

## The “Economic Climate Tracer”: a graphic tool to represent the phases of the economy in a simple format

Analysing the position of the economy in its cycle is a delicate operation. However, a graph based on business climate indicators that uses data from INSEE’s business tendency surveys can make it easier to assess the situation. The European Commission’s Directorate-General for Economic and Financial Affairs (DG EcFin) regularly publishes graphs using the “Economic Climate Tracer”, based on data taken from surveys of businesses and households. The same methodology is applied here to the French economy and its main economic sectors. At the start of 2019, this graphic tool suggested that the economic outlook was hesitant.

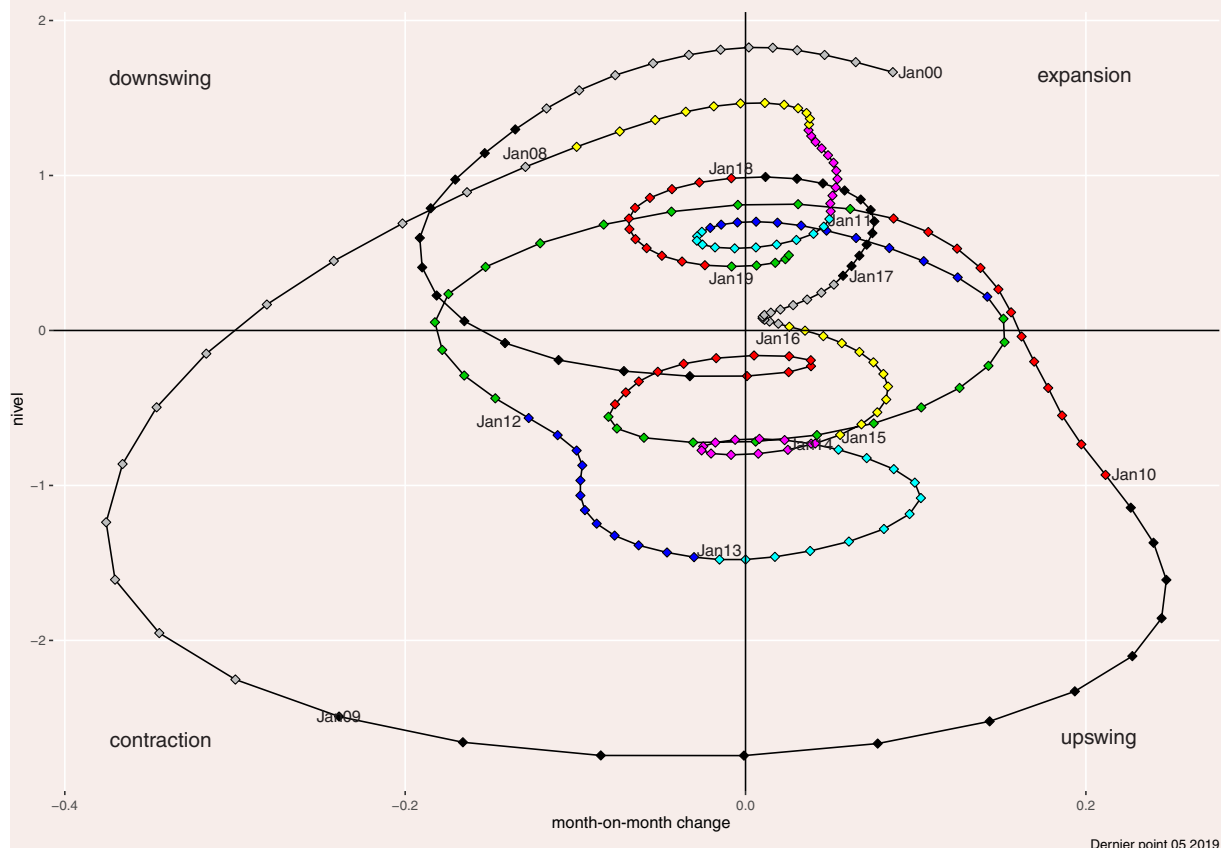
### Four quadrants for a monthly short-term diagnosis

The Economic Climate Tracer produces a graphic representation used by the European Commission’s Directorate-General of Economic and Financial Affairs (DG EcFin) to represent the phases of the economy in a simple format<sup>1</sup>. Here, this process is applied to the business climate indicator for the French economy overall, as published by INSEE (*Graph 1*), then to the sectoral business climate indicators in the manufacturing industry, services, building construction and, finally, retail trade and the trade and repair of motor vehicles (*Graphs 2 to 5*). The first step is to smooth and then centre and

reduce the reference series (*Method*). The y-coordinates on the graph are the values for the smoothed series and the x-coordinates are the differences between successive values in this series. The short-term interpretation of a given point relates to its position on the graph, which is divided into four quadrants. When the coordinates are positive, the point is in the “expansion” quadrant: the business climate indicator is above average and climbing. When the y-coordinate is positive and the x-coordinate negative, the indicator is above average but decreasing: the point is then in the “downswing” quadrant. Lastly, when the indicator is below average, it is either decreasing and located in the “contraction” quadrant, or increasing when it is in the “upswing” quadrant.

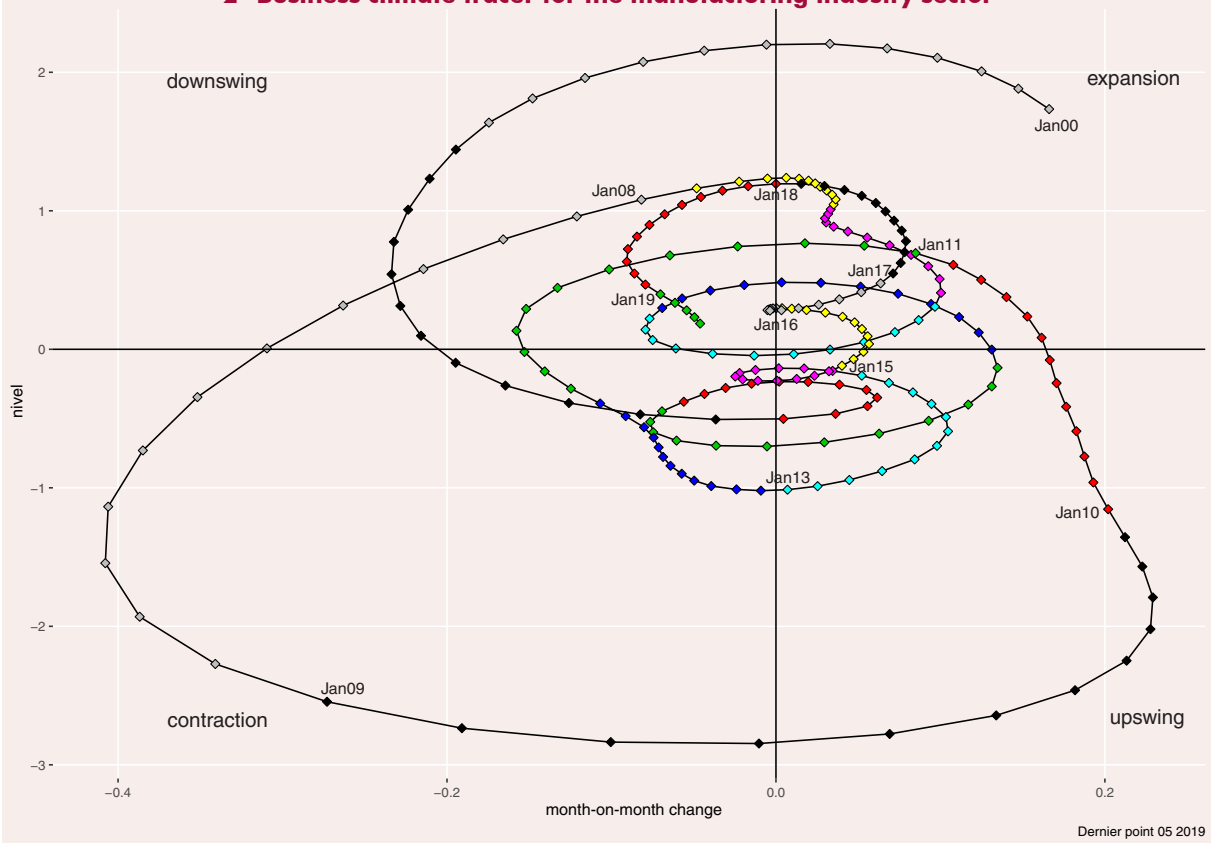
1. European Commission, “Europe Business Cycle Indicators, 1st Quarter 2019”, Technical Paper 031, April 2019, pp. 13-14 and 23

### 1- Business climate tracer for the French economy

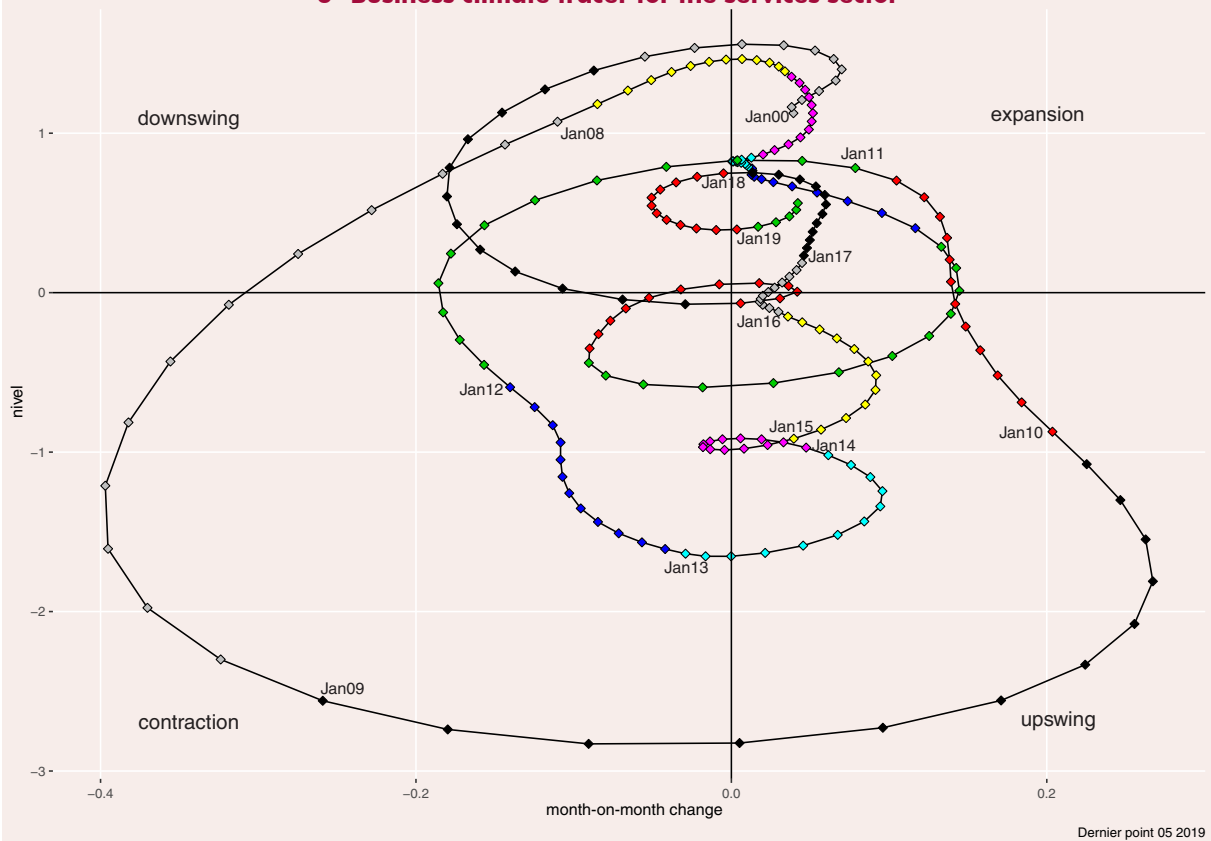


# French developments

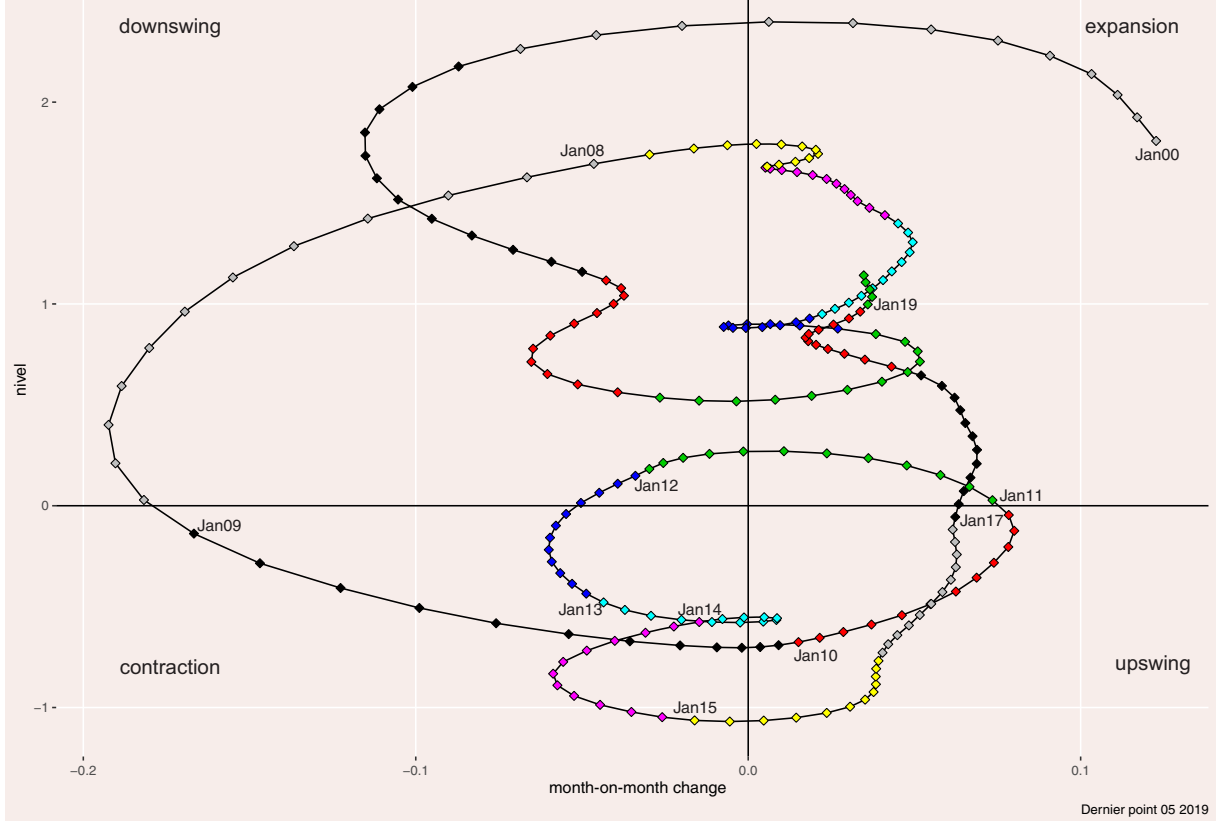
## 2- Business climate tracer for the manufacturing industry sector



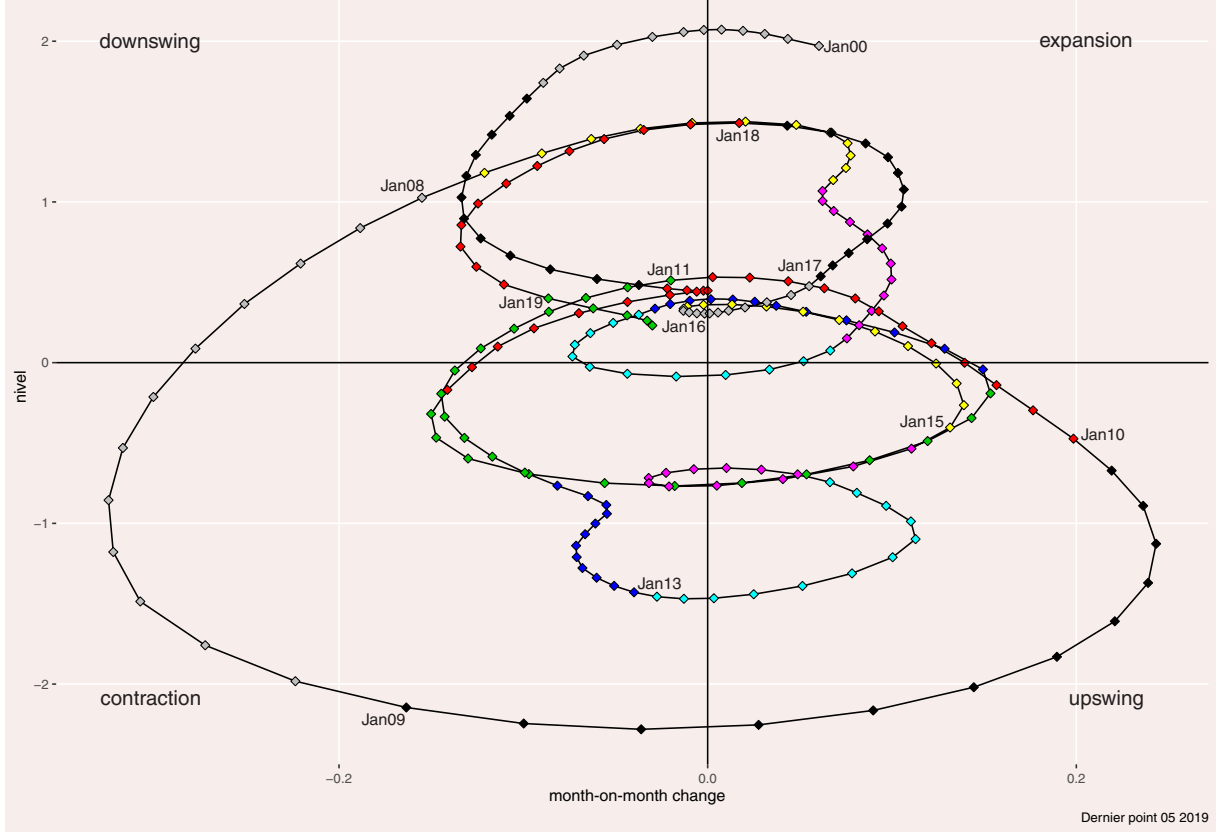
## 3- Business climate tracer for the services sector



4- Business climate tracer for the building construction sector



5- Business climate tracer for the retail trade sector and the trade and repair of motor vehicles



## The Economic Climate Tracer tracks the time series of major cyclical episodes in France

The graph provides both a static interpretation, by representing month-on-month the associated phase in the economic outlook, and a dynamic view, by describing the trajectory the economy is taking. In the case of the business climate indicator for the economy overall, this representation clearly shows the time series for the main phases of economic activity. After solid, regular growth in 2006 (the indicator increased at a relatively steady pace), in July 2007 the business climate moved into the “downswing” quadrant (the indicator fell but still remained above its average level). This movement grew and the decline accelerated until September 2008 – at this point the indicator moved into the “contraction” quadrant. This intense episode was short-lived: the deterioration in the economic situation faded towards the end of 2008-beginning of 2009, with the indicator returning to the “upswing” quadrant in April 2009. It continued its momentum and accelerated until October 2009 then slowed gradually, returning to the “expansion” quadrant in July 2010. However, the economic slowdown continued during this positive phase. In March 2011 the indicator tipped into the “downswing” quadrant: this decline intensified into September 2011. The sovereign debt crisis in the Eurozone caused the indicator to move into the “contraction” phase, where it stayed until February 2013. After this, the outlook remained relatively gloomy: the indicator increased slightly, still remaining in the “upswing” phase, but with an incursion into the “contraction” quadrant. Of course these relatively limited movements of the indicator contrasted with the crisis episode in 2008-2009 during which it crossed three quadrants. In 2015, the outlook became a little stronger: the indicator increased and moved tentatively at the end of 2015 into the “expansion” quadrant. From June 2016 to June 2017 it accelerated, the economy brightened. This expansion movement then slowed down: the indicator moved into the “downswing” phase at the start of 2018.

### According to this representation, the economic outlook for France seemed hesitant at the start of 2019

The decline in the indicator increased until mid-2018 but has eased since then, so that by February 2019 it had moved back into the “expansion” phase, although its trajectory has not become any stronger since then. Care must be taken when interpreting such cases where points fall “in between”. Indeed, during this latest period, the DGEcFin produced a different diagnosis for France based on its own short-term indicator (*Method*), which, in addition to including the business tendency surveys, also uses data on household confidence. During 2018, the indicator calculated by the DG EcFin declined

steadily and in March 2019 was at the intersection with the “contraction” phase.

The short-term message delivered by the business climate sector indicators also seemed confused at the beginning of the year. For services, the indicator has been just inside the “expansion” phase since December 2018, after eleven months in the “downswing” phase. The industry indicator also spent 2018 in the “downswing” quadrant, but in this case it continued to fall back, with the result that the associated indicator came close to the intersection with the “contraction” phase. The same was true for the retail trade and the trade and repair of motor vehicles. The trajectory for the building industry appeared to be very different: since 2017, the indicator has remained in the “expansion” quadrant and in 2019, it continues to increase at a steady pace.

This type of analysis is not the only way to assess or define the different short-term periods. For example, the economic turning point indicators, published every month by INSEE, aim to detect any changes in economic trends as early as possible. In May 2019, for instance, the economic turning point indicator suggested a favourable short-term business climate although it has fluctuated, notably since the beginning of 2019, resulting in a diagnosis that is more or less consistent with the “Economic Climate Tracer”.

### Apart from the building construction sector, do economic trends in the other sectors tend to coincide?

When phases are analysed using the “Economic Climate Tracer” the general business climate indicator can be compared against indicators for different sectors of activity. Thus a study of phases that coincide (*Table 1* and *Graph 6*) confirms the notion that the building construction sector has its own specific economic trend. In this sector, the frequency with which phases coincide with the same phases for the general climate indicator is no greater than 60% of cases, which is less than for the other sectors of activity. In services, a large proportion of “expansion”, “contraction” and “upswing” phases in the general indicator correspond to the same phases in this sector, whereas this is much less true for the “downswing” phases. In industry, the downswing and contraction phases of the general climate indicator are the ones that coincide best with the phases in this sector. The short-term outlook in retail trade seems fairly atypical: the “upswing” phases in the general indicator correspond relatively little with the same phases in this sector, while the contraction phases are more similar. Overall, results for the contraction phase are consistent: when the general indicator is positioned in this phase, the indicators for industry, retail trade and services also seem to be in this phase more often than in the case of other types of phase. ■

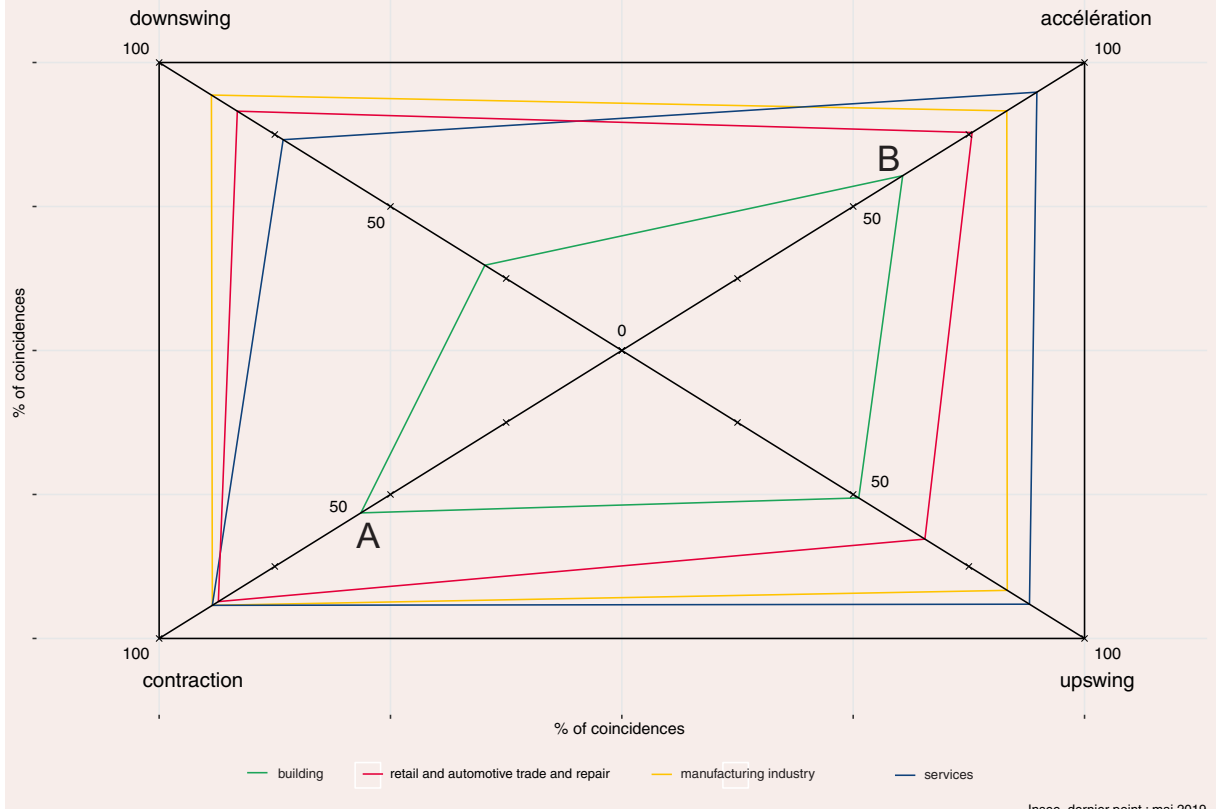
**Table of frequencies (in %) of phase coincidences between the French climate and the climates of the sectors**

Climate phase France	Industry	Services	Construction	Trade
Expansion	85.7	88.6	59.0	77.1
Downswing	89.0	72.6	28.8	83.6
Contraction	88.5	88.5	56.4	87.2
Upswing	84.3	88.0	50.6	65.1

How to read it: 85.7% of the expansion phases of the general indicator coincide with a phase of expansion of the indicator in industry

Source: INSEE, calculations based on monthly business surveys of companies

6- Frequency with which phases coincide with those of the general business climate, according to sector



How to read this graph: for the construction sector, the contraction (A) and expansion (B) phases coincide in about 55% and 60% of cases respectively, with a general phase of the same kind.