



**Third International Seminar on Early Warning and Business Cycle Indicators**

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**Relevancy and Utility of the  
*Handbook on Business Cycle Composite Indicators***

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## **Relevancy and Utility of *Handbook on Business Cycle Composite Indicators***

### **1. Fundamental Principle of Official Statistics**

Official statistics provide an indispensable element in the information system of a democratic society, serving the government, the economy and the public with data about the economic, demographic, social and environmental situation. To this end, official statistics that meet the *test of practical utility* are to be compiled and made available on an impartial basis by official statistical agencies in a coordinated effort. Their availability will strengthen evidenced based policy making and honour the entitlement of the public and business community to coherent and consistent information.

### **2. Call for coordinated international statistical response**

In response to the recent global crisis started in late 2007, countries and international community have renewed the call for the establishment of an effective early warning system to prevent or temper another global economic downturn in the future. The international statistical community seeks to improve monitoring and evaluation of the rapid and systemic changes in the national and global economy and their financial markets, and by monitoring the impacts of these developments on vulnerable countries and populations groups. This response is being formulated in an integral package of recommendations for macroeconomic surveillance that should strengthen the accessibility, availability and outreach for short term data series at country and international level. The recommendations pertain to a standard data template of minimum core set of short term economic and financial data and related meta data structure envisaged to be disseminated through national central data, supporting analytical framework and visualization tool for analysis of short term movement of data, new and updated compilation guidance and handbooks, a web based knowledge base of existing supporting manuals and guidance documents and a strategy for implementation with a supporting diagnostic tool for assessing the country's institutional and statistical capacity in compiling integrated short term economic data using the System of National Accounts as its comprehensive statistical framework.

### **3. Purpose of short-term economic statistics**

National statistics offices and other statistical agencies of the national statistical system around the world have a long history of publishing short-term economic indicators as official statistics<sup>1</sup> to respond to permanent concerns of the public and government of assessing the short-term changes in economic activities. These statistics are vital for the analysis of recent economic developments, for monetary and economic policy making to govern the economy and for decision making by the business community and general public.

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<sup>1</sup> Such as index numbers of industrial production that dated back to at least 1920's

#### **4. Purpose of business cycle composite indicators**

Business cycle composite indicators are compiled with the purpose of providing an analytical understanding of the performance of the economy in terms of the occurrence of turning points and its timing, the cyclical movement around the trend of the aggregate economic activity and its growth. The underlying component data are short term quantitative and qualitative statistics, which are identified through systematic selection techniques.

#### **5. Recommendation for the design and compilation of business cycle composite indicators and indexes**

Central to the recommendations of a coordinated statistical initiative by national statistical offices and other agencies of the national statistical system is the development of capacity to improve understanding of, to design, and wherever possible, to compile business cycle composite indicators as short-term economic indicators in addition to its component short term data. The need to interpret and predict the aggregated performance of the economy at an early stage warrants composite indicators that define and describe the business cycles of an economy. Moreover, the use of the different leading, coincidence and lagging properties of short term statistics in business cycle composite indicators will demonstrate the need for the production of those short term statistics that are known or proven to be useful in business cycle analysis. Both the composite indicators and the component short term statistics are providing reinforcing messages about the recent and real time performance of the economy. Therefore, the business cycle indicators and their component short term statistics are essential elements of an early warning system to track the market economies in low, middle and high income countries. They have proven to be useful in monitoring economic development and identifying turning points and growth at an early stage, and thus meeting the test of practical utility.

#### **6. Relevancy for the Handbook**

The short term statistics and business cycle composite indicators are an integral part of the early warning system because they inform about the occurrence and timing of upturns and downturns of the economy. There is no existing international statistical guidance that provides the best practice and harmonized principles on the construction of the business cycle composite indicator. Therefore, it is recommended to compile a handbook to address the standards for the compilation and presentation of the business cycle composite indicators to fill this gap. The Handbook will not only be useful for those compiling business cycle composite indicators but also for those statistical agencies, which are collecting economic short term statistics and constructing datasets used for composite indicators.

#### **7. Practical utility of the Handbook**

The *Handbook on Business Cycle Composite Indicators* is intended for compilers and users of business cycle composite indicator. It draws on a wide range of experience and expertise, and outlines practical and suitable compilation methods and issues and benefits from recent theoretical and practical developments in the area. The handbook is intended to assist compilers to produce the business cycle composite indicators in

comparable way so that they can serve as reliable international comparison of economic performance and behaviour using the best international practice. It is also intended to assist countries that plan to set up a more comprehensive system of business cycle measures by providing not only the methodological foundations for business cycle compilation, but also by giving practical guidance on individual steps and elements of the compilation process. Moreover, the handbook is intended to serve the needs of producers of short term statistics and analytical users by making them aware of the statistical methods and techniques employed in construction of composite indicators.

#### **8. Relevancy of the handbook for developing countries**

The handbook is equally relevant for official statisticians in developing countries. Their economies are vulnerable to economic downturns and business cycle fluctuation, which might be caused by shocks from economic and financial crises in their domestic and global economy. This vulnerability is explained by the structural shift away from an agricultural based economy to a market oriented economy increasingly dependent on the performance of their non-agricultural sectors and the external markets. However, the public good nature of statistical information, and the relative limited scope and scale of their market sectors in the past have resulted in the present under-provision of short term statistics and the lack of business cycle indicators even in the larger emerging developing countries. With urgency, the national statistical systems of low and middle income countries should strengthen their early warning systems to address the immediate concerns of the government, business community and general public to assess, interpret and predict the short-term movement in the aggregate economic activity of their market economies. The handbook of business cycle indicators will fill the present methodological gap and represents the first international statistical guidance in assisting countries to strengthen the statistical capacity for early warning and business cycle monitoring based on composite indicators and their component short term data.

In an emerging environment of analytical users in many developing countries, the national statistical office might be best placed to demonstrate the application of high frequency statistics for the compilation of business cycle composite indicators and the selection of component data given their understanding of the statistical and econometric techniques. Some of those national statistical offices have demonstrated a keen interest in the design of the business cycle composite indicators and in advancing their knowledge in the properties of component short term data series to inform about short term movement of their economy. Some national statistical offices even compile business cycle composite indicators as demanded by their users at the risk of being perceived as interpreting the underlying component time series of the composite indicators.

## **Roadmap for drafting the *Handbook on Business Cycle Composite Indicators***

A medium-term work programme is proposed to draft the handbook. The following roadmap put forward a list of proposed actions, key deliverables and milestones for the work programme.

<b>Work plans/ Milestones</b>	<b>Timeline</b>
<b>Moscow Seminar 2010</b>	<b>Nov-10</b>
Confirmation of the scope	In Moscow Seminar
Confirmation of the handbook outline	In Moscow Seminar
Proposal to set up an expert group/scientific committee	Nov 2010 to Feb 2011
Preparation of the report submitted to the UN Statistical Commission 2011	Nov 2010 to Feb 2011
<b>UN Statistical Commission 2011</b>	<b>Feb/Mar 2011</b>
Funding proposal	Beginning in Mar 2011
Formation of expert group/ scientific committee	Mar 2011 to May 2011
Confirmation of organization/person-in-charge, and writing for each chapter	Mar 2011 to Nov 2011
Global assessment of country best practices (sending out questionnaire)	Mar 2011 to Jun 2011
Global assessment of country best practices (data compilation)	Jun 2011 to Sept 2011
Global assessment of country best practices (draft chapter/annex)	Sept 2011 to Nov 2011
First draft of each chapter	by Dec 2011
<b>1st Expert Group Meeting 2011</b>	<b>Dec-11</b>
Preparation of report submitted to the UN Statistical Commission 2012	Jan 2012 - Feb 2010
<b>UN Statistical Commission 2012</b>	<b>Feb/March 2012</b>
Worldwide consultations/Revising the draft handbook	Mar 2012 - Aug 2012
<b>2nd Expert Group Meeting 2012</b>	<b>Sep-12</b>
Final version of the handbook to be adopted in the UN Statistical Commission 2013	Oct 2012 to Feb 2012
<b>UN Statistical Commission 2013</b>	<b>Feb/Mar 2013</b>