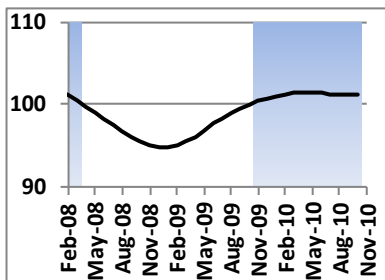## 1. Quarterly Economic Outlook: OECD Development Centre Asian Business Cycle Indicators

ASEAN Recovery Moderates

- Overall, the strong recovery experienced in **ASEAN economies** in the first half of 2010 is gradually losing momentum.

- Nonetheless, the picture varies across Southeast Asian countries. A solid recovery is ongoing in **the Philippines** driven by strong exports and improving business sentiment, while activity appears to be slowing down in **Malaysia** and **Singapore** on the basis of both leading and coincident indicators. Activity growth is also showing slight signs of slowing in **Indonesia**. The outlook for the **Thai** economy is relatively stable supported by solid production activities.

- There are signs of regained growth momentum in the **Chinese** economy owing to a strengthening of investment and retail sales. **India**'s economic recovery appears to be losing steam.

- Downside risks in the region include difficulties to manage large capital inflows and coping with inflationary pressures. There still remains uncertainty about near-term prospects for OECD countries, having an impact on Asian economic prospects.

1) ASEAN average (composite leading indicators) [a]   **2) Emerging Asia average** (composite leading indicators) [b]
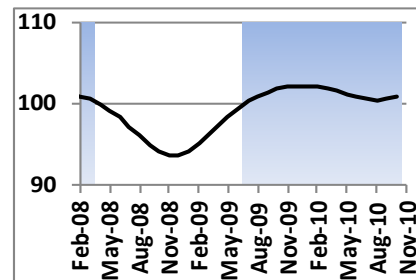
(a) **ASEAN average** includes Indonesia, Malaysia, the Philippines, Singapore and Thailand.

(b) **Emerging Asia average** includes ASEAN average plus China and India.

2. How to interpret the Asian Business Cycle indicators?

- **Composite** and **diffusion** indices: *The OECD Development Centre Asian Business Cycle Indicators* (**ABCIs**) identify cycles by using both i) composite indicators (i.e. leading and coincident indicators) and ii) diffusion indices (i.e. leading and coincident indices). Each provide different information and, as such, are complementary: the composite index reveals "**change**" in economic fluctuations and the diffusion index provides a broader picture of "**the overall economic activity of the country**".

- **Leading** and **coincident** indicators: The ABCIs use leading and coincident indicators. Coincident indicators are selected mainly by economic relevance and statistical fitness to quarterly GDP. Leading indicators are created based on the coincident indicators and the lead time is in general **5-6 months**.

  For more detailed information on the list of variables used for **ABCIs**, please see the home page of www.oecd.org/dev/asiapacific/abcis

- **Phases of business cycles:** Evaluation of the phase of business cycle is done **comprehensively by using four sets of information**: i) Leading indicators of both composite and diffusion and ii) coincident indicators of both composite and diffusion. More precisely, four cyclical phases are identified by composite indicators: **expansion**, when the composite indicator curve is above 100 points and increasing; **downturn**, when the composite indicator curve is above 100 but decreasing, **slowdown**, when the curve is below 100 and decreasing and **recovery**, when the curve is below 100 but increasing. On the other hand, the diffusion index identified two phases; **upwards** when the diffusion index crosses the 50% threshold from below and **downwards** when the diffusion index passes the threshold from above. (See **Figure 1**)

Figure1: Phases of business cycles
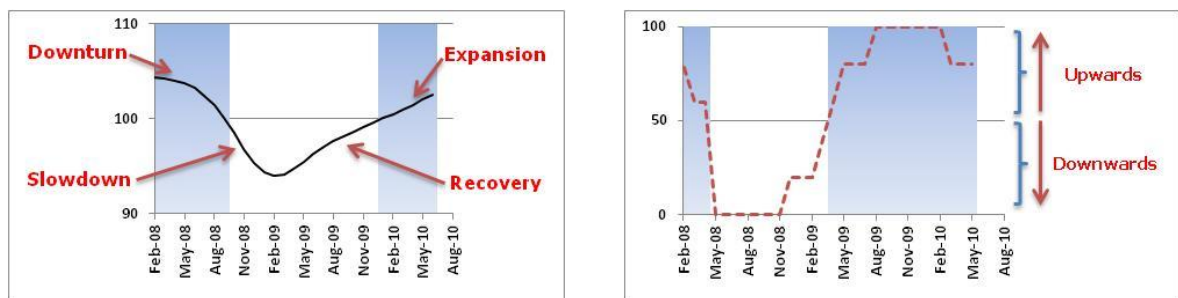
- **Overall assessments** based on 4 indicators (i.e. composite leading indicator, diffusion leading index, composite coincident indicator, diffusion coincident index) are in *the grey-shaded boxes for each country* in section 3 (page 3-4). (See **Figure 2**)

Figure 2: Example of Indonesia
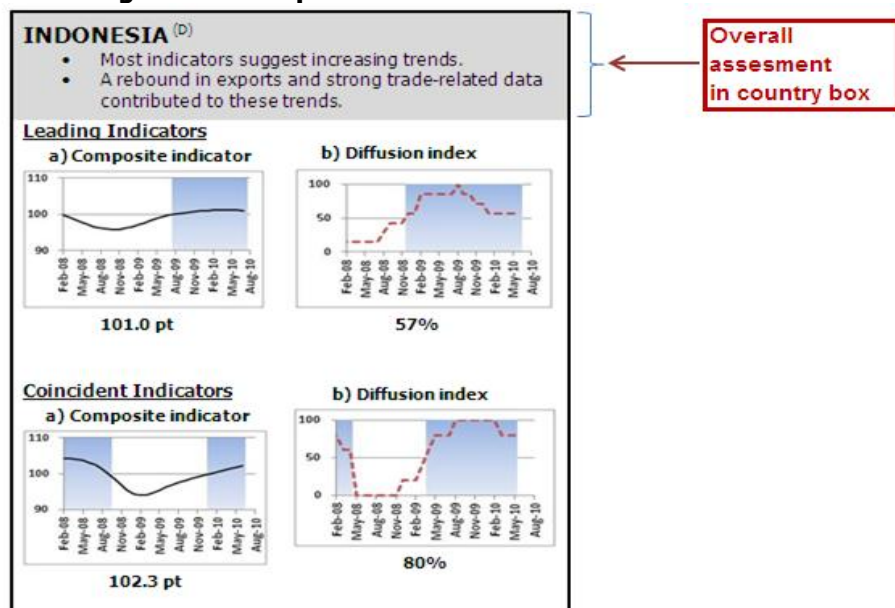
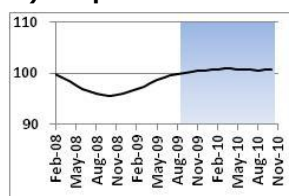# 3. Country – specific outlook (ASEAN and other emerging Asia) [(c)]

ASEAN Countries

INDONESIA [(d)]

- Sound leading indicators and weak coincident indicators show a mixed picture and some uncertainty.
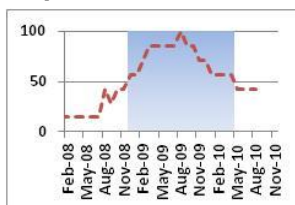- Consumption and business sentiment remain strong.
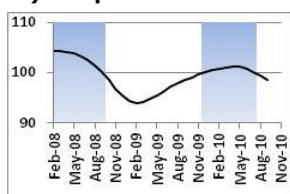
Leading Indicators

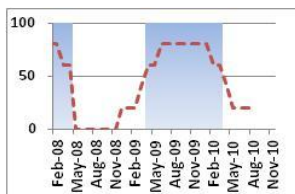a) Composite indicator

100.8pt

b) Diffusion index

43%

Coincident Indicators
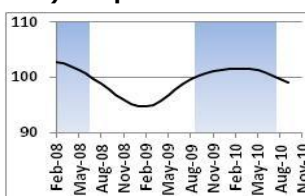
a) Composite indicator

98.6 pt

b) Diffusion index

20%

MALAYSIA

- Overall, several data suggest moderation of activity.
- Weak trade data dominate the trend.

Leading Indicators

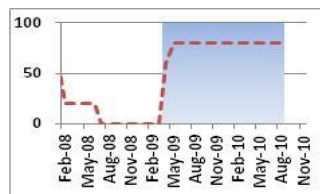a) Composite indicator

99.1 pt

b) Diffusion index
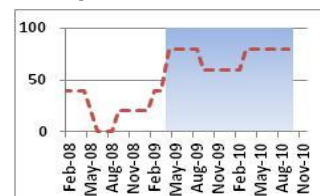
80%

Coincident Indicators

a) Composite indicator
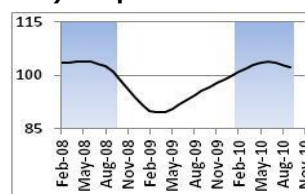
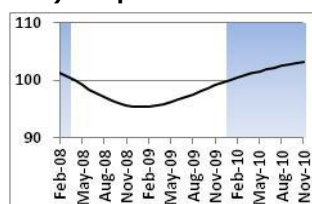

102.4 pt

b) Diffusion index

80%

PHILIPPINES

- Most indicators suggest sound recovery.
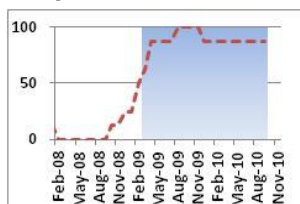- Strong business sentiment and exports strengthen the trend.

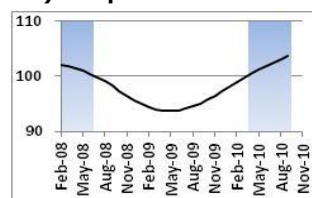**Leading Indicators**

a) Composite indicator
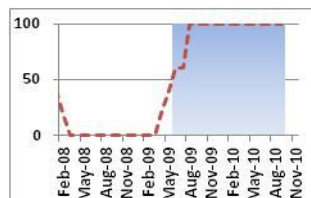

103.3 pt

b) Diffusion index

88%

Coincident Indicators

a) Composite indicator
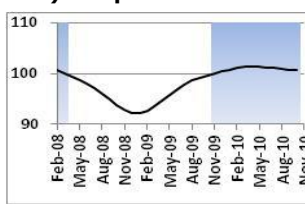

103.6 pt

b) Diffusion index

100%

SINGAPORE

- Overall, gradual moderation of activity is observed in data.
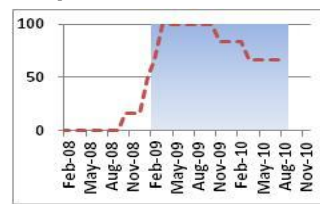- Production and retail sales related data contribute to the trend.

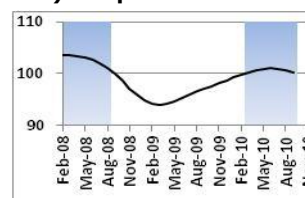**Leading Indicators**

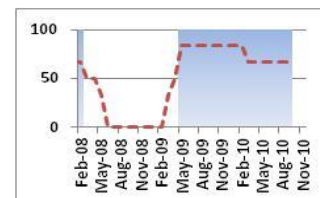a) Composite indicator

100.7 pt

b) Diffusion index

67%

Coincident Indicators
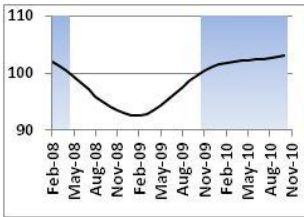
a) Composite indicator

100.3 pt

b) Diffusion index

67%

THAILAND

- Most indicators suggest sound recovery.
- Business sentiment and financial data remain strong.
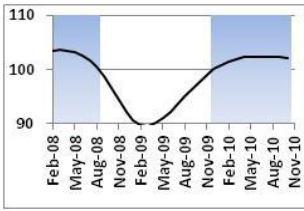
Leading Indicators

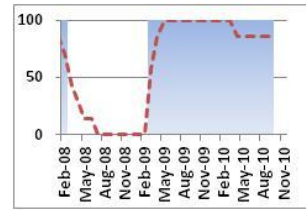**a) Composite indicator**

103.0 pt

b) Diffusion index

67%
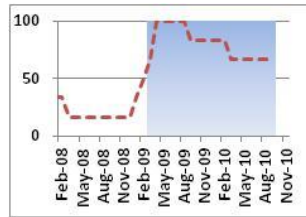
Coincident Indicators

a) Composite indicator

102.2 pt

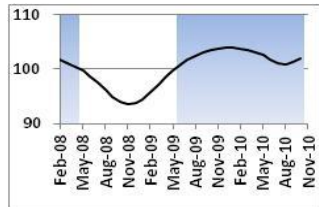**b) Diffusion index**

86%
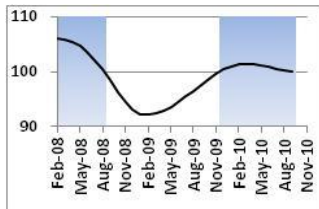
Other Emerging Asia (China and India) (e)

CHINA

Leading Indicators

a) Composite indicator

101.9 pt

b) Diffusion index
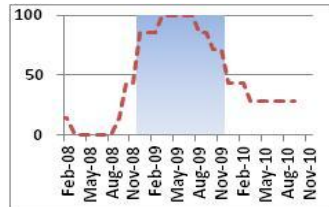
29%

Coincident Indicators

a) Composite indicator

100.1 pt

b) Diffusion index
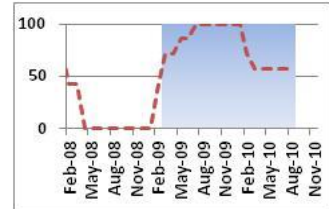
57%

INDIA

Leading Indicators

a) Composite indicator
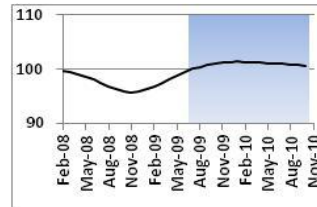
100.6 pt

b) Diffusion index

67%
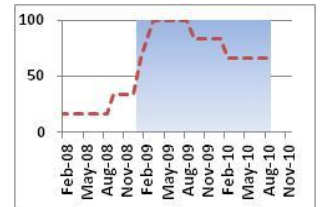
Coincident Indicators

a) Composite indicator
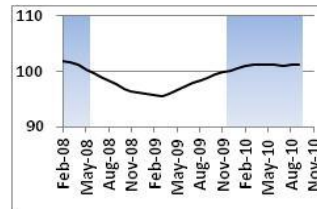
101.2 pt

b) Diffusion index
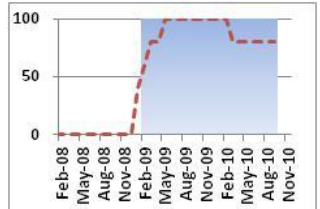
80%

(e) The leading indicators for China and India below are those published on a monthly basis by the OECD (www.oecd.org/std/cli). The diffusion indices of leading indicators are based on the same set of components as composite leading indicators. For more information on the components of coincident indicators, please see the home page of www.oecd.org/dev/asiapacific/abcis.

Table 1: Current phases of Composite Indicators	Leading	Coincident
Southeast Asia		
Indonesia	Expansion	Slowdown
Malaysia	Slowdown	Downturn
Philippines	Expansion	Expansion
Singapore	Downturn	Downturn
Thailand	Expansion	Downturn
Other emerging Asia		
China	Regained momentum [(f)]	Downturn
India	Downturn [(f)]	Expansion

Table 2: Current phases of Diffusion Indices	Leading	Coincident
Southeast Asia		
Indonesia	Downwards	Downwards
Malaysia	Upwards	Upwards
Philippines	Upwards	Upwards
Singapore	Upwards	Upwards
Thailand	Upwards	Upwards
Other emerging Asia		
China	Downwards	Upwards
India	Upwards	Upwards

(f) The current phases for China and India coincide with those of the OECD Composite Leading Indicators.

Notes

- This *Asian Business Cycles Quarterly* is prepared under the responsibility of the OECD Development Centre and the outlook for the region described in this Quarterly is based entirely on the analysis of the Asia and Pacific Desk of the OECD Development Centre.

- The ABCIs will be a tool to provide comparable information on the very short term (i.e. the following quarter) economic climate of Asian economies. The ABCIs are constructed jointly by the OECD Development Centre and the OECD Statistics Directorate.

- The ABCIs are also used in the **Southeast Asian Economic Outlook** published by the OECD Development Centre in November 2010.

    The next *Asian Business Cycles Quarterly* will be available on 13 March 2010 (TBD)**.**

Further information

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