Composite Leading Indicators signal deepening slowdown in OECD area

OECD composite leading indicators (CLIs) for September 2008 indicate a continued weakening outlook for all the major seven economies, with cyclical slowdowns at levels not seen since the beginning of the decade. The latest data for major non-OECD member economies tentatively point to a downturn in China and a slowdown in Russia and India. The message from Brazil is mixed but the latest data show tentative signs of a possible downturn.

The CLI for the **OECD area** decreased by 1.5 point in September 2008 and was 6.1 points lower than in September 2007. The CLI for the **United States** fell by 1.9 point in September and was 6.6 points lower than a year ago. The **Euro area's** CLI decreased by 1.4 point in September and stood 7.3 points lower than a year ago. In September, the CLI for **Japan** decreased by 0.9 point, and was 2.4 points lower than a year ago.

The CLI for the **United Kingdom** fell by 1.4 point in September 2008 and was 7.5 points lower than a year ago. The CLI for **Canada** decreased by 2.0 points in September and was 6.4 points lower than a year ago. For **France,** the CLI decreased by 0.9 point in September and was 6.4 points lower than a year ago. The CLI for **Germany** fell by 2.3 points in September and was 8.6 points lower than a year ago. For **Italy,** the CLI fell by 0.5 point in September and stood 5.9 points lower than a year ago.

The CLI for **China** decreased 0.7 point in August 2008 (the CLI was updated from last month) and was 3.2 points lower than a year ago. The CLI for **India** fell by 1.0 point in August 2008 and was 6.6 points lower than in August 2007. The CLI for **Russia** decreased by 2.7 points in September and was 2.2 points lower than a year ago. In September 2008 the CLI for **Brazil** decreased by 1.6 point but stayed at the same level as one year ago.
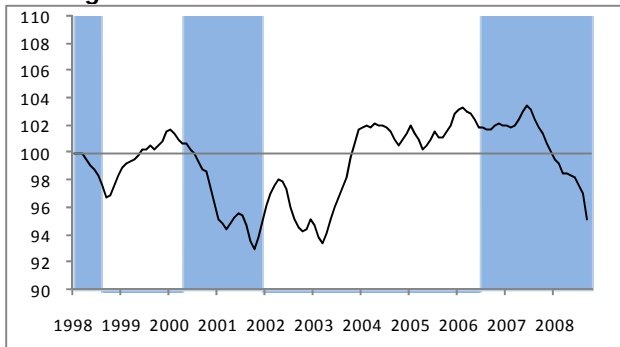
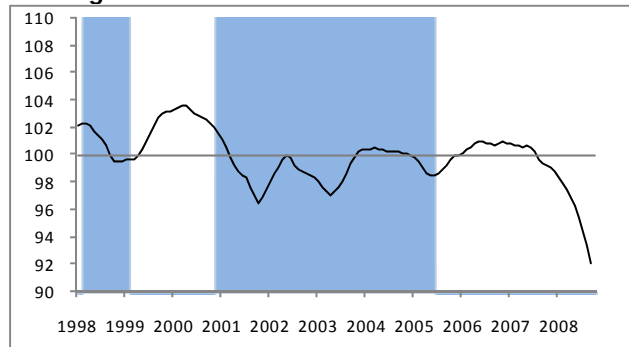**Strong slowdown in the OECD area**
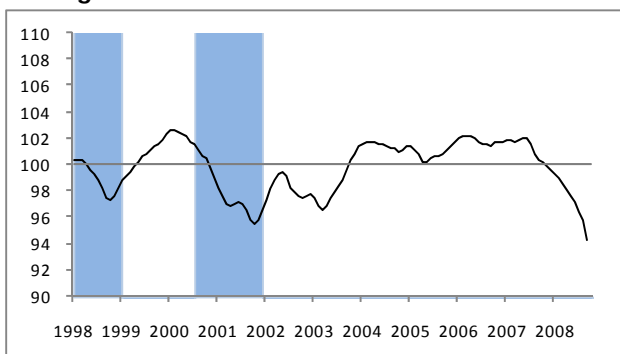
Downturn in China
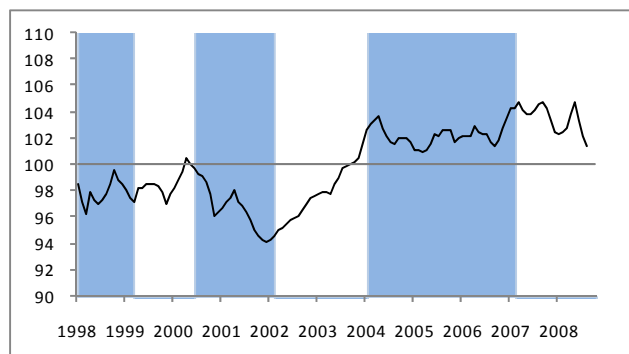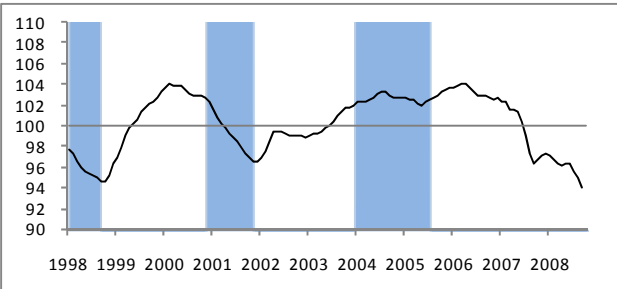

Strong slowdown in the United States

Strong slowdown 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).

Strong slowdown in Japan

Strong slowdown in France

Strong slowdown in Germany

Strong slowdown in Italy

Strong slowdown in the United Kingdom
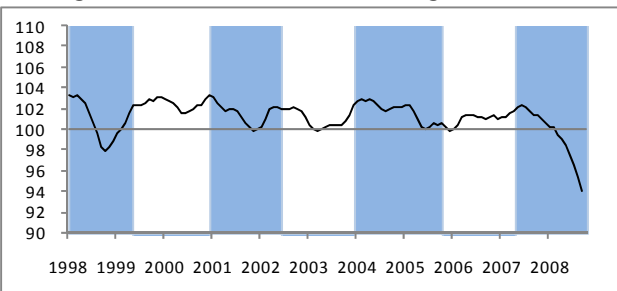
Possible downturn in Brazil
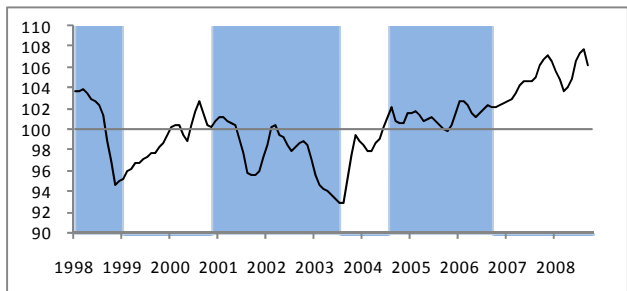
Strong slowdown in Canada
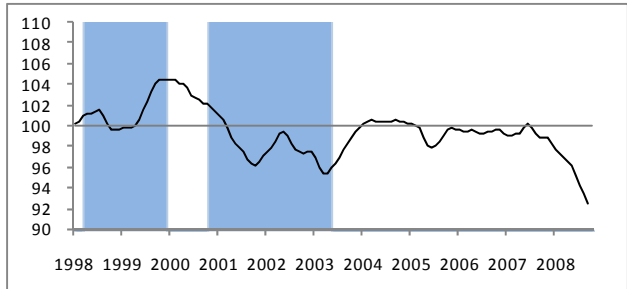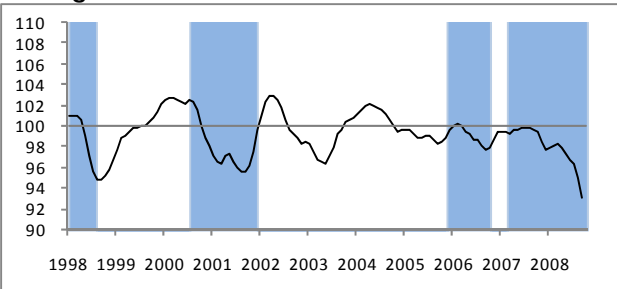

Slowdown in India
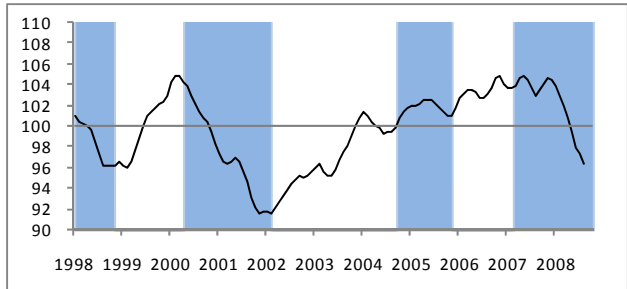
Slowdown in Russia

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).
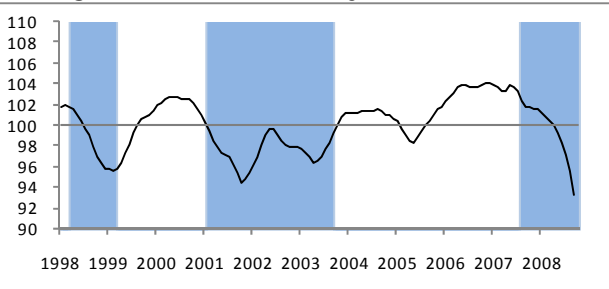
Table 1: Composite Leading Indicators
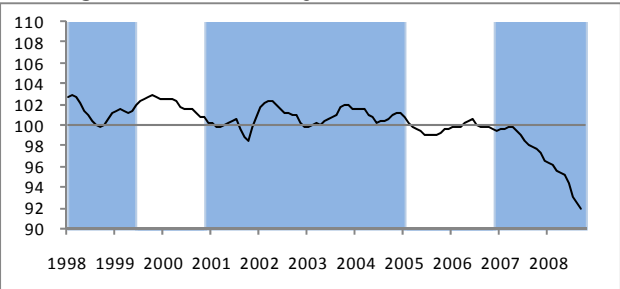
	Ratio to trend, amplitude adjusted (long term average =100)					Change from previous month (points)					Year on Year change (points)	Growth cycle outlook**
	2008					**2008**					**Latest month**	
	May	**Jun**	**Jul**	**Aug**	**Sep**	**May**	**Jun**	**Jul**	**Aug**	**Sep**		
OECD Area	97.7	97.3	96.5	95.9	94.3	-0.4	-0.4	-0.8	-0.6	-1.5	-6.1	strong slowdown
Euro Area	96.3	95.5	94.5	93.5	92.1	-0.7	-0.8	-1.0	-1.0	-1.4	-7.3	strong slowdown
Major Five Asia*	102.1	101.1	100.0	99.2		0.1	-1.0	-1.1	-0.8		-3.4	downturn
Major Seven	97.9	97.4	96.7	95.9	94.3	-0.2	-0.5	-0.8	-0.8	-1.6	-6.1	strong slowdown
Canada	97.2	96.6	96.2	95.0	93.0	-0.6	-0.6	-0.4	-1.2	-2.0	-6.4	strong slowdown
France	96.1	95.1	94.1	93.4	92.5	-0.5	-1.0	-1.0	-0.7	-0.9	-6.4	strong slowdown
Japan	96.5	96.3	95.7	95.0	94.1	0.3	-0.1	-0.6	-0.7	-0.9	-2.4	strong slowdown
Germany	99.3	98.3	97.0	95.5	93.2	-0.7	-1.0	-1.3	-1.6	-2.3	-8.6	strong slowdown
Italy	95.2	94.5	93.1	92.4	91.9	-0.2	-0.7	-1.4	-0.7	-0.5	-5.9	strong slowdown
United Kingdom	98.4	97.5	96.4	95.4	93.9	-0.5	-1.0	-1.0	-1.1	-1.4	-7.5	strong slowdown
United States	98.4	98.2	97.6	97.1	95.2	0.0	-0.2	-0.5	-0.5	-1.9	-6.6	strong slowdown
Brazil	104.9	106.6	107.4	107.8	106.2	0.9	1.7	0.8	0.3	-1.6	0.0	Possible downturn
China	104.7	103.3	102.1	101.4		1.0	-1.3	-1.3	-0.7		-3.2	downturn
India	99.4	97.9	97.2	96.3		-1.3	-1.5	-0.7	-1.0		-6.6	slowdown
Russia	102.0	102.1	102.2	100.6	97.9	0.5	0.2	0.1	-1.6	-2.7	-2.2	slowdown

* 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 — Lead (+) / Lag (-) at all turning points				Recent confirmed Turning Point dates in the reference series — Dates marked with (P) are provisional turning points					
	start year	**median**	**mean**	**st. dev.**	**peak**	**trough**	**peak**	**trough**	**peak**	**trough**
OECD Area	1965	5	5	3.8	Aug 2000	Dec 2001				
Euro Area	1965	6	7	8.4	Dec 2000			May 2005 P		
Major Five Asia*	1995	4	6	6.3	Aug 2000	Feb 2002			Jun 2007 P	
Major Seven	1965	5	5	4.5	Dec 2000	Nov 2001				
Canada	1966	6	6	8.0	Aug 2000	Dec 2001	Dec 2005	Sep 2006 P	Mar 2007 P	
France	1967	7	7	5.7	Nov 2000	May 2003				
Japan	1959	8	7	5.4	Dec 2000	Nov 2001	Jan 2004	Jul 2005 P		
Germany	1961	3	4	4.3	Feb 2001	Sep 2003 P			Aug 2007 P	
Italy	1965	8	8	10.7	Dec 2000			Jan 2005 P	Dec 2006 P	
United Kingdom	1972	7	7	5.0	Jan 2001	Jun 2002	Jan 2004 P	Oct 2005 P	May 2007 P	
United States	1955	6	7	3.6	May 2000	Dec 2001			Jul 2006 P	
Brazil	1979	4	5	4.5	Dec 2000	Jul 2003	Aug 2004	Sep 2006 P		
China	1983	4	6	6.5	Jul 2000	Feb 2002	Feb 2004 P	Feb 2007 P		
India	1995	1	1	0.8	May 2000	Feb 2002	Oct 2004 P	Nov 2005 P	Mar 2007 P	
Russia	1994	10	7	9.3	Aug 2001	Aug 2003	Jan 2004 P	May 2005 P	Jul 2007 P	

* China, India, Indonesia, Japan and Korea
P= provisional (see Methodological Notes on next page)

Methodological Notes

The OECD CLI is designed to provide early signals of turning points (peaks and troughs) between upswings and downswings in the growth cycle of economic activity. The CLI is an instrument of analysis that has to be used carefully. Whilst it has a long-term average = 100, the CLI provides 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 in the growth cycle where the cyclical phases are defined as follows: expansion – CLI increasing and above 100; downturn – CLI decreasing but above 100; slowdown – CLI decreasing and below 100; recovery – CLI increasing but below 100.

The CLIs are aggregated time series which summarise information contained in a number of key short-term economic indicators known to be linked to GDP. They have been compiled using a modified version of the method developed by the US National Bureau of Economic Research. The CLI system comprises a set of component series selected from a wide range of economic indicators all sharing the common property of indicating swings in future economic activity (224 series are used in total, about 5-10 for each country).

Cyclical turning points are directly captured in the (amplitude adjusted) de-trended or ratio to trend form of the CLI as compiled from its de-trended component series. The monthly change (point) of the CLI provides information on short-term movements while the change (point) from the same month previous year supplies short-term trend information (Table 1). In practice, turning points in industrial production or GDP have been found about six months (on average) after the signals of turning points had been detected in the CLI. The historical performance (lead/lag at turning points) of the CLIs for individual countries and areas are set out in Table 2.

In general, the monthly index of industrial production covering all industry sectors (IIP) is used for the reference series as a proxy measure for quarterly GDP, because historical turning points of IIP have coincided with those of GDP for most OECD countries. Recent confirmed turning points in the reference series are set out in Table 2, where the most recent ones are noted provisional until they have been verified against those of the quarterly GDP. This is done in order to ensure consistency between the final reference chronology and GDP

Access to time series data and methodological information for OECD *Composite Leading Indicators* (CLI), *standardised consumer* and *business confidence indicators*, *business tendency survey indicators* by sector and *consumer opinion survey 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 12 countries: Austria, Belgium, Finland, France, Germany, Greece, Italy, Ireland, Luxembourg, the Netherlands, Portugal, and Spain.

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

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