

OECD Composite Leading Indicators

September 2004

The OECD area Composite Leading Indicator shows continued weak performance in September 2004

Slowing expansion lies ahead in the OECD area according to the latest composite leading indicators (CLIs). September data showed continued weakening performance in the CLI's six month rate of change for the United States, Canada and Germany. However some evidence of improved performance was shown for Japan, France, Italy and the United Kingdom.

The CLI for the OECD area rose by 0.1 point in September 2004 to 103.7 from 103.6 in August 2004. Its six-month rate of change was down for the eighth month in a row following an upward trend which began in April 2003.

The CLI for the United States decreased by 0.5 point in September and its six-month rate of change fell sharply for the ninth month in a row after nine consecutive months of strong increases. The Euro area's CLI increased by 0.4 point in September though its six-month rate of change has shown a downward trend since December 2003. In September, the CLI for Japan increased by 0.2 point and its six-month rate of change increased for the first time after seven consecutive months of decline.

The CLI for the United Kingdom increased by 0.6 point in September and its six-month rate of change was up for the first time following a sharp downward trend over the past six months. The CLI for Canada fell by 0.4 point in September and its six-month rate of change was down for the seventh month in a row. The CLI for France increased by 0.7 point in September and its six-month rate of change was up for the first time after experiencing a downward trend over the past six months. The CLI for Germany rose by 0.1 point in September but its six-month rate of change was down for the ninth month in a row following strong increases over the previous eight months. Finally, the CLI for Italy increased by 0.6 point in September and its six-month rate of change increased for the second month after a downward trend which began in November 2003.

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 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, peaks in GDP have been found about nine months (on average) after the signals of peaks 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 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 increase or decrease.

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.

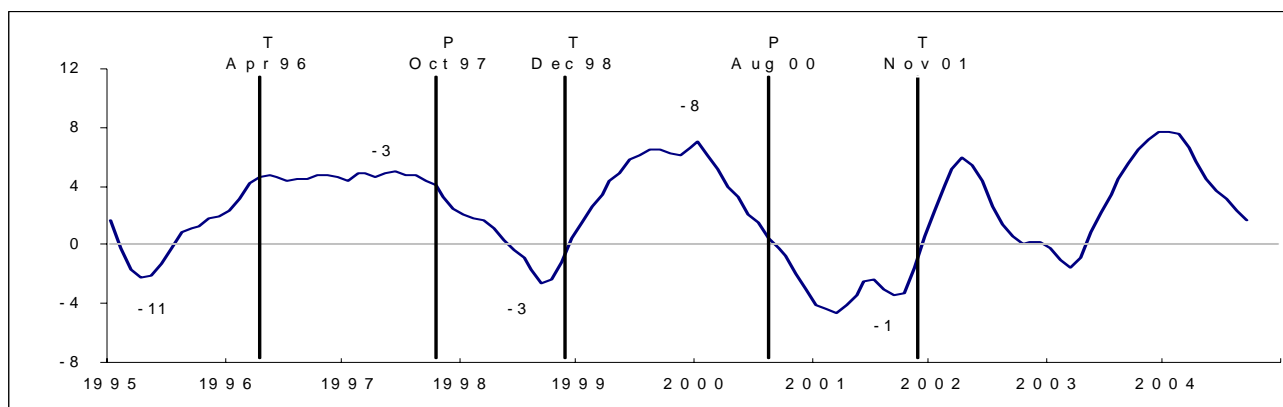
CLI data for all the countries and detailed information on the OECD methodology for CLIs can be found on the OECD website at <http://www.oecd.org/std/cli>

The next publication date of the OECD's CLI will be on 10 December 2004.

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.

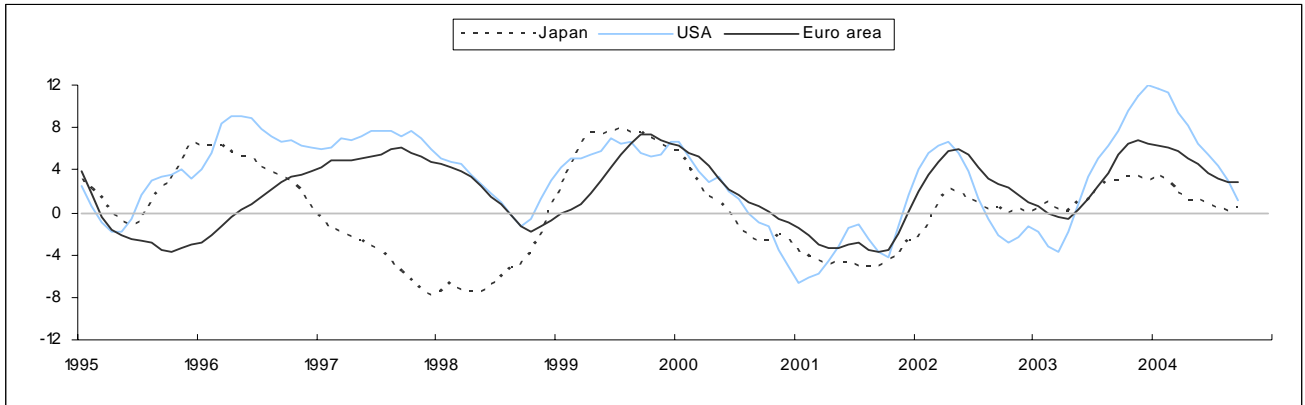
Figure: Trend restored CLI (annualised 6-month rate of change). Percentage change.

- Total OECD

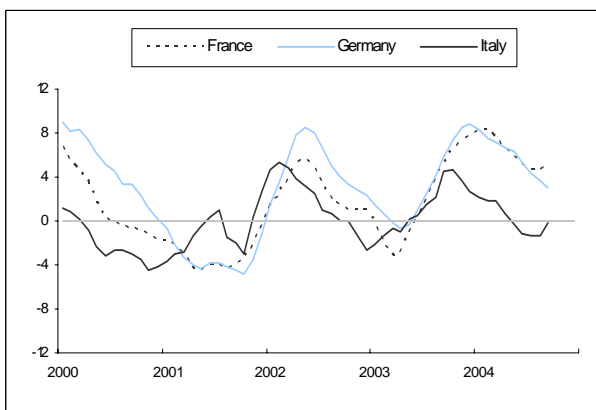


Early signals of the CLI for turning points (P: peak, T: trough) in the reference series, e.g. a peak for October 1997 was predicted by the CLI, 3 months in advance (i.e. -3).

- Euro area, Japan and USA



- France, Germany and Italy



- Canada and UK

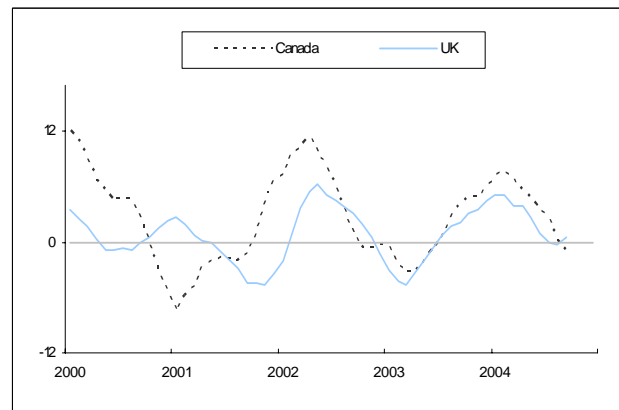


Table 1: Trend restored Composite Leading Indicators

	2003				2004								
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
OECD area	100.2	101.0	101.7	102.4	102.9	103.3	103.4	103.5	103.5	103.5	103.6	103.6	103.7
EU15	102.5	103.2	103.7	104.0	104.4	104.8	105.1	105.3	105.4	105.4	105.4	105.7	106.1
Euro area	102.7	103.5	104.0	104.3	104.6	104.9	105.3	105.4	105.6	105.6	105.8	106.0	106.4
G7	99.1	100.0	100.8	101.4	101.9	102.3	102.2	102.3	102.3	102.4	102.4	102.4	102.3
Canada	99.1	99.7	99.9	100.7	101.6	102.3	102.3	102.1	102.3	102.1	102.0	101.1	100.7
France	101.5	102.3	103.1	103.7	104.3	104.9	105.0	105.2	105.5	105.7	106.1	106.6	107.3
Germany	103.8	105.0	106.0	106.6	106.9	107.0	107.3	107.7	108.1	108.3	108.4	108.6	108.7
Italy	99.3	99.6	99.4	99.0	99.0	99.1	99.2	98.8	98.4	98.1	98.0	98.1	98.7
Japan	97.3	97.6	97.9	97.8	98.4	98.4	98.0	97.8	98.0	98.0	98.0	97.9	98.1
United Kingdom	99.8	100.3	100.6	101.2	101.7	102.1	101.7	102.2	101.9	101.3	100.9	100.9	101.5
United States	98.1	99.4	100.7	101.9	102.3	102.9	102.8	103.1	103.0	103.2	103.3	103.1	102.6

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

	2003				2004								
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
OECD area	5.5	6.5	7.2	7.7	7.7	7.6	6.6	5.7	4.5	3.7	3.1	2.3	1.7
EU15	4.9	5.8	6.2	6.2	6.2	6.1	5.8	5.2	4.4	3.5	2.9	2.6	2.7
Euro area	5.4	6.4	6.8	6.5	6.3	6.1	5.9	5.2	4.5	3.7	3.1	2.9	2.9
G7	5.5	6.8	7.5	8.0	8.0	7.7	6.5	5.6	4.5	3.6	2.8	2.0	1.2
Canada	4.1	4.8	4.8	5.9	7.0	7.7	6.8	5.4	4.8	3.5	2.5	0.2	-1.0
France	5.2	6.4	7.3	7.8	8.1	8.3	7.5	6.6	5.9	5.1	4.7	4.7	5.1
Germany	5.9	7.4	8.5	8.8	8.3	7.5	7.1	6.7	6.3	5.3	4.3	3.7	3.1
Italy	4.5	4.6	3.7	2.6	2.1	1.9	1.9	0.6	-0.4	-1.2	-1.4	-1.3	-0.2
Japan	3.0	3.3	3.4	2.8	3.5	3.1	1.8	1.2	1.1	0.9	0.4	0.1	0.4
United Kingdom	2.1	3.1	3.5	4.5	5.1	5.2	3.8	3.9	2.7	1.0	-0.1	-0.3	0.5
United States	7.6	9.6	10.9	12.1	11.6	11.4	9.5	8.2	6.4	5.4	4.3	3.0	1.1