Malaysia Business Cycle Indicators
Outline

• First Day
  • Overview of BCI
  • **Malaysia BCI**
  • Time series Decomposition
  • Seasonal Adjustment

• Second Day
  • Indicators selection
  • The Composite Index
  • The Diffusion Index
Outline

A • Malaysia BCI Initial Development
B • First Improvement of BCI
C • Further Improvement of BCI
D • Recent Improvement
1. Malaysia BCI: Initial Development

• The project of BCI was started in September 1993.

• With technical Assistance of Center for International Business Cycle Research (CIBCR), Columbia University, New York (late Prof Geoffery Moore and late Prof Victor Zarnowitz)

• The Project is funded by United Nation Development Programme (UNDP).
1. Malaysia BCI: Initial Development

• Review more than 60 monthly and quarterly time series

In 1995 first set of BCI was developed comprises of two composite indexes: the Coincident Index and the Leading Index using the methodology known as Moore-Shiskin (with trend adjustment)

• It was used internally: Department of Statistics and shared with Economic Planning Unit (EPU) for comments
A. Malaysia BCI: Initial Development

• Composite Coincident Index (Five components)
  • Industrial Production Index
  • Real Gross Imports
  • Real Salaries and Wages (Manufacturing)
  • Total Employment (Manufacturing)
  • Real Sales (Manufacturing)
A. Malaysia BCI: Initial Development

• Composite Coincident Index (Five components)

Growth rate is obtained by averaging the index’s six-month smoothed growth rates for three months.
A. Malaysia BCI: Initial Development

• Composite Leading Index (Seven Components)

  • Real Money Supply M1
  • Kuala Lumpur Industrial Share Price Index
  • CIBCR’s Eleven Countries Leading Index
  • CPI for services (inverted), Growth rate
  • Industrial Material Price Index, Growth rate
  • Ratio, Price to unit Labour cost, Manufacturing
  • Housing Permits, Residential
A. Malaysia BCI: Initial Development

• During the Asian Financial Crises, EPU noticed the usefulness of the BCI especially to create public awareness (to avoid public panic)

• DOSM was asked to improve the BCI performance before made to public
  • Review the existing components
  • Generate the lagging indexes
• Three set of composite indexes were developed with reviewed components

The Coincident Index (Six components)
The Leading Index (Eight components)
The Lagging Index (Five components)
B. Malaysia BCI: First Improvement

• Composite Coincident Index (Six components)

  • Industrial Production Index
  • Real Gross Imports
  • Real Salaries and Wages (Manufacturing)
  • Total Employment (Manufacturing)
  • Real Sales (Manufacturing)
  • Real Contribution, Employment Provident Fund (EPF)
B. Malaysia BCI: First Improvement

• Composite Leading Index (Seven Components)
  - Real Money Supply M1
  - Kuala Lumpur Industrial Share Price Index
  - CIBCR’s Eleven Countries Leading Index
  - Real Total Tradeed, Eight Major trading partners (USA, Singapore, Japan, China, Thailand, Korea, Taiwan, HK)
  - CPI for services (inverted), Growth rate
  - Industrial Material Price Index, Growth rate
  - Ratio, Price to unit Labour cost, Manufacturing
  - Housing Permits, Residential
  - New Companies Registered
B. Malaysia BCI: First Improvement

• Composite Lagging Index (Five Components)
  • 7-day call money, rate (inverted)
  • Real Excess Lending to private
  • Investment project approved, number
  • Number of Defaulters, EPF (inverted)
  • New vehicles registered
C. Malaysia BCI: Further Improvement

• In 2008, DOSM started to review the overall performance of BCI

A. The Methodology
B. Components
C. Supplements Indexes
A. The Methodology

• Used the methodology recommended as in Conference Board
  • without trend adjustment
  • Standardized weight
C. Malaysia BCI: Further Improvement

B. Review the whole components of CI and LI Establish the reference cycle

![Business Cycle reference period graph](image-url)
B. Review the whole components of CI and LI
Establish the reference cycle

C. Malaysia BCI: Further Improvement

Growth Cycle reference periods
C. Supplements Indexes

- Diffusion Indexes
  - Leading Diffusion Index
  - Coincident Diffusion Index
D. Malaysia BCI: Recent Improvement

Business Cycle Clock
THANK YOU

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