

S-time-distance perspective on the current crisis in CIRET conference New York

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Providing new insights from Business Tendency Surveys and GDP data

The paper "S-time-distance perspective: providing new insights of the current crisis from BTS and GDP data"™ prepared by P. Sicherl, J. Cirjakovič, M. Remec was presented in the session New Methods at the 30th CIRET Conference, New York, October 2010. The time distance methodology deals here with the description of the current economic crisis with selected indicators from the Business Tendency Surveys and GDP for EU and selected countries. This makes it possible to analyse the severity of the crisis in the two dimensions: decrease in the static index from the peak in 2008 and the S-time-distance lag indicating how many years earlier the same levels of GDP were already achieved in the past. The latter indicates that e.g. for EU27 this would amount to 3.3 years for 2009, 3.9 years for 2010 and to 4.4 years for 2011. Alternatively, this means that the forecast level for 2011 would be lower than that achieved in 2007. On the other hand, S-time-distance measure clearly shows how debt crisis has weakened the possibility of higher growth rate in the near future. In 2011 the investment rate for EU27 would still be around 10% below 2008 value and about at the level attained 14 years ago (about 1997 level). For the USA the investment rate in 2011 is expected to be about 13% below the 2008 value at a level before 1994 resulting in S-time-distance of about 17 years. For investment rate Triad countries are expected to fallback to the levels in past century which could not be perceived by looking only at the static indexes.

Comparing maximum and minimum values of ESI and GDP in the period 2007-2009 shows different development in the declining and recovery phases. ESI for EU27 started to decline after June 2007, while GDP started to decline after first quarter of 2008, this means 8 months later than ESI. In the declining phase ESI offered a leading warning of about 8 months, showed a fall of about 21 months from the maximum in June 2007 to the minimum levels in March 2009, while the fall in quarterly GDP from first quarter of 2008 lasted about 15 months. In the current crisis ESI showed much higher volatility than GDP. As mentioned before, this may indicate that much greater decline of ESI than of GDP might be a sign that the economic sentiment goes considerably beyond GDP and include also problems related to the decrease in the investment rate, employment and other conditions.

The examples show that more attention needs to be paid to levels and time, which means that S-time-distance can bring about additional information for a more thorough analysis and understanding of the situation. An obvious extension would be to repeat such analysis for the ESI components and also on types of indicators like OECD composite leading indicators. There are lessons that can be learned with the new methodology from comparisons across indicators and countries and lessons from a more detailed analysis within a given country.

- Full text: [S-time-distance perspective on the current crisis.pdf](#)