An early warning indicator of economic vulnerability constructing for Malaysian economy

Abstract. The initiative to capture the information content behind the rise and fall of the business cycle has popularized the study about leading indicators. Many of the foreign experiences shared by economically advanced countries evidently show that the leading indicators approach work well as a short-term forecasting tool. Thus, exploring into an indicator-based forecasting tool for business cycle analysis and economic risk monitoring, it would be an insightful move to the Malaysian economy as well as others emerging countries. By extending the ideology of indicator construction from the US NBER, the present study demonstrates a strong potential of the leading indicator approach to be a good gauge of the business cycle movement besides being a practically functional early warning indicator for economic vulnerability prediction.

Keywords: Business Cycle; Composite Leading Indicator; Early Warning Indicator; Turning Points

JEL Codes: E32; E37; C32; C43

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