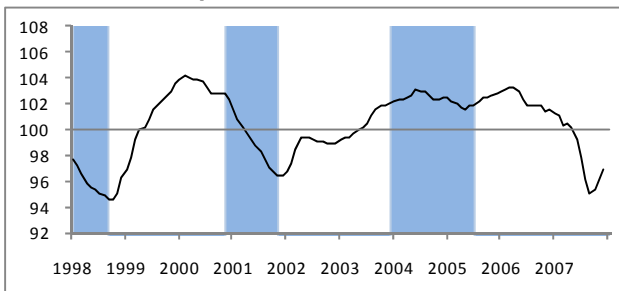


Moderate slowdown in the Euro area

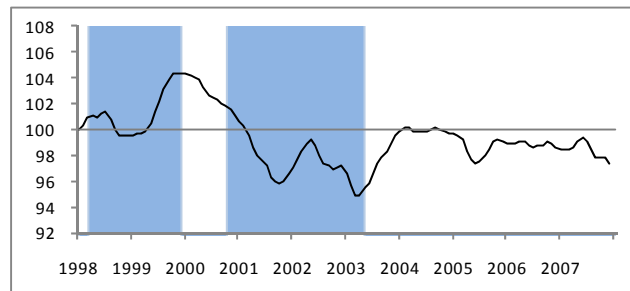


The above graphs show each countries growth cycle outlook based on the CLI which may signal turning points in economic activity approximately six months in advance. Shaded areas represent observed growth cycle downswings (measured from peak to trough) in the reference series (economic activity).

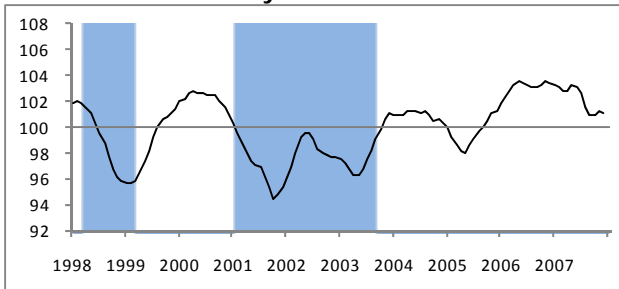
Slowdown in Japan



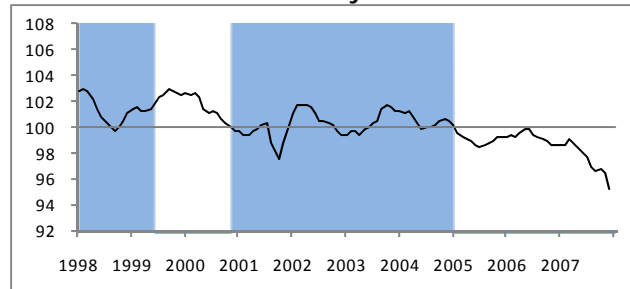
Moderate slowdown in France



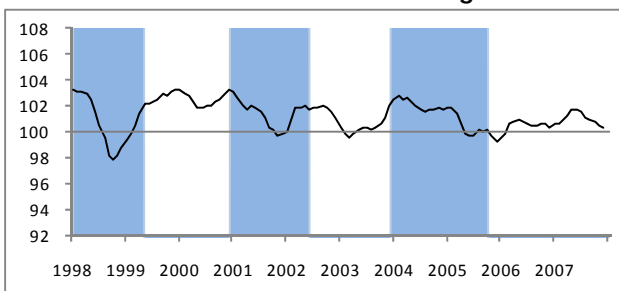
Downturn in Germany



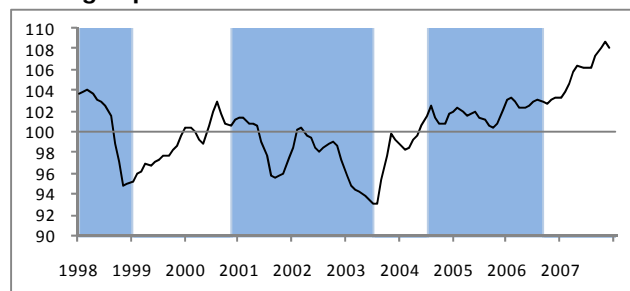
Continued slowdown in Italy



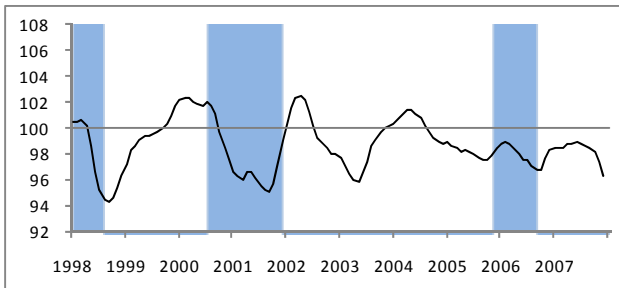
Moderate downturn in the United Kingdom



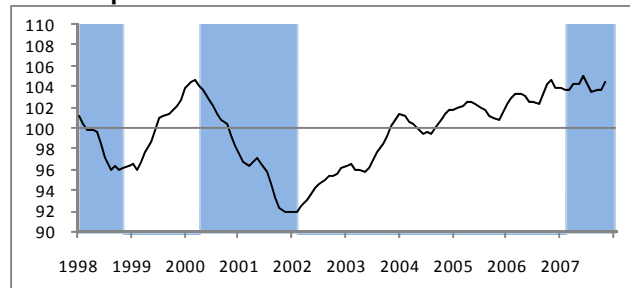
Strong expansion in Brazil



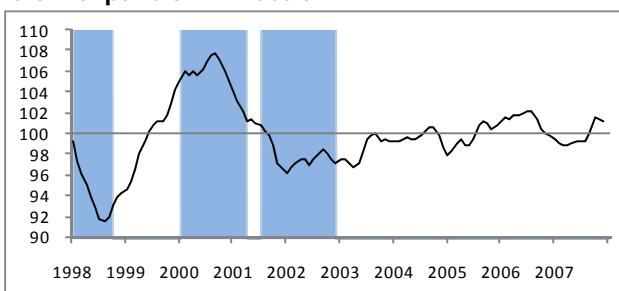
Slowdown in Canada



Slow expansion in India



Slow expansion 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					Latest month	
	Aug	Sep	Oct	Nov	Dec	Aug	Sep	Oct	Nov	Dec		
OECD Area	100.3	99.8	99.7	99.4	99.1	-0.8	-0.5	-0.1	-0.3	-0.3	-2.1	moderate slowdown
Euro Area	98.9	98.5	98.5	98.4	98.1	-0.7	-0.4	0.0	0.0	-0.4	-2.2	moderate slowdown
Major Five Asia*	102.7	102.6	102.6	102.6	102.5	-0.5	-0.1	-0.1	0.0	-0.1	-1.1	moderate downturn
Major Seven	100.4	99.7	99.6	99.4	99.0	-0.9	-0.6	-0.1	-0.2	-0.4	-2.2	moderate slowdown
Canada	98.6	98.5	98.2	97.3	96.3	-0.2	-0.1	-0.3	-0.8	-1.0	-1.9	slowdown
France	98.4	97.9	97.9	97.8	97.5	-0.7	-0.5	0.0	-0.1	-0.4	-1.1	moderate slowdown
Japan	96.1	95.1	95.4	96.2	97.0	-1.8	-1.0	0.3	0.8	0.8	-4.5	slowdown
Germany	101.5	101.0	100.9	101.2	101.1	-1.2	-0.6	-0.1	0.3	-0.1	-2.4	downturn
Italy	96.9	96.6	96.8	96.5	95.3	-0.8	-0.3	0.2	-0.3	-1.2	-3.4	slowdown
United Kingdom	101.1	100.9	100.8	100.5	100.3	-0.5	-0.2	0.0	-0.4	-0.2	-0.1	moderate downturn
United States	102.1	101.4	101.1	100.4	99.8	-0.7	-0.7	-0.3	-0.6	-0.7	-1.8	downturn
Brazil	106.2	107.3	108.2	108.7	108.1	0.1	1.1	0.8	0.5	-0.6	4.9	strong expansion
China	104.9	105.0	104.6	103.7	103.0	0.4	0.1	-0.5	-0.8	-0.7	-0.9	possible downturn
India	103.5	103.7	103.7	104.4		-0.8	0.3	0.0	0.7		-0.2	slow expansion
Russia	99.2	100.0	101.6	101.3	101.1	0.0	0.8	1.6	-0.3	-0.2	1.3	slow expansion

* 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

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
OECD Area	1965	5	5	3.8	Aug 2000	Dec 2001				
Euro Area	1965	6	7	8.4	Dec 2000			May 2003 P		
Major Five Asia*	1995	4	6	6.3	Aug 2000	Feb 2002				
Major Seven	1965	5	5	4.5	Dec 2000	Nov 2001				
Canada	1966	6	6	8.0	Aug 2000	Dec 2001	Dec 2005	Sep 2006 P		
France	1967	7	7	5.7	Nov 2000	May 2003				
Japan	1959	8	7	5.4	Dec 2000	Nov 2001	Jan 2004	Jul 2005 P		
Germany	1961	3	4	4.3	Feb 2001	Sep 2003 P				
Italy	1965	8	8	10.7	Dec 2000			Jan 2005 P		
United Kingdom	1972	7	7	5.0	Jan 2001	Jun 2002	Jan 2004 P	Oct 2005 P		
United States	1955	6	7	3.6	May 2000	Dec 2001				
Brazil	1979	4	5	4.5	Dec 2000	Jul 2003	Aug 2004	Sep 2006 P		
China	1983	4	6	6.5	Jul 2000	Feb 2002				
India	1995	1	1	0.8	May 2000	Feb 2002			Mar 2007 P	
Russia	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 summarise 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)*, *standardised 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, Cyprus and Malta) 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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