

## News Release

### OECD Composite Leading Indicators

October 2005

#### The OECD area Composite Leading Indicator shows improved performance continuing in October 2005

Weak to moderate activity lies ahead in the **OECD area**, according to the latest composite leading indicators (CLIs). October data show relatively stable or improved performance in the CLI's six month rate of change in each of the **seven major economies** with the most positive signals in **Japan** and the **Euro area**.

The CLI for the **OECD area** rose by 0.5 point in October 2005 to 105.3 from 104.8 in September. Its six-month rate of change rose for the fifth consecutive month.

The CLI for the **United States** rose by 0.2 point in October and its six-month rate of change increased after having decreased in the previous two months. The **Euro area's** CLI increased by 0.5 point in October and its six-month rate of change rose for the fifth time following a decline which began in December 2003. In October, the CLI for **Japan** rose by a strong 0.9 point and its six-month rate of change was up for the fifth month in a row following six months of declines.

The CLI for the **United Kingdom** decreased by 0.1 point in October and its six-month rate of change fell slightly for the second consecutive month. The CLI for **Canada** fell by 0.1 point in October and its six-month rate of change was stable following four months of increases. The CLI for **France** rose by 0.5 point in October and its six-month rate of change was up for the fourth month after having fallen since March 2004. The CLI for **Germany** increased by 0.7 point in October and its six-month rate of change rose for the sixth consecutive month after having shown a downward trend since January 2004. Finally, the CLI for **Italy** was stable in October and its six-month rate of change was up for the third month in a row.

#### Methodological Notes

The OECD CLI is designed to provide early signals of turning points (peaks and troughs) between expansions and slowdowns of economic activity. The CLI is an instrument of analysis that has to be used carefully. The OECD CLI is designed to provide 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 rather than levels.

The OECD uses the six-month rate of change of the CLI as its preferred pointer to possible turning points. The six-month rate of change of the CLI is calculated by using the ratio between the figure for a given month  $m$  and the average of the figures from  $m-12$  to  $m-1$ . Thus, the six-month rate of change is less volatile and provides earlier and clearer signals for future turning points than the CLI itself. In practice, turning points in GDP have been found about six to nine months (on average) after the signals of turning points had been detected in the six-month rate of change.

The OECD has compiled CLIs, which summarise information contained in a number of key short-term economic indicators known to be linked to GDP, for 23 member countries since the 1980s.

The CLIs are aggregated time series, and have been compiled using a modified version of the method developed by the US National Bureau of Economic Research. In general, the index of industrial production covering all industry sectors (IIP) is used as a proxy measure for GDP as historical turning points of IIP have coincided with those of the entire economies for most OECD countries. The CLI comprises a set of component series selected from a wide range of key short-term economic indicators (159 in total, about 5-10 for each country). The component series selected are those known to provide an indication of future economic activity. They will also be suitable when changes in economic structures occur in future.

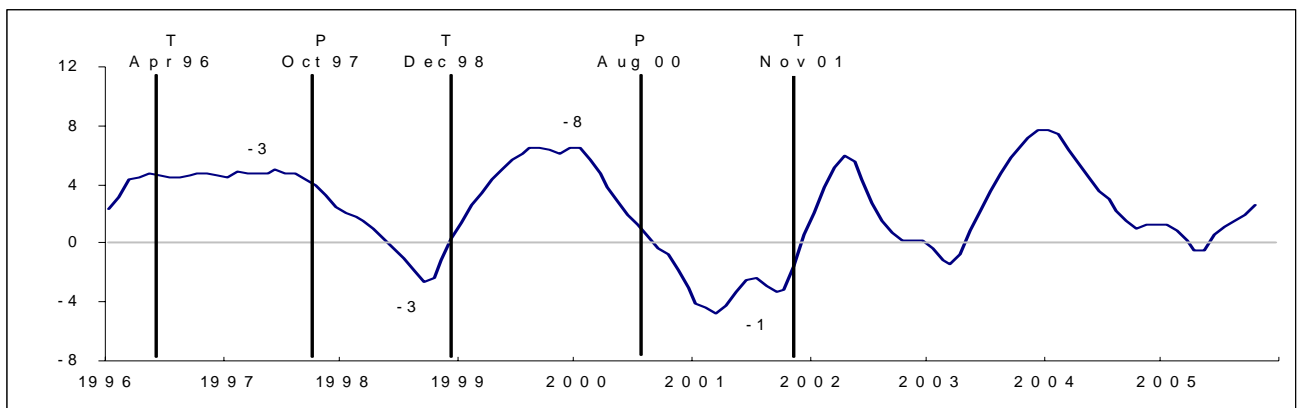
CLI data for all the countries and detailed information on the OECD methodology for CLIs can be found on the OECD website at <http://www.oecd.org/std/cli>

**The next publication date of the OECD's CLI will be on 6 January 2006.**

For further information, journalists are invited to contact the OECD's Media Relations Division on 00 33 1 45 24 97 00 or e-mail [news.contact@oecd.org](mailto:news.contact@oecd.org)

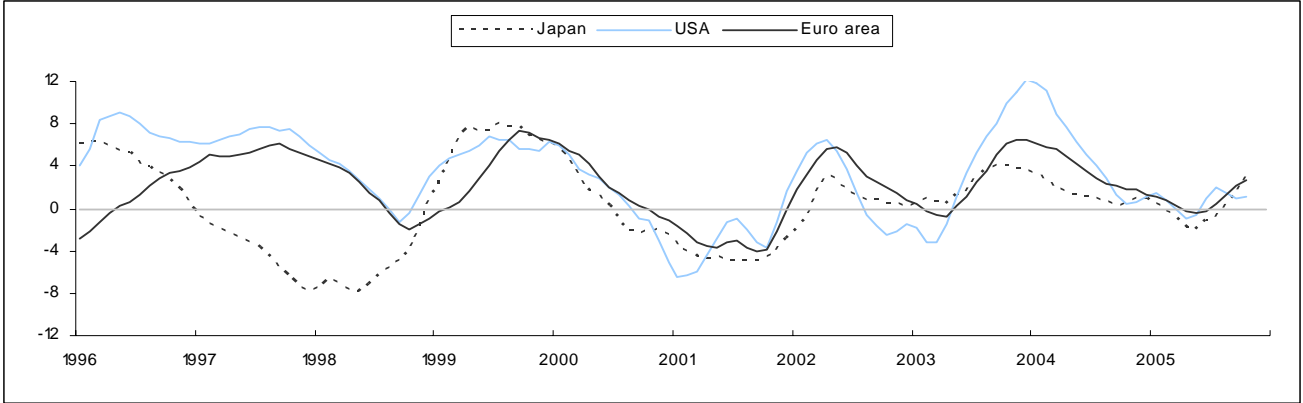
**Chart: Trend restored CLI (annualised 6-month rate of change). Percentage change.**

- Total OECD

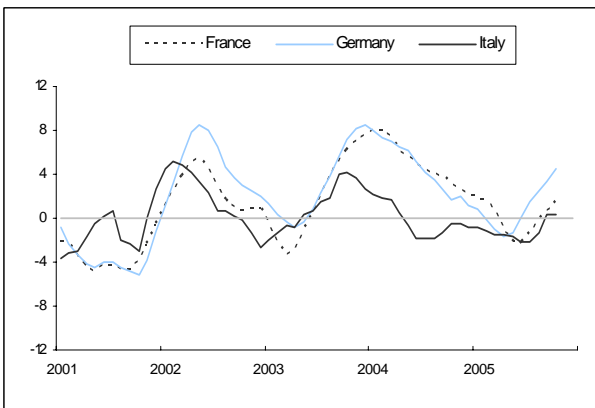


Early signals of the CLI for turning points (P: peak, T: trough) in the de-trended reference series, e.g. a peak for October 1997 was predicted by the CLI, 3 months in advance (i.e. -3).

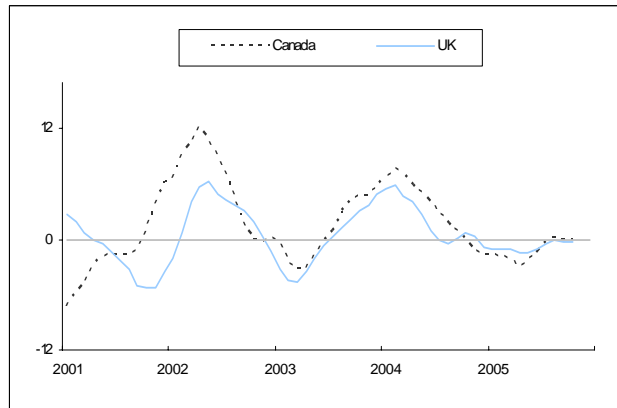
- Euro area, Japan and USA



- France, Germany and Italy



- Canada and UK



**Table 1: Trend restored Composite Leading Indicators**

	2004			2005									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
<b>OECD area</b>	103.4	103.7	103.9	104.0	103.9	103.6	103.2	103.3	103.8	104.2	104.5	104.8	105.3
<b>EU15</b>	104.7	104.9	104.8	104.8	104.8	104.6	104.4	104.3	104.5	104.9	105.4	105.9	106.2
<b>Euro area</b>	105.0	105.2	105.1	105.2	105.1	104.9	104.7	104.6	104.7	105.1	105.7	106.2	106.7
<b>G7</b>	102.3	102.6	102.7	102.8	102.5	102.2	101.7	101.7	102.2	102.7	102.8	103.0	103.4
<b>Canada</b>	102.4	102.0	101.8	101.9	101.7	101.5	100.8	101.1	101.3	101.8	101.9	101.7	101.6
<b>France</b>	105.7	105.7	105.8	105.8	105.8	105.6	104.8	104.1	104.0	104.5	105.1	105.6	106.1
<b>Germany</b>	107.3	107.7	107.6	107.5	107.0	106.7	106.3	106.5	107.1	108.0	108.7	109.3	110.0
<b>Italy</b>	97.8	97.8	97.5	97.4	97.1	96.8	96.7	96.5	96.1	96.0	96.3	97.1	97.1
<b>Japan</b>	99.4	99.8	99.8	99.6	99.3	98.9	98.4	98.3	98.7	98.8	99.4	99.9	100.8
<b>United Kingdom</b>	100.8	100.7	100.2	100.0	100.0	99.9	99.5	99.4	99.4	99.8	99.9	99.9	99.8
<b>United States</b>	102.8	103.1	103.6	103.9	103.6	103.2	102.7	102.9	103.8	104.4	104.1	104.0	104.2

United States: Level in trend restored CLI has changed due to revisions in the reference series associated with the introduction of a new national base year in the industrial production index.

**Table 2: Six-month rate of change of the trend restored CLI (annualised). Percentage change.**

	2004			2005									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
<b>OECD area</b>	1.1	1.2	1.3	1.2	0.8	0.2	-0.5	-0.5	0.5	1.2	1.6	1.9	2.6
<b>EU15</b>	1.9	1.9	1.3	1.0	0.7	0.3	-0.2	-0.4	-0.1	0.6	1.4	2.0	2.5
<b>Euro area</b>	1.8	1.8	1.4	1.2	0.8	0.3	-0.2	-0.5	-0.2	0.5	1.3	2.1	2.7
<b>G7</b>	0.7	0.8	0.8	0.7	0.1	-0.5	-1.4	-1.3	-0.2	0.6	0.9	1.1	1.7
<b>Canada</b>	-0.2	-1.2	-1.7	-1.6	-1.8	-2.1	-3.0	-2.2	-1.4	-0.3	0.1	-0.1	-0.1
<b>France</b>	3.2	2.7	2.2	1.9	1.5	0.9	-0.9	-2.1	-2.3	-1.3	-0.2	0.6	1.5
<b>Germany</b>	1.6	2.0	1.2	0.8	-0.2	-0.9	-1.6	-1.3	-0.1	1.4	2.5	3.4	4.4
<b>Italy</b>	-0.6	-0.4	-0.8	-0.9	-1.2	-1.5	-1.4	-1.7	-2.1	-2.2	-1.3	0.3	0.4
<b>Japan</b>	0.4	1.0	0.9	0.4	-0.2	-0.9	-1.8	-2.0	-1.1	-0.7	0.5	1.4	3.0
<b>United Kingdom</b>	0.8	0.4	-0.9	-1.1	-1.0	-1.0	-1.5	-1.6	-1.2	-0.4	-0.1	-0.2	-0.3
<b>United States</b>	0.4	0.5	1.2	1.4	0.7	0.0	-1.0	-0.6	1.0	2.1	1.4	1.0	1.2