

Composite Leading Indicators show stronger signals of improvement in economic outlook

OECD composite leading indicators (CLIs) for June 2009 point to stronger signs of improvement in the economic outlook of OECD economies compared with last month's release. This is typified by stronger recovery signals in Italy and France and clearer signals of troughs in Canada, Germany, the United Kingdom and the United States. In Japan tentative signs of improvement have also emerged. Troughs can also be observed in China and India, with tentative trough signals now appearing in Brazil and Russia.

The CLI for the **OECD area** increased by 1.2 point in June 2009 but was 5.0 points lower than in June 2008. The CLI for the **United States** increased by 1.3 point in June but was 7.2 points lower than a year ago. The **Euro area's** CLI increased by 1.5 point in June but stood 1.6 points lower than a year ago. In June, the CLI for **Japan** increased by 0.3 point but was 12.7 points lower than a year ago.

The CLI for the **United Kingdom** increased by 1.1 point in June 2009 but was 0.9 point lower than a year ago. The CLI for **Canada** increased by 1.0 point in June but was 4.8 points lower than a year ago. The CLI for **Germany** increased by 1.7 point in June but was 6.6 points lower than a year ago. The CLIs for **France** and **Italy**, after having increased by 1.4 and 2.2 points respectively in June, are now above the level reached a year ago, by 2.7 points in the case of France and 4.8 points in the case of Italy.

The CLI for **China** increased 1.4 point in June 2009 but was 3.7 points lower than a year ago. The CLI for **India** increased by 1.2 point in June 2009 but was 3.4 points lower than in June 2008. The CLI for **Russia** increased by 1.2 point in June but was 17.7 points lower than a year ago. In June 2009 the CLI for **Brazil** increased by 0.4 point but was 11.4 points lower than a year ago.

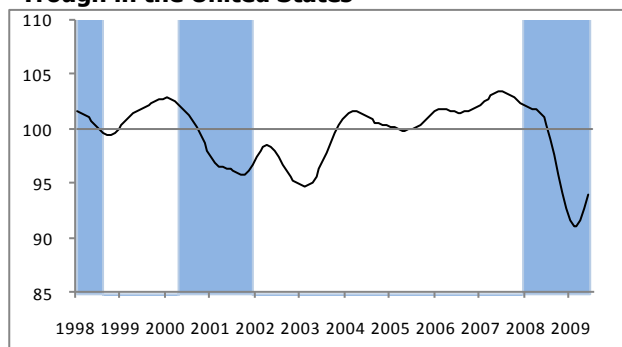
Trough in the OECD area



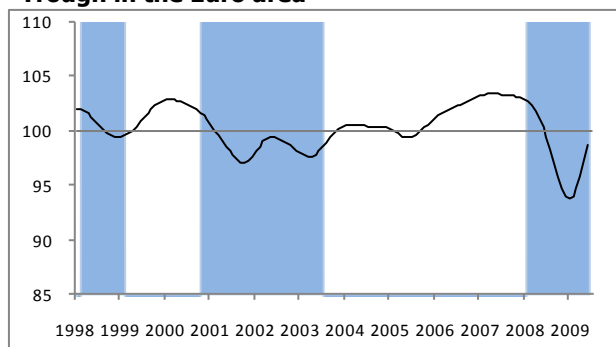
Trough in China



Trough in the United States

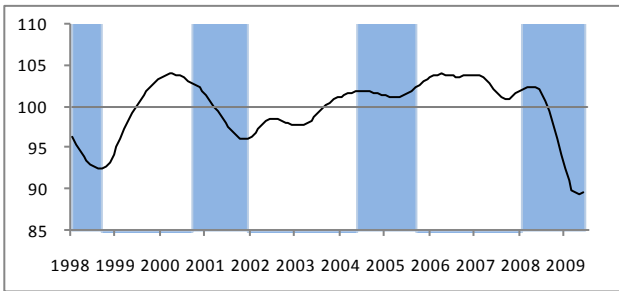


Trough in the Euro area

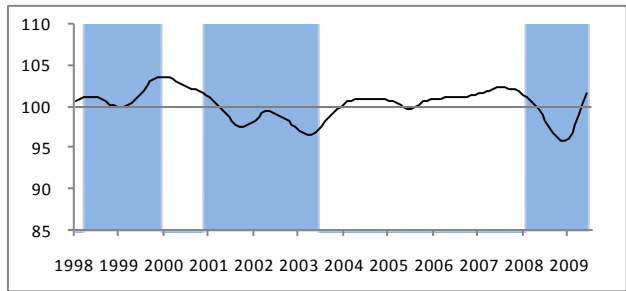


The above graphs show each country's growth cycle outlook based on the CLI which attempts to indicate turning points in economic activity approximately six months in advance. Shaded areas represent observed growth cycle downswings (measured from peak to trough) in the reference series (economic activity).

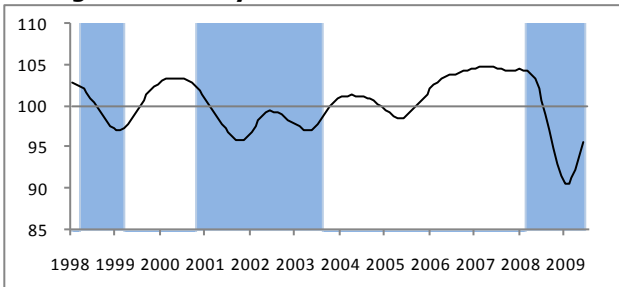
Possible trough in Japan



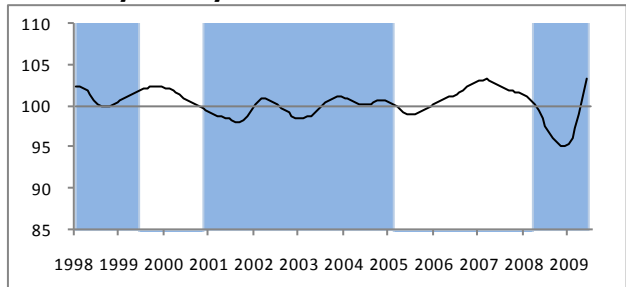
Recovery in France



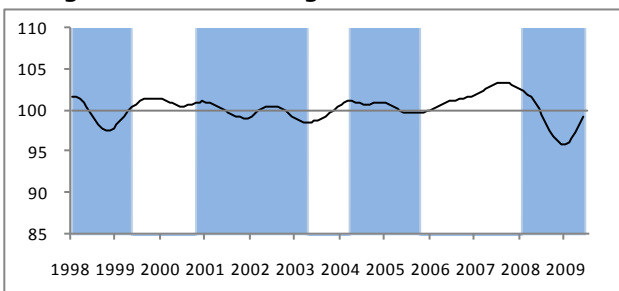
Trough in Germany



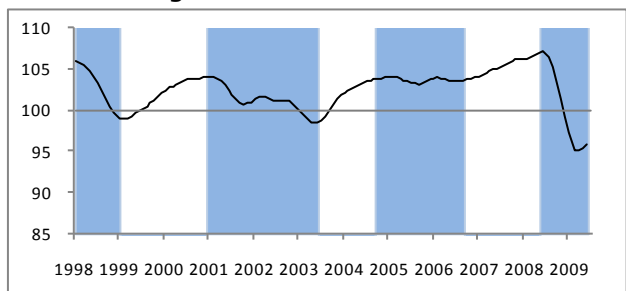
Recovery in Italy



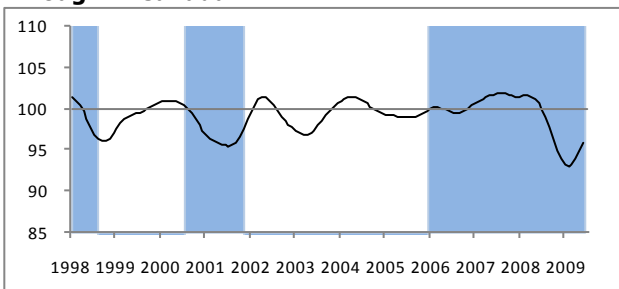
Trough in the United Kingdom



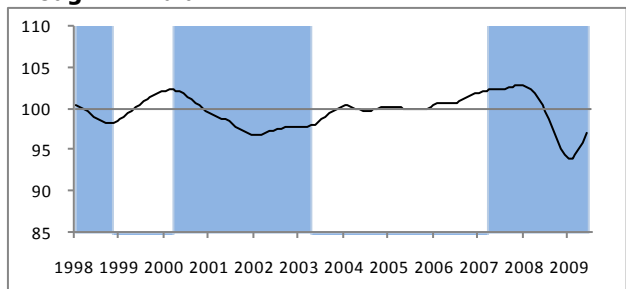
Possible trough in Brazil



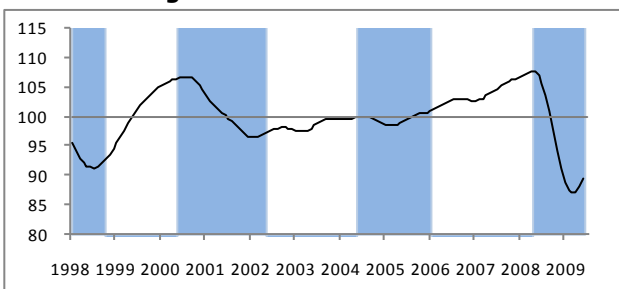
Trough in Canada



Trough in India



Possible trough in Russia



The above graphs show each country's growth cycle outlook based on the CLI, which attempts to indicate 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).

Table 1: Composite Leading Indicators

	Ratio to trend, amplitude adjusted (long term average =100)					Change from previous month (points)					Year on Year change (points)	Growth cycle outlook**
	2009					2009					Latest month	
	Feb	Mar	Apr	May	Jun	Feb	Mar	Apr	May	Jun		
OECD Area	92.7	92.9	93.5	94.5	95.7	-0.2	0.2	0.6	1.0	1.2	-5.0	trough
Euro Area	94.0	94.7	95.8	97.2	98.7	0.2	0.7	1.1	1.4	1.5	-1.6	trough
Major Five Asia*	92.6	93.0	93.8	94.7	95.9	0.0	0.5	0.8	0.9	1.1	-5.4	trough
Major Seven	92.2	92.3	92.9	93.9	95.1	-0.4	0.1	0.6	1.0	1.2	-5.9	trough
Canada	93.0	93.3	93.9	94.9	95.9	-0.2	0.3	0.7	0.9	1.0	-4.8	trough
France	96.8	97.7	98.9	100.3	101.6	0.7	1.0	1.2	1.3	1.4	2.7	recovery
Japan	91.0	89.8	89.5	89.2	89.5	-1.5	-1.1	-0.4	-0.2	0.3	-12.7	possible trough
Germany	90.5	91.1	92.3	93.8	95.5	-0.1	0.6	1.2	1.5	1.7	-6.6	trough
Italy	96.1	97.3	99.0	101.1	103.3	0.6	1.2	1.7	2.1	2.2	4.8	recovery
United Kingdom	96.1	96.6	97.4	98.3	99.4	0.2	0.5	0.8	0.9	1.1	-0.9	trough
United States	91.0	91.1	91.5	92.7	93.9	-0.5	0.0	0.5	1.1	1.3	-7.2	trough
Brazil	95.9	95.1	95.1	95.4	95.8	-1.3	-0.8	0.0	0.3	0.4	-11.4	possible trough
China	92.6	93.7	94.9	96.3	97.7	0.5	1.1	1.3	1.4	1.4	-3.7	trough
India	93.9	94.4	95.1	95.9	97.1	0.1	0.5	0.7	0.8	1.2	-3.4	trough
Russia	87.5	87.0	87.1	88.2	89.4	-1.3	-0.5	0.1	1.1	1.2	-17.7	possible trough

* 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	mean	st. dev.	peak	trough	peak	trough	peak	trough
OECD Area	1965	5	3.8	Aug 2000	Dec 2001			Feb 2008 P	
Euro Area	1965	7	8.4	Nov 2000	Jul 2003			Feb 2008 P	
Major Five Asia*	1995	6	6.3	Aug 2000	Dec 2001	Mar 2004 P	Jul 2005 P	Feb 2008 P	
Major Seven	1965	5	4.5	Aug 2000	Dec 2001			Feb 2008 P	
Canada	1956	8	3.5	Aug 2000	Nov 2001	Jan 2006 P			
France	1962	7	5.1	Dec 2000	Jun 2003			Feb 2008 P	
Japan	1959	6	4.2	Oct 2000	Dec 2001			Feb 2008 P	
Germany	1961	6	4.2	Nov 2000	Aug 2003			Mar 2008 P	
Italy	1973	5	5.4	Dec 2000			Feb 2005 P	Apr 2008 P	
United Kingdom	1958	6	5.7	Nov 2000	Apr 2003	Apr 2004	Oct 2005 P	Feb 2008 P	
United States	1955	5	3.5	May 2000	Dec 2001			Jan 2008 P	
Brazil	1978	2	5.3	Jan 2001	Jun 2003	Oct 2004	Sep 2006 P	Jun 2008 P	
China	1983	3	4.2	Jul 2000	Feb 2002			Nov 2007 P	
India	1994	4	5.6	Apr 2000	Apr 2003			Apr 2007 P	
Russia	1994	0	3.2	Jun 2000	May 2002	Jun 2004	Jan 2006 P	May 2008 P	

* China, India, Indonesia, Japan and Korea

P= provisional (see Methodological Notes on next page)

Methodological Notes

Purpose

The OECD CLI is designed to provide early signals of turning points in business cycles – fluctuations of economic activity around its long term potential level. The approach, focusing on turning points (peaks and troughs), results in CLIs that provide qualitative rather than quantitative information on short-term economic movements. Four cyclical phases form the basis of this qualitative approach: *expansion* – CLI increasing and above 100; *downturn* – CLI decreasing and above 100; *slowdown* – CLI decreasing and below 100; *recovery* – CLI increasing and below 100. Although the CLIs attempt to predict movements in the output gap, they should not be interpreted as providing exact forecasts.

Reference Series

OECD CLIs are constructed from economic time series that have similar cyclical fluctuations to those of the business cycle but which precede those of the business cycle. Typically movements in GDP are used as a proxy for the business cycle but, because they are available on a more timely and monthly basis, the OECD CLI system uses instead indices of industrial production (IIP) as proxy reference series. Moreover despite their tendency towards higher volatility historical turning points of IIPs coincide well with those of GDP for most OECD countries. Table 2, above, shows recent turning points in the reference series and these are marked provisional until they have been verified with the turning points of de-trended quarterly GDP estimates.

Summary Methodology

The OECD CLIs are composite indicators: with components that target the early stages of production, respond rapidly to changes in economic activity, are sensitive to expectations of future activity or are control variables that measure policy stances. All components are passed through a series of filters before aggregation (seasonal adjustment, trend-removal, smoothing and normalisation). The composite indicator is constructed to: preserve the leading properties of the components, have more stable lead times, and have fewer missed or extra turning-points when compared to the reference series than the components alone. The historical performance (lead/lag at turning points) of the CLIs for individual countries and areas are set out in Table 2.

More information on methodology is available in the following document: "[OECD system of composite leading indicators](#)".

Data

A large set of component series, selected from a wide range of economic indicators, are used in constructing CLIs (224 series are used in total, about 5-10 for each country). CLIs are calculated for 29 OECD countries and 9 zones. They are calculated in three forms: amplitude adjusted, trend-restored, and year-on-year growth rate. These are comparable, respectively, with the de-trended reference series, the original reference series and the year-on-year growth rate of the reference series. The press release focuses on the amplitude adjusted form of the CLI, and includes the major countries and zones.

Access to time series data and methodological information for OECD *Composite Leading Indicators* (CLI) and *Consumer and Business Confidence 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** (only Euro area countries that are members of OECD) covers the following 13 countries: Austria, Belgium, Finland, France, Germany, Greece, Italy, Ireland, Luxembourg, the Netherlands, Portugal, Slovak Republic and Spain.

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

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