Managing Project-Related Technical Assistance

The Lessons of Success

Francis Lethem
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WORLD BANK STAFF WORKING PAPERS
Number 586

MANAGEMENT AND DEVELOPMENT SERIES
Number 13

WORLD INDEX OF ECONOMIC FORECASTS

Industrial Tendency Surveys and Development Plans

SECOND EDITION

Edited by George Cyriax

Facts On File, Inc.
460 Park Avenue South,
New York, N.Y. 10016

WORLD INDEX OF ECONOMIC FORECASTS

Published in the United Kingdom in 1981 by Gower Publishing Company Limited,
Aldershot, Hants, England

Published in the United States of America in 1981 by Facts On File, Inc,
460 Park Avenue South, New York, NY 10016

Compiled by
Cambridge Information and Research Services Limited,
Sussex House, Hobson Street, Cambridge, England

Library of Congress Cataloging in Publication Data
Main entry under title:
World index of economic forecasts.
1. Economic forecasting—Directories. I. Cyriax, George.
HB 3730.W66 1981 338.5'443'025 81-590
ISBN 0-87196-529-1 AACR2

Printed in Great Britain

WORLD INDEX OF ECONOMIC FORECASTS

Second Edition

INTRODUCTION

by George Cyriax and Christopher Swain

Since its publication in 1978 World Index of Economic Forecasts has become established as an important reference work in the field of economic forecasting. But in the intervening period the work of forecasters has continued to change and develop, so that a new edition has become necessary. A thorough revision of the material contained in the first edition has therefore been carried out, and at the same time the opportunity has been taken to expand the coverage. The outcome is a compendium of information on 370 organisations which provide forecasts, plans and surveys for well over 100 countries. The up-dated information has been compiled directly from the organisations concerned, based on response to a detailed questionnaire.

The most significant addition to the entries in World Index is the inclusion of a complete new section dealing with surveys. The development of this area of forecasting was noted in the last edition and it is now possible to provide consistent information for a world-wide group of organisations undertaking surveys.

Inclusion of so much information about surveys has been possible due to the co-operation of the Centre for International Research on Economic Tendency Surveys (CIRET) at the IFO-Institut für Wirtschaftsforschung in Munich. CIRET has itself done much to enhance the scope and use of surveys and we are pleased to include an introductory article, specially written by Dr Werner Strigel, co-director of CIRET, entitled 'Trade Cycle and Tendency Surveys—The Current State of the Art', which follows this Introduction.

A notable feature of the forecasting scene during the last few years has been the growth of specialist forecasts of exchange rates. Exchange rate movements have become important for economic development and there has been a rapid growth of interest from corporate treasurers and fund managers in having advice on prospects for individual currencies. The development of exchange rate forecasting, often linked with exposure management advisory services, has been one of the most dynamic aspects of forecasting.

A similar expansion of interest in commodity markets, also to some extent a by-product of volatile exchange rates and high levels of inflation, as well as a result of greater awareness of the finite nature of many natural resources, has also been taking place. It has therefore been possible to distinguish a substantial group of specialist forecasters from those primarily engaged in macro-economic forecasting.

As in the previous edition a complete section has been devoted to development plans. In many countries in which conventional forecasting is either not carried out, or is inappropriate, such plans often provide important guidelines to socio-economic developments and information about investment programmes and even specific projects.

By their nature development plans are produced infrequently. They are often available in full published form only after considerable delay and may require translation or summarising. Compilation of the information contained in World Index would not have been possible without the aid of the Statistics and Market Intelligence Library of the UK Department of Trade and their assistance is gratefully acknowledged.

SCOPE AND CONTENT

Information in World Index is basically structured in a series of profiles of the forecasting organisations. Separate series cover macro-economic forecasts, specialist forecasts and surveys. In the case of development plans information is set out on a country by country basis.

For each organisation the profile includes address and contact information. But the main feature is a checklist of the coverage of forecasts and surveys. Further details of coverage are amplified in note form wherever possible, along with commentary on other aspects, such as methodology, techniques and the form in which forecasts are made available.

Access to the mass of information in the entries is by means of a series of indexes, which form Section 1.

This section includes both an alphabetical index and several indexes relating to subject matter and coverage of forecasts.

Section 2 contains entries for 172 organisations which are engaged in macro-economic forecasting. Section 3 brings together the 41 specialist forecasters. The largest group in this section is the 17 commodity forecasters, but this is almost matched by the number of exchange rate specialists, which total 14. Other specialists deal with energy, shipping and population/labour force.

Section 4 contains information about 104 organisations undertaking surveys of business activity, investment plans and consumer purchasing intentions. These represent valuable forecasting material in respect of 38 countries, including some for which very limited alternative information is available.

Section 5 contains the latest available information about the official plans for social and economic development in some 70 countries. This group includes the centrally planned economies and many countries of Asia, Africa and Latin America which are not otherwise covered.

HOW TO USE WORLD INDEX

The key to the use of World Index is the series of indexes which form Section 1. Index 1.1 is a complete A-Z listing of all the organisations referred to in the book, together with the relevant page number (or numbers). Indexes 1.2, 1.3 and 1.4 analyse the organisations according to their coverage.

Index 1.2 identifies organisations forecasting for each of the 108 countries covered by World Index. *Locally based forecasters are identified in bold type.* Those preparing development plans and trade cycle/tendency surveys are identified by the codes DP and TS respectively.

Index 1.3 is an extensive analysis of exchange rate forecasts. The first part of the index lists the organisations forecasting eight key currencies. The second part gives a description of the coverage of all organisations involved in making exchange rate forecasts, with specialist forecasters identified in bold type.

Index 1.4 provides a similar analysis of forecasts for commodities and other specialist subjects. As in Index 1.3 specialist forecasters are identified in bold type.

Trade Cycle and Tendency Surveys –The Current State of the Art

by Dr Werner H Strigel
Co-Director, Centre for International Research on Economic Tendency Surveys (CIRET)

INTRODUCTION

The publication of the second edition of the *World Index of Economic Forecasts* has been taken as an opportunity to supplement the index with a list of trade cycle and tendency surveys conducted in 38 countries throughout the world. The following contribution endeavours to acquaint the reader with some of the problems and possibilities involved in using such statistics, which aim to improve the information basis of trade cycle analyses and forecasts and to obtain direct forecasting data by ascertaining the anticipations (expectations and plans) of businessmen and consumers.

It is of course impossible to examine every aspect of the more than 150 surveys in this brief introductory summary. The following survey draws on the author's experience gathered during 30 years of work in this field at the IFO Institute of Economic Research, (Munich), and as co-director of the Centre for International Research on Economic Tendency Surveys (CIRET).

FEATURES AND AIMS OF TENDENCY SURVEYS

With few exceptions, trade cycle or tendency surveys did not come into fashion until after the Second World War. Many of these surveys contain so-called qualitative information. The expression 'qualitative', in contrast to 'quantitative', has become customary in economic statistics in order to distinguish those time-series which originally, i.e. on the micro-level, consist only of qualitative information, from the time-series which comprise quantitative data. A few examples will illustrate these differences. The indication of production (in pieces or weight units), of turnover or of incoming orders (in monetary units) by company X is quantitative information. On the other hand, answers to questions referring to the *tendency* in production or demand development (increase/no change/decrease) or judgement of the business situation (good/satisfactory/bad) or stocks on hand (too large/sufficient/too small) contain only qualitative information. But these data can themselves be aggregated and converted into time-series so that they can be compared with respective time-series of quantitative statistics.

Why are such qualitative data so interesting for trade cycle analysis? Apart from the fact that qualitative business surveys often contain information on variables which are not even covered by quantitative economic statistics (inventories, capacity utilization, investment plans, etc), the value of qualitative data is based firstly on the fact that they give us insight into processes of change in judgements and anticipations which generally are forerunners for the variables covered by usual economic statistics (demand, production, turnover). Secondly, it has been shown that businessmen's reactions to the same objective data may differ greatly. Indications of businessmen's prospective reactions can be gained more readily and earlier from judgements and anticipations than from quantitative ex post statistics.

If it is true that psychological processes influence the cyclical performance, then the knowledge of businessmen's subjective evaluations of specific quantitatively measurable events could possibly be more important than the indication of the quantitative change or of the level. More important for business cycle analysis is that qualitative data contain hints of cyclical changes in advance of quantitative information. Keynes, among others, referred to the importance of the psychological factor ('state of confidence') which influences the expectations of businessmen. The process of forming an opinion in the economy generally precedes its transformation into externally perceptible activities like orders, production, and turnover. Therefore, the subjective data of most business surveys contain advance information, i.e. these data generally have a lead with regard to the 'objective' data embodied in quantitative statistics.

The following survey supplies basic information on the worldwide distribution of surveys, distinguishing between business and consumer surveys.

SURVEYS WORLDWIDE

A = Business surveys
B = Consumer surveys

Country	A	B
Argentina	*	
Australia	*	*
Austria	*	*
Belgium	*	*
Brazil	*	
Canada	*	*
Chile	*	
Colombia	*	
Denmark	*	*
Ecuador	*	
Finland	*	
France	*	*
Greece	*	
Hong Kong	*	
Hungary	*	
Ireland	*	*
Israel	*	
Italy	*	*
Ivory Coast	*	
Japan	*	*
Luxembourg	*	
Mexico	*	
Netherlands	*	*
New Zealand	*	
Norway	*	*
Peru	*	
Philippine Islands	*	
Portugal	*	
South Africa	*	
Spain	*	*
Sweden	*	*
Switzerland	*	*
Taiwan	*	
Turkey	*	
United Kingdom	*	*
USA	*	*
West Germany	*	*
Yugoslavia	*	

BUSINESS SURVEYS

The surveys of business executives can be roughly divided into the following four categories:

(a) General Business Surveys

Business executives from the industrial, construction and distribution sectors are surveyed at regular intervals of one or more months to ascertain the trend of business developments and their judgements, anticipations and plans. The individual questions generally focus on different variables such as demand, production, turnover, inventories and prices concerning specific products of individual companies. Occasionally, the businessmen are also asked about their judgement of *macro-economic* processes. The questions are mostly formulated in qualitative terms.

(b) Capital Expenditure Surveys

As a rule, these surveys are conducted only at half-yearly or yearly intervals. Unlike the general business surveys, which generally entail only qualitative questions, the capital expenditure surveys often contain both qualitative and quantitative questions, or quantitative questions only. The aim of these surveys is to collect information not only on investments made, but also on investment plans for the forthcoming (half) year. Some of these surveys even call for information on plan data for several years in advance.

(c) Medium-Term Anticipations Surveys

Most of the business surveys are concerned with short-term ex post and ex ante periods (of 1 to 12 months). There are also surveys, however, which seek to cover long-range plans and anticipations (for periods of several years) from the business world, such as the surveys of McGraw-Hill in the USA, or the IFO 'Prognosis 100' survey.

(d) Special Surveys

The regular surveys carried out by private and official organizations also enable them to conduct ad hoc surveys of businessmen or consumers at short notice, either to obtain additional special information (e.g. effects of increased oil prices) or a whole spectrum of factors (e.g. components of competitiveness in export business). Occasionally, these ad hoc surveys can also develop into regular surveys, i.e. surveys repeated at longish intervals as, for instance, to obtain information on inventories, or on innnovation activity in industry.

CONSUMER SURVEYS

It should be emphasized at this point that we are only dealing with trade cycle surveys and not with consumer surveys conducted for market or opinion research purposes. These surveys of consumers can be divided into two groups according to the type of questions they contain:

—questions on buying plans
—questions on buying mood.

Generally, both groups of questions are contained in the same surveys. The information value of the buying plans of consumers is disputed. On the other hand, ascertainment of consumer buying mood by questions of the following type have proved to be quite informative (see section below on *Qualitative Trade Cycle Indicators):*

—development of own financial situation in the past 12 months
—development of own financial situation in the coming 12 months
—expected development of the situation of the total economy in the next 5 years.

INTERNATIONAL SURVEYS

In the same way as official statistics have been doing for some time, efforts are also being made in tendency surveys to render survey findings internationally comparable (formulation of questions, coverage, methods of computation and analysing). The European Commission in Brussels has managed to harmonize essential parts of the trade cycle surveys for businessmen and consumers in its member countries. The OECD has also been endeavouring for some years to define comparable leading indicators from such trade cycle surveys. In addition, attempts are being made to obtain information on world-wide economic trends by surveying foreign branches of multinational concerns (e.g. surveys by the Chamber of Commerce of the United States). Finally, there are the surveys of the International Chamber of Commerce, which obtains information from its members throughout the world. Some time will elapse, however, before it is possible to acquire internationally comparable results from tendency surveys. Nevertheless, the ICC surveys represent an important step in this direction.

QUALITATIVE TRADE CYCLE INDICATORS

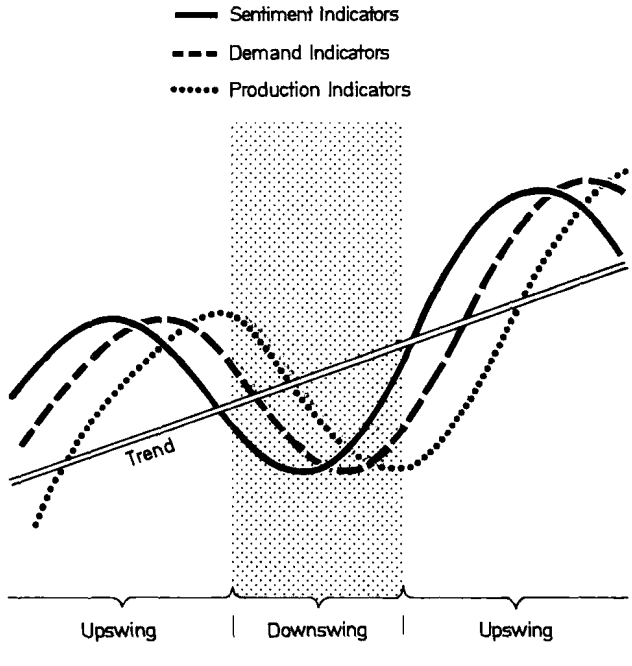
The basic distinction between qualitative and quantitative business statistics has been explained already. Experience has shown that different variables or mood indicators from these tendency surveys have a lead at cyclical turning points. These relations are shown diagrammatically in Figure 1. In the following sections, a number of qualitative leading indicators from different surveys will be examined to explain the way in which they function and react.

Business Climate

Of all the various qualitative leading indicators of the IFO business survey, special publicity has been gained by the so-called business climate indicator, without implying that it is the best trade cycle indicator in the analytical or statistical sense. Since such type of multivariable indicators derived from qualitative data (sentiment indicators) are used in various countries today, I decided to take this indicator, as developed by the IFO Institute, as an example.

The idea of combining information on the judgement and anticipation of business from the IFO business survey in one common formula, namely business climate, was prompted by the observation that neither judgement nor anticipation of business on its own could adequately reflect the economic climate. The

Figure 1: Chronology of Business Cycle Indicators



assessment of the prevailing business situation must be supplemented by the businessman's expectation of future developments in order to obtain a complete picture.

But the observation of business anticipation alone is not sufficient to ascertain properly all of the cyclical forces. For instance, the anticipation of no change in the development of business for the next six months during a period of economic boom (continuation of boom) is basically different from the same anticipation during a period of economic recession (persistence of recession).

The business climate indicator consists of the simple geometric mean obtained from the seasonally adjusted results of the two IFO business survey questions on business situation ex post and ex ante. The author drew attention to this indicator for the first time in 1965, and it has been published regularly by the IFO Institute since 1971.

Business climate can be described as a diffusion index: the index climbs when positive judgements increase, and falls when negative reports become more numerous. We can, however, already view a single report by a firm as being a type of diffusion index: the businessman's judgement (e.g. good or poor business situation) represents a synthesis of diverging individual occurances in the firm. Viewed as such, the aggregate, i.e. the combination of the individual judgements and the representation of their three-valued distribution, can be described as a diffusion index of the second degree. As interviews have shown, the businessman bases his assessment of the business situation not on one single variable, such as the trend in demand or earnings, or on the employment situation, but his response is an overall judgement of the situation based on numerous items of information, which are weighted differently by different firms at different times. For reasons of comparability, a uniform and constant weighting would probably be preferable, but from the standpoint of cyclical trend analysis it would seem most desirable for the businessman's judgement to be influenced most strongly by those variables which dominate his thinking, and thus undoubtedly influence his actions.

The different weighting of the individual influencing factors in the course of economic activity makes this indicator more responsive than the customary diffusion indices derived from the various series of official statistics, whose components are always given the same weight, although their indicative importance can change.

Business climate can also be viewed as a type of overall indicator for the cyclical process, which combines in one formula the businessman's views on different processes, such as the development of demand, production, turnover and earnings. There are also other more refined methods of using the surveys: for example, by combining the individual series by means of factor analysis. A recent study, however, has shown that the results of factor analysis scarcely deviate from the business climate indicator.

Reference should finally be made to the 'synthetic' trade cycle indicator of the Belgian central bank, which forms a mean out of the results obtained from the 11 different questions of the Belgian business survey (industry, construction and distribution). The index of 'business optimism' of the National Federation of Independent Business in the United States is constructed in a similar way (see Figure 4).

The Performance of Sentiment Indicators

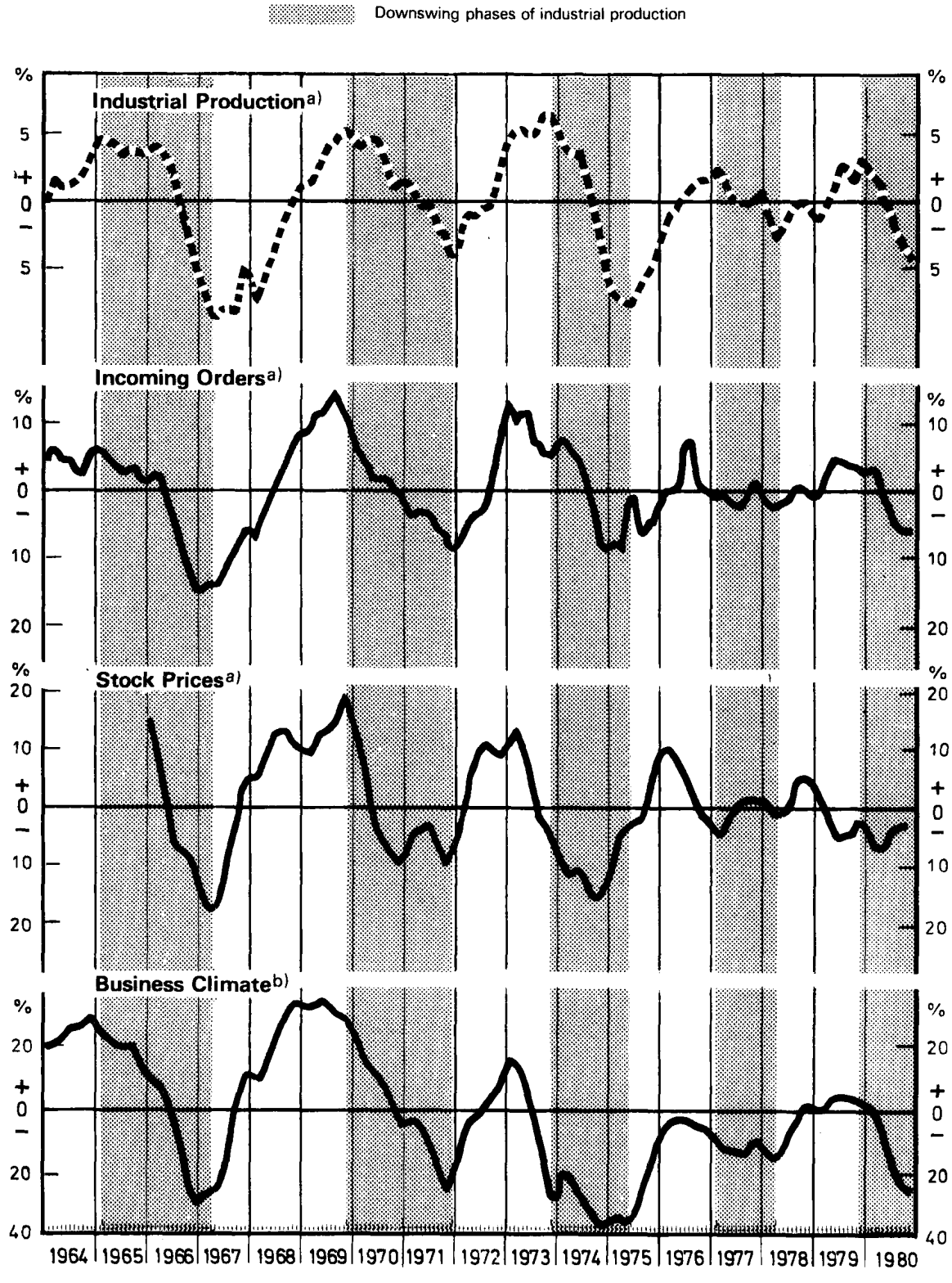
To illustrate how the cyclical fluctuations of the IFO business climate indicator react compared with various reference series of quantitative data, the trend and seasonally adjusted series of industrial production in the Federal Republic of Germany and series for incoming orders and stock prices were taken for comparison. These series are displayed in Figure 2.

The series for industrial production, incoming orders and stock prices show the deviation from trend of seasonally adjusted and smoothed data. These are compared with the balance of positive and negative replies reflected in the business climate indicator.

Despite the very different initial information (qualitative and quantitative), the cyclical phases are clearly reflected in the qualitative information, so that a clear lead can generally be observed, particularly at the upper cyclical turning points. Agreement between the quantitative and qualitative data, however, exists only in the cyclical *tendency*, for its connection is not close enough to allow a forecast of the quantitative data using the qualitative information: but this cannot be achieved by quantitative leading indicators either, because in both cases there exists the difficulty of forecasting the exact time span of the lead.

It would be wrong not to admit that the basic uncertainty regarding the future is only mitigated by qualitative leading indicators, and not entirely dispelled. But these indicators possess a greater indicative value for the analysis of the most recent trends, due to the broad spectrum and lead of their information. Figures 3 and 4 illustrate other examples of qualitative leading indicators. The top section of Figure 3 shows a sentiment indicator from the EEC business survey compared with the Community's industrial production. This qualitative indicator was formed from the results of two questions (judgement of orders on hand and production plans) in line with the IFO business climate indicator. This procedure, which differs from that followed in the construction of the IFO indicator, was necessary because the question on business situation is not put ex post and ex ante in all of the EEC member countries. Nevertheless the results were as expected: the turning points in the reference series are signalled in advance by the qualitative indicator.

Figure 2: Production and Three Leading Indicators in the Federal Republic of Germany

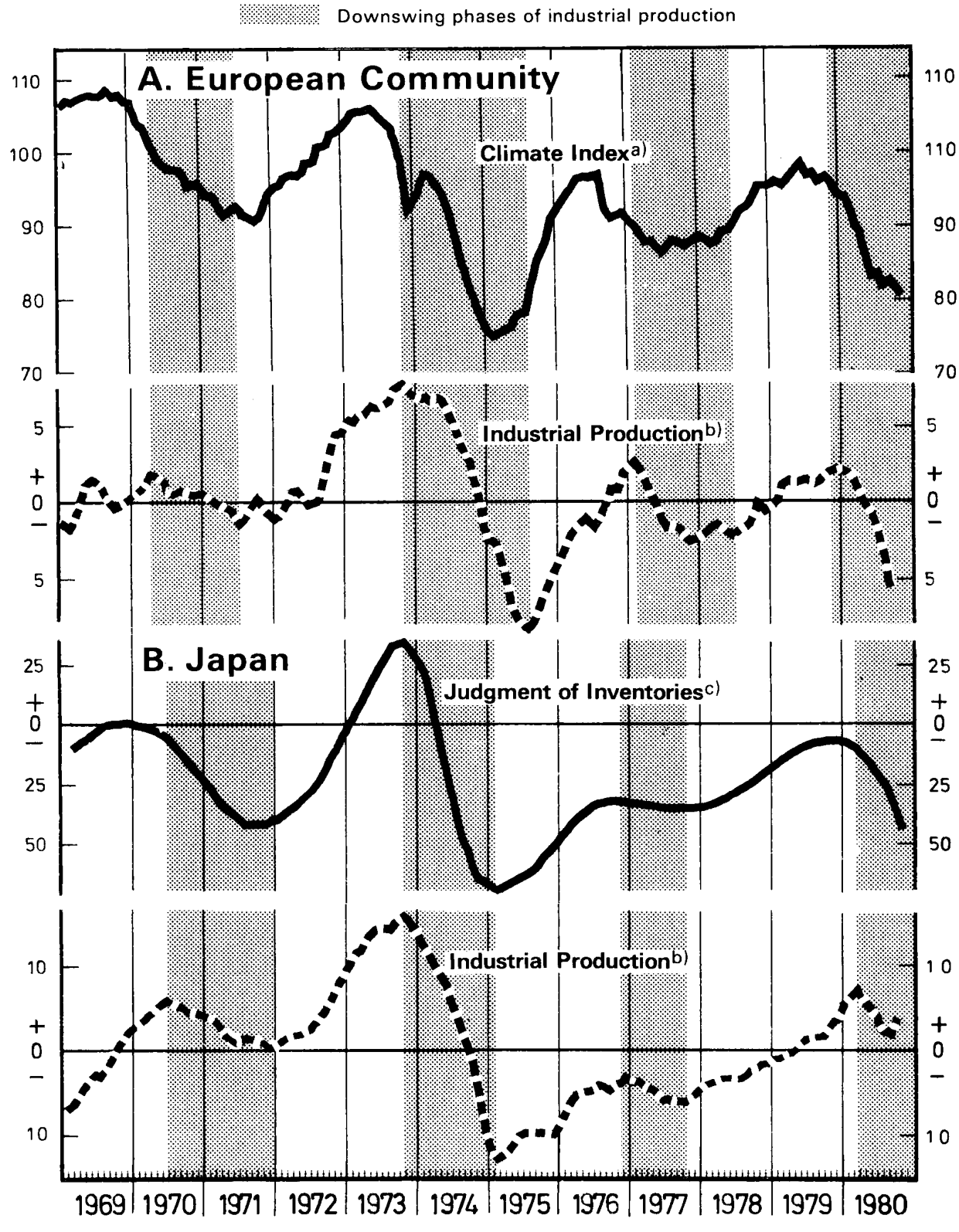


a) Percentage deviation from trend of seasonally adjusted and smoothed data.

b) Judgement of present and expected business situation. Percentage balance of positive and negative replies.

Sources: Official statistics and IFO Business Survey

Figure 3: Leading Indicators for the EEC and Japan

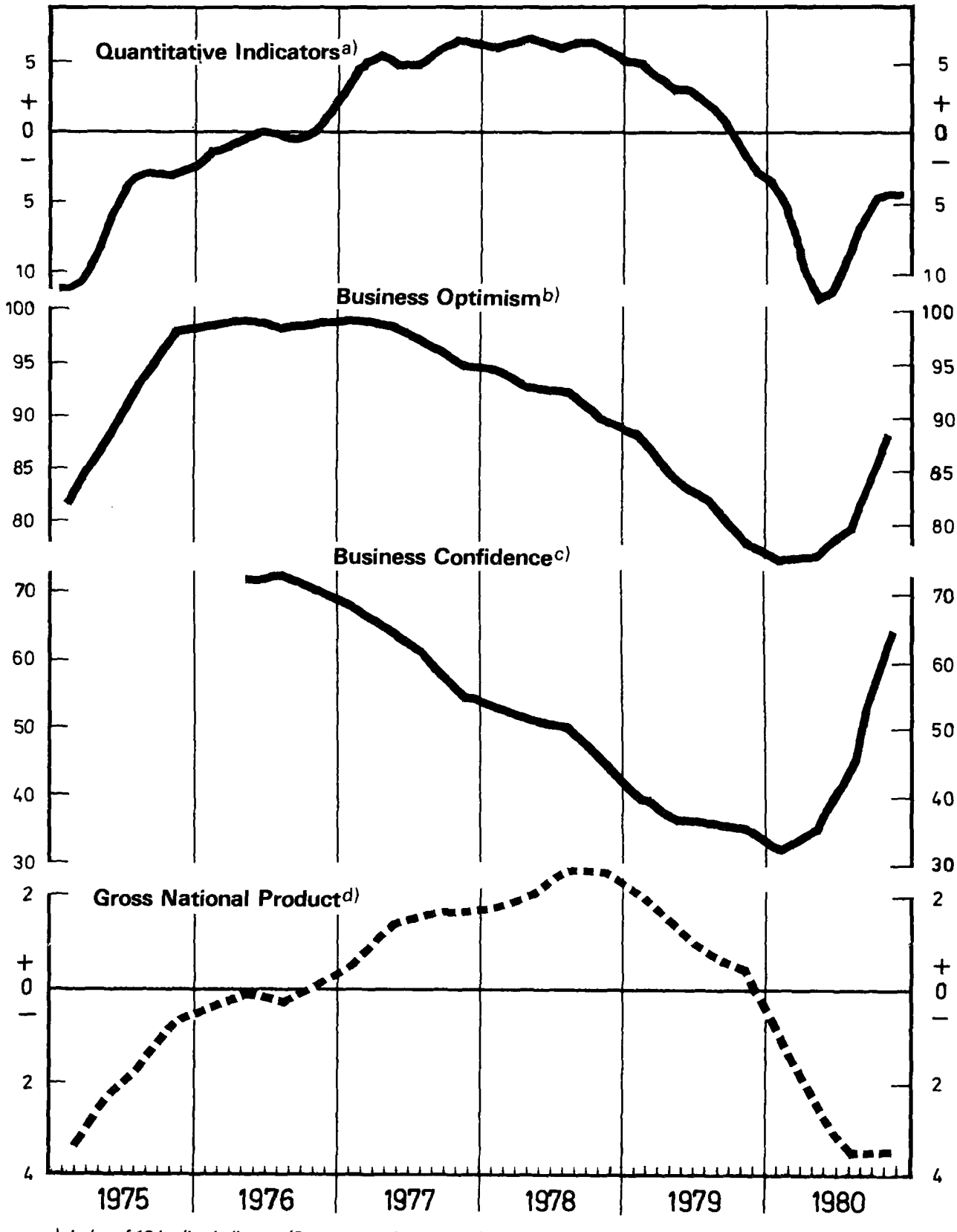


a) Seasonally adjusted three-month moving average of judgement of orders on hand and production plans.

b) Percentage deviation from trend of seasonally adjusted and smoothed data.

c) Judgement of stocks of finished goods (too large/too small). Percentage balance of replies.

Figure 4: Leading Indicators for the USA



a) Index of 12 leading indicators (Department of Commerce). Percentage deviation from trend.

b) Index of seasonally adjusted results of the business survey of the National Federation of Independent Business.

c) Index of seasonally adjusted results of the business survey of the Conference Board.

d) Percentage deviation from trend of real GNP.

In the lower part of the same graph, a comparison is made for Japan between the judgement of stocks on hand of finished products (business survey of the Bank of Japan) and the industrial production index. In this case, the lead basically has 'only' an informative character. The judgemental data are available earlier and have a smoother curve.

Finally, in the case of the USA Figure 4 shows a comparison of the quantitative trade cycle indicator, constructed from 12 leading indicators, and gross national product with two sentiment indicators.

The Small Business Optimism Index is the combined result of a quarterly business survey of the National Federation of Independent Business, covering some 2,000 medium and small-sized firms in the industrial, distribution and services sectors. The Business Confidence indicator of the Conference Board is based on a quarterly survey of 2,500 firms, mostly of the large-scale category. It is interesting to observe that these two leading indicators already signalled a slowing down in economic growth in early 1977, more than one and a half years before the upper turning point of gross national product. The time series of the American sentiment indicators are undoubtedly still too short to permit proper comment on their reliability. The trend adjustment of quantitative data for the most recent past also constantly produces problems. Nevertheless, the results of this comparison is so interesting that the development of the new American business sentiment indicators should be pursued further.

If we finally include the experience of the OECD with leading indicators in our consideration (56 out of a total of 65 leading indicators from 18 countries are based on qualitative data!), it becomes quite evident that in the meantime a keen interest in this source of information is being shown throughout the world.

Taking into consideration the international experience with trade cycle indicators based on qualitative data, which the author has been able to detect, the following can be said in summary:

1. With the help of leading indicators from qualitative data cyclical turning points can generally be recognised considerably earlier than would be possible with quantitative data alone.

2. The use of qualitative information in trade cycle analysis has increased appreciably throughout the world over the past three decades.

CIRET: INTERNATIONAL EXCHANGE OF EXPERIENCE

In 1952 economists from three European survey institutes met in Paris and founded an international committee for studies on business survey methods. Later, the name of this organization was changed to Centre for International Research on Economic Tendency Surveys (CIRET). The goal, however, remained the same: international exchange of experience in the field of business and consumer surveys.

For several years (1960-1966) there was a small research centre under the direction of Professor H Theil at the Econometric Institute of the Netherlands School of Economics in Rotterdam. Professor O Anderson continued this work at the University of Mannheim and later at the University of Munich. In 1971 these activities were merged with the CIRET Information and Documentation Centre at the IFO Institute for Economic Research in Munich.

The increasing importance of business surveys and the increasing interest in the scientific evaluation of the results are reflected in the following figures. At the time of the first CIRET Conference in 1953 in Munich, 18 economists from seven countries attended. Since that time the topics discussed at these conferences have widened considerably. Starting with the more technical reports on the execution of new surveys and the accuracy of anticipations of entrepreneurs and consumers, the topics turned to problems of business cycle indicators and the utilization of qualitative and quantitative ex post and ex ante data in econometric models, and latterly as social indicators. According to data from the CIRET archives there are today some 125 different business and 29 consumer surveys, in the sense defined above, in 38 countries of the world. Before World War II there existed probably not more than 10 surveys of this kind. In this regard we should point out, in particular, the efforts of the Commission of the European Communities to harmonize the existing business surveys in all member countries and the work initiated by the OECD using qualitative data as leading indicators.

Literature

The CIRET archives at the IFO Institute contain some 2,000 studies and publications describing the various trade cycle and tendency surveys, analysing their results and examining the possibilities of using them for economic observation and forecasting. The available bibliography includes material from numerous countries, in English, German and other languages, and can be consulted by those interested in the development and use of surveys.

A comprehensive review of the development of surveys has been undertaken by Dr Strigel and published recently under the title 'Essays on Trade Cycle Surveys'. Aspects dealt with in this work include the methodology and structure of surveys, their meaning and interpretation and applications of survey results.

CONTENTS

SECTION ONE

Who's Who in Economic Forecasting