

OECD Composite Leading Indicators for G7 Countries

A Comparison of the Hodrick-Prescott Filter and the Multivariate Direct Filter Approach



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We estimate the business-cycles of G7 countries, as defined by an ideal 2-10 year bandpass filter applied to country-specific GDP target series (GDP-BP). Since this target series cannot be observed in real-time, due to the symmetry of the bandpass filter, we analyze and compare the leading performances of the well-known HP-filter, as currently implemented in the OECD CLI's, as well as of the Multivariate Direct Filter Approach (MDFA) relying on explanatory time series, as selected for current CLIs. The paper shows that efficiency gains by MDFA over HP are substantial along the full revision-sequence and they are consistent across countries as well as over time, when referenced against GDP-BP.