

Leading macro economic indicators of construction output and cost in Sri Lanka

R Rameezdeen^{1*} and N Jeyakaran¹

¹ *Department of Building Economics, Faculty of Architecture, University of Moratuwa*

Economic indicators system has been recognized as essential tool for monitoring and tracking the country's economic cycle. Leading indicators provide early signal on the direction in which the economy is progressing. The prediction of future trend of construction output and cost can be used to make decision on the policy matters of construction industry and investment strategy. This research has been initiated to find possible leading indicators of construction output and cost, which may help to understand future trends in construction.

Necessary data were compiled for the last 50 years beginning from 1952 to 2002 from publically available 48 related macroeconomic and financial indicators so called basic indicators. Then the adjustment for seasonality, de-trending and smoothing were done to identify the turning points of basic indicators and reference indicators; Construction Value Added (CVA), Construction Gross Domestic Fixed Capital Formation (GDFCF) and Construction Cost Index (CCI). For each of these reference indicators, potentially correlated basic indicators were then identified from the 48 basic indicators to find the turning points relationship. Relationship clearly indicated that most of the selected indicators were either lead and coincident or coincident and lag with Construction Value added. From 1980 onwards, total import was observed leading by 1 to 3 years. The same lead was found in narrow money supply (M1) from 1956 to 2002 with Construction Value added. The only leading indicator for construction GDFCF was exchange rate of US Dollar after 1972 which led by 1 to 3 years.

Since CCI data is only available from 1989, the growth rate graph is only for short time period of 12 years compared to other reference indicators. Any how from the last 12 years analysis, no leading indicators were found for CCI. Trade index of import price and saving interest rate were found to be leading and coincident indicators. Further, the leading behaviour in the past may not be same in the future. External and internal changes in the economy may change the behaviour of the indicators permanently. Consequently, using indicators individually to monitor changes in the business cycle is unreliable. Therefore, combination of possible leading indicators may result in producing fewer false signals of early indication of future or current fluctuations in the construction output and cost.

*rameez@mail.ac.lk

Tel: 011 2650301

Ext: 7207