Business Tendency (Opinion) Surveys as Cyclical Indicators

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1.Introduction

Statistical series derived from business surveys are widely used as leading indicators in OECD countries. The type of information collected in business surveys (i.e. ordinal scales for most variables) makes them very sensitive to cyclical development. Data from business surveys have both theoretical and practical grounds for being leaders of the output cycle. This is partly explained by the motivation for design of the surveys and the fact that business surveys collect information on assessments and expectations for key economic variables. The following sub-sections examine why indicators based on business surveys are good cyclical indicators and the extent to which they fulfil the different criteria used for evaluating cyclical indicators: relevance, cyclical behaviour, practical and statistical considerations.

2. Relevance

Compared to traditional statistical surveys which cover only one or a few related variables from one area of the economy, business surveys collect information about a wide range of variables selected for their ability to monitor the business cycle. Priority is given to variables which measure the early stages of production (e.g. new orders, order books), respond rapidly to changes in economic activity (e.g. stocks), and measure expectations or are sensitive to expectations (e.g. overall economic situation). The fact that the surveys collect information on expectations, i.e. future developments in key economic variables make them particularly suitable as leading indicators.

Cyclical indicators are normally used to monitor cyclical fluctuations in real output, To do this it is essential to use, as far as possible, series adjusted for inflation. In general, information from business surveys is collected in real terms that is respondents are asked to disregard price changes in assessments and expectations or information in direct volume terms is requested.

3. Cyclical behaviour

The cyclical profiles of statistical series derived from business surveys are in many cases easier to detect because they contain no trend. As explained earlier, while conventional statistics focus on metric data, business surveys use ordinal scales for most variables, e.g. a three point scale with the pre-printed answers up/same/down. This makes them very sensitive to cyclical development.

Cyclical indicators derived from business survey results are based on two main categories of survey questions based on the reply expected from the respondents. For questions asking for an assessment on present level of activity as being: above normal; normal; or below non-normal, the balance series or diffusion index constructed from the replies to these questions can be regarded as representing a trend deviation. For questions asking for a judgement on present or future changes or trends in comparison to past or present periods, the balance series constructed from these replies corresponds to a first difference series.

All the above types of variables give early information about changes in the cyclical development. In addition, variables related to judgements and expectations register a change in the cycle earlier than corresponding traditional statistics. This is because judgements and expectations lead to plans and only after these plans have been implemented will they be picked up by traditional statistical surveys.

The length of the lead at cyclical turning points of business survey indicators is not among the longest compared to all types of leading indicators. The average median lead range between 3.8 to 6.5 months for the most frequently used indicators in the OECD system, however the size of the lead is more stable.

In general, answers to business surveys are "seasonally adjusted" by the respondents. This adds to the relative smoothness of the indicators. For qualitative indicators based on business surveys, MCD statistics are usually significantly smaller than for corresponding quantitative indicators.

4. Practical and statistical considerations

It is very important that the series are not revised to a significant extent in later periods if they are to be used for analysing the present economic situation and for forecasting. Business survey series rarely are revised whilst in many countries preliminary data for conventional statistics are released very quickly but later revised up to three times.

Prompt availability is an obvious requirement of a good cyclical indicator and a key element of a leading indicator. Business survey results are usually available 2-3 weeks after the period under consideration is over. This is due to the fact that the information is qualitative in nature and the sample size relatively small.

The qualitative nature of the information collected by business surveys means that a relatively smaller sample is sufficient to gain meaningful results on changes in the variables compared to data derived from quantitative surveys. This is explained in the first place by the fact that the sample size depends on the variance of the different variables and secondly, by the fact that the variance of changes in variables based on panel data is as a rule significantly smaller than in the case of data derived from surveys that measure levels.

REFERENCES

OECD, "Cyclical Indicators and Business Tendency surveys", OCDE/GD(97)58, *General Distribution*;
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RESUME

Ce papier examine pourquoi les indicateurs basés sur les enquêtes de conjoncture sont de bons indicateurs cycliques et dans quelle mesure ils répondent aux différents critères utilisés pour évaluer les indicateurs cycliques: la pertinence, le comportement cyclique, les considérations pratiques et statistiques. La pertinence est expliquée par le fait que les enquêtes couvrent des variables qui mesurent les premières étapes de la production, qui répondent rapidement aux changements de l'activité économique et qui mesurent les attentes ou bien qui y sont sensibles. Tous les types de variables ci-dessus donnent très tôt l'information sur les comportements cycliques. De plus, les variables ayant rapport aux jugements et attentes enregistrent un changement de cycle plus tôt que celles correspondantes aux statistiques traditionnelles. Les avantages pratiques et statistiques sont expliqués par le fait que les données d'enquêtes de conjoncture ne sont pas révisées et qu'elles sont disponibles très rapidement. Ceci est dû au fait que l'information est qualitative et que la taille de l'échantillon est relativement petite.