



OECD SHORT-TERM ECONOMIC STATISTICS WORKING PARTY
(STESWP)

Short introduction to the Statistics Netherlands Business Cycle Tracer

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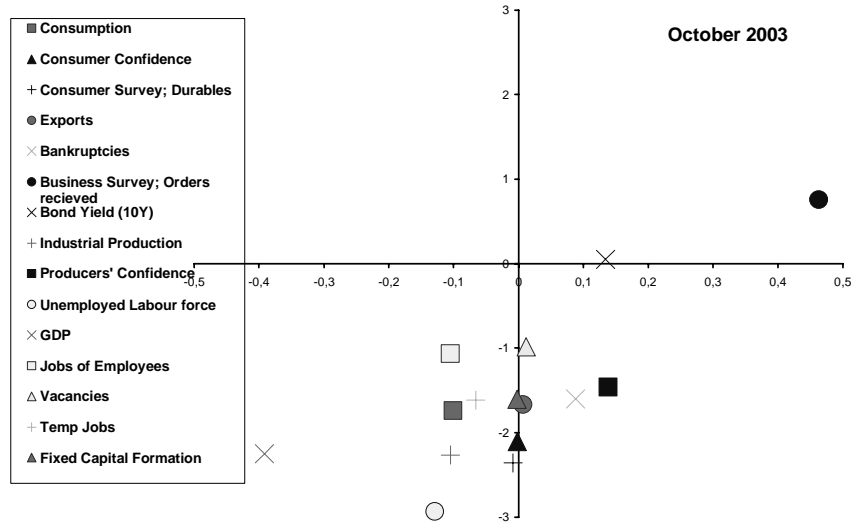
Submitted to the Working Party under item 6 of the draft agenda

Meeting:
26 – 28 June 2006

Franqueville Room
OECD Headquarters, Paris
Starting at 9:30 a.m. on the first day

What is the Statistics Netherlands Business Cycle Tracer?

Figure 1. Business Cycle Tracer for October 2003.

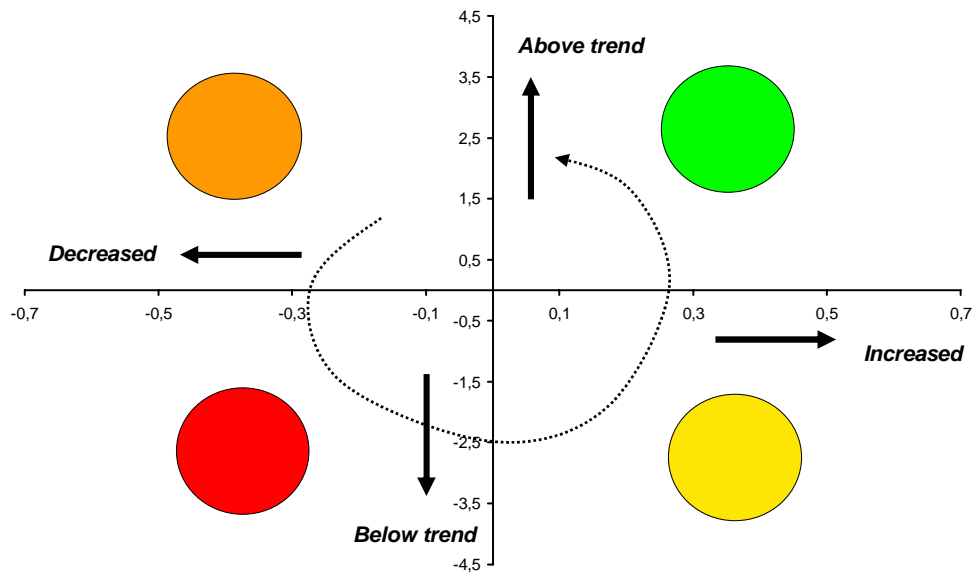


The Business Cycle Tracer is a tool for displaying and analyzing the current developments in important macro-economic indicators. It offers an easy and robust method for assessing the state of the economy and for analysing the relations between economic indicators. The tracer contains a selection of the most important Dutch macro-economic indicators. The series have been filtered to obtain the medium-term (business cycle frequency) developments.

How does the Business Cycle Tracer work?

Each indicator is placed in the diagram according to its deviation from trend (vertical axis) and the period-on-period change (horizontal-axis) herein. This immediately shows whether an indicator is performing above or below its average development and whether the short-term development is increasing or decreasing.

Figure 2; Construction Business Cycle Tracer diagram, division into quadrants



As can be seen in figure 2, this approach results in four possible phases by which the development of an economic indicator can be characterized. Above trend and increasing (green, “Boom”), above trend but decreasing (orange, “Decline”), below trend and decreasing (red, “Recession”), and below trend but increasing (yellow, “Recovery”). As their development changes over time, the indicators will move through the tracer diagram, going from one quadrant to the other. This classification offers a simple and clear method to characterize the development of economic indicators.

What indicators does the Business Cycle Tracer contain?

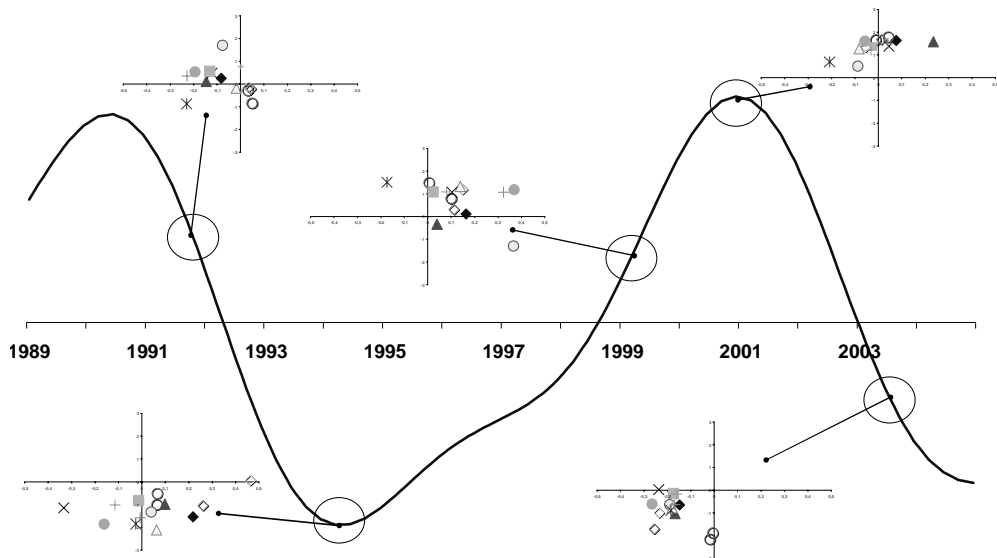
The Business Cycle tracer contains the following macro-economic indicators:

- Producer confidence**
- Unemployed labour force (inverted)**
- Consumer confidence**
- Jobs of employees**
- Temp jobs**
- Consumer Survey; Purchases of Durables (large purchases)**
- Exports**

Fixed capital formation
Business survey; Orders received
GDP
Total Household Consumption
Index of Industrial Production (manufacturing)
Vacancies
10-year bond yield (capital market rate)
Bankruptcies (inverted)

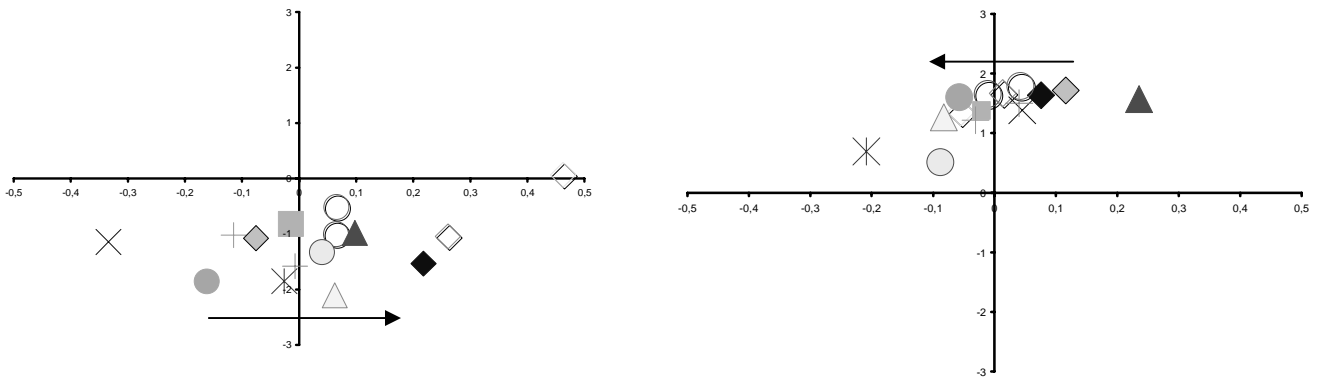
By displaying the development of these indicators in one diagram, a good representation of the developments in the Dutch business cycle is obtained. The way the indicators are distributed across the quadrants is a good indication of the current phase of the Dutch business cycle. A schematic representation of the Dutch business cycle between 1989 and 2004 and the corresponding phase of the cycle tracer is shown in figure 3.

Figure 3; Dutch business cycle and corresponding Business Cycle Tracer phases



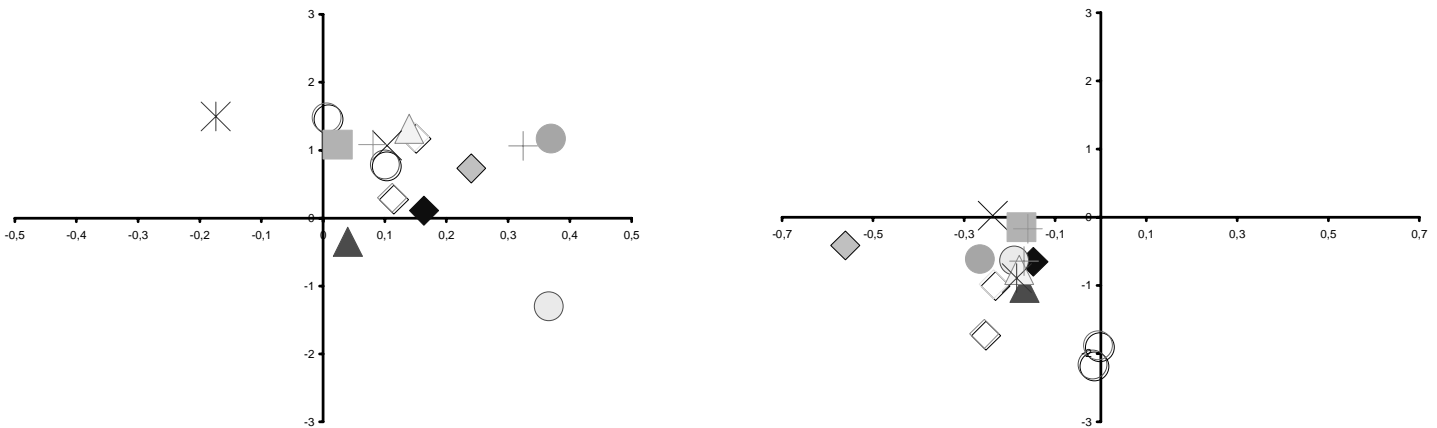
As can be seen in Figure 3, a distinct pattern is visible in the business cycle tracer at the time of turning points in the business cycle. The indicators are then distributed over the “old” and the “new” quadrant.

Figure 4(a). Business Cycle tracer of Q4 1993 (trough) 4(b) Business Cycle tracer of Q2 2000 (peak)



When the business cycle is in an upswing or downswing, this will be visible in the development and distribution of the indicators, as these will be respectively increasing and decreasing as well.

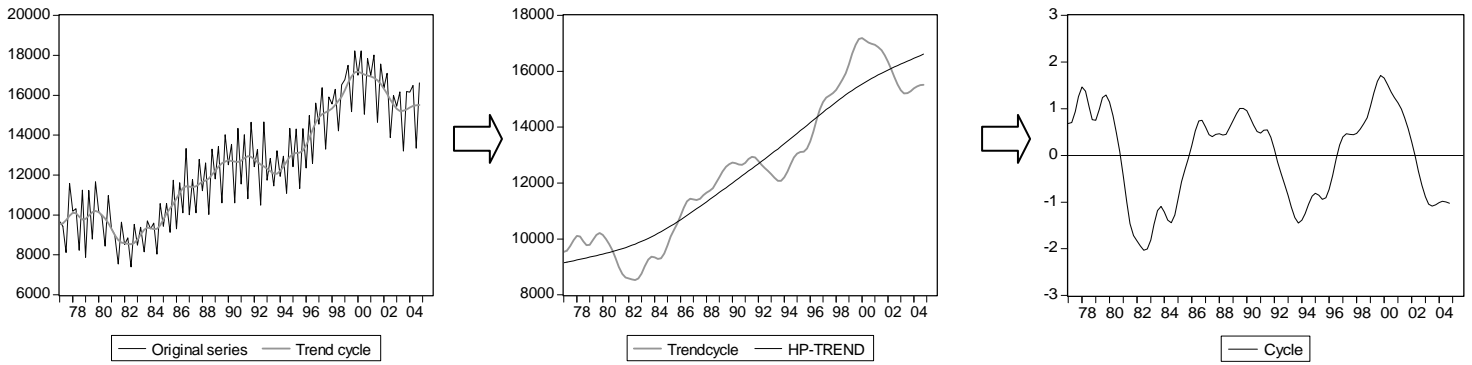
Figure 5(a). Business Cycle Tracer Q2 1999 (Upswing). 5(b) Business Cycle Tracer Q1 2003 (Downswing).



Computing the coordinates of the indicators

The Business Cycle Tracer is based on tracking the cyclical development of the indicators. These are defined as developments over the medium-term (2-11 years), and are computed by taking the filtered deviations from the relevant long-term trend. The first step in the computations is to filter out short-term and seasonal fluctuations. After this, the long-term trend for each indicator is computed. The deviation from this trend is the cycle.

Figure 6; Private fixed capital formation; filtering, trend computation and cycle determination.



By plotting the distance to trend (the cycle) against the period-on-period change in the cycle, the position of the indicator in the tracer diagram is determined.

Figure 7. Private fixed capital formation;, Cycle and corresponding Tracer coordinates.

