



THE CONFERENCE BOARD

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The Conference Board®
U.S. Business Cycle IndicatorsSM

THE CONFERENCE BOARD LEADING ECONOMIC INDEX (LEI) FOR THE U.S. AND RELATED COMPOSITE ECONOMIC INDEXES FOR DECEMBER 2008

This month's release incorporates annual benchmark revisions to the composite indexes, which bring them up-to-date with revisions in the source data. These revisions do not change the cyclical properties of the indexes. The indexes are updated throughout the year, but only for the previous six months. Data revisions that fall outside of the moving six-month window are not incorporated until the benchmark revision is made and the entire histories of the indexes are recomputed. As a result, the revised indexes will no longer be directly comparable to those issued prior to the benchmark revision. For more information, please visit our website at <http://www.conference-board.org/economics/bci/> or contact us at indicators@conference-board.org.

The U.S. LEI increased 0.3 percent, The Conference Board Coincident Economic Index (CEI) decreased 0.5 percent and The Conference Board Lagging Economic Index (LAG) decreased 0.4 percent in December.

- The LEI rose modestly in December, mainly due to the continued and very large positive contribution from real money supply. The yield spread also contributed positively to the index, helping offset the continued declines in building permits, the average workweek, supplier deliveries, and initial unemployment claims. Since June 2008, the LEI has fallen 2.5 percent (a -5.0 percent annual rate), faster than the 0.9 percent decline (a -1.7 percent annual rate) during the previous six months through June 2008. In addition, the weaknesses among the leading economic indicators have remained widespread.
- The CEI fell sharply in December, amid a further contraction in industrial production and employment. The six-month change in the CEI has continued to decline -- to -2.2 percent (a -4.3 percent annual rate) in the period through December, down significantly from -0.7 percent (a -1.3 percent annual rate) from December 2007 to June 2008, and the weaknesses among its components have remained widespread in recent months. The lagging economic index (LAG) decreased less than the CEI this month, and as a result, the coincident-to-lagging ratio fell again. Meanwhile, real GDP contracted at a 0.5 percent annual rate in the third quarter of 2008, down from a 1.8 percent average annual rate of increase for the previous two quarters.
- Despite December's modest increase in the LEI, it is about 5.0 percent lower than its most recent peak in July 2007 as a result of widespread declines among its components. And, it would have been weaker without the very large expansion in inflation-adjusted money supply in the last four months. The CEI has been deteriorating since its most recent peak in November 2007, and the decrease in this index over the past six months is the largest since 1980. Taken together, the recent behavior of the composite economic indexes suggests that the recession that began in December 2007 will continue in the near term.

The next release is scheduled for February 19, Thursday at 10 A.M. ET.

LEADING INDICATORS. Four of the ten indicators that make up the leading economic index increased in December. The positive contributors – beginning with the largest positive contributor – were real money supply*, interest rate spread, manufacturers’ new orders for consumer goods and materials* and manufacturers’ new orders for nondefense capital goods*. The negative contributors – beginning with the largest negative contributor – were building permits, average weekly manufacturing hours, index of supplier deliveries (vendor performance), average weekly initial claims for unemployment insurance (inverted), and stock prices. The index of consumer expectations held steady in December.

The leading economic index now stands at 99.5 (2004=100). Based on revised data, this index decreased 0.4 percent in November and decreased 1.0 percent in October. During the six-month span through December, the leading economic index decreased 2.5 percent, with three out of ten components advancing (diffusion index, six-month span equals 30 percent).

COINCIDENT INDICATORS. One of the four indicators that make up the coincident economic index increased in December. The positive contributor to the index was manufacturing and trade sales*. The negative contributors were industrial production and employees on nonagricultural payrolls. Personal income less transfer payments* held steady in December.

The coincident economic index now stands at 104.1 (2004=100). This index decreased 0.3 percent in November and increased 0.3 percent in October. During the six-month period through December, the coincident economic index decreased 2.2 percent, with one out of four components advancing (diffusion index, six-month span equals 25 percent).

LAGGING INDICATORS. The lagging economic index stands at 113.3 (2004=100) in December, with one of the seven components advancing. The positive contributor to the index was the ratio of consumer installment credit to personal income*. The negative contributors – beginning with the largest negative contributor – were change in CPI for services, average duration of unemployment (inverted), average prime rate charged by banks, change in labor cost per unit of output*, commercial and industrial loans outstanding*, and ratio of manufacturing and trade inventories to sales*. Based on revised data, the lagging economic index remained unchanged in November and increased 0.1 percent in October.

DATA AVAILABILITY AND NOTES.

The data series used by The Conference Board to compute The Conference Board Leading Economic Index (LEI) for the U.S., The Conference Board Coincident Economic Index (CEI) for the U.S., and The Conference Board Lagging Economic Index (LAG) for the U.S., and reported in the tables in this release are those available “as of” 12 Noon on January 23, 2009. Some series are estimated as noted below.

* Series in the leading economic index that are based on The Conference Board estimates are manufacturers’ new orders for consumer goods and materials, manufacturers’ new orders for nondefense capital goods, and the personal consumption expenditure used to deflate the money supply. Series in the coincident economic index that are based on The Conference Board estimates are personal income less transfer payments and manufacturing and trade sales. Series in the lagging economic index that are based on The Conference Board estimates are inventories to sales ratio, consumer installment credit to income ratio, change in labor cost per unit of output, the consumer price index, and the personal consumption expenditure used to deflate commercial and industrial loans outstanding.

The procedure used to estimate the current month’s personal consumption expenditure deflator (used in the calculation of real money supply and commercial and industrial loans outstanding) now incorporates the current month’s consumer price index when it is available before the release of the U.S. Leading Economic Index.

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THE CYCLICAL INDICATOR APPROACH. The composite economic indexes are the key elements in an analytic system designed to signal peaks and troughs in the business cycle. The leading, coincident, and lagging economic indexes are essentially composite averages of several individual leading, coincident, or lagging indicators. (See page 4 for details.) They are constructed to summarize and reveal common turning point patterns in economic data in a clearer and more convincing manner than any individual component—primarily because they smooth out some of the volatility of individual components.

Historically, the cyclical turning points in the leading economic index have occurred before those in aggregate economic activity, while the cyclical turning points in the coincident economic index have occurred at about the same time as those in aggregate economic activity. The cyclical turning points in the lagging economic index generally have occurred after those in aggregate economic activity.

U.S. Composite Indexes: Components and Standardization Factors

<u>Leading Economic Index</u>		<u>Factor</u>
1	Average weekly hours, manufacturing	0.2549
2	Average weekly initial claims for unemployment insurance	0.0307
3	Manufacturers' new orders, consumer goods and materials	0.0774
4	Index of supplier deliveries – vendor performance	0.0677
5	Manufacturers' new orders, nondefense capital goods	0.0180
6	Building permits, new private housing units	0.0270
7	Stock prices, 500 common stocks	0.0390
8	Money supply, M2	0.3580
9	Interest rate spread, 10-year Treasury bonds less federal funds	0.0991
10	Index of consumer expectations	0.0282
<u>Coincident Economic Index</u>		
1	Employees on nonagricultural payrolls	0.5439
2	Personal income less transfer payments	0.1873
3	Industrial production	0.1497
4	Manufacturing and trade sales	0.1191
<u>Lagging Economic Index</u>		
1	Average duration of unemployment	0.0371
2	Inventories to sales ratio, manufacturing and trade	0.1238
3	Labor cost per unit of output, manufacturing	0.0608
4	Average prime rate	0.2825
5	Commercial and industrial loans	0.1127
6	Consumer installment credit to personal income ratio	0.1872
7	Consumer price index for services	0.1959

Notes:

The component factors are inversely related to the standard deviation of the month-to-month changes in each component. They are used to equalize the volatility of the contribution from each component and are “normalized” to sum to 1. When one or more components are missing, the other factors are adjusted proportionately to ensure that the total continues to sum to 1.

These factors were revised effective on the release for January 2009, and all historical values for the three composite indexes were revised at this time to reflect the changes. (Under normal circumstances, updates to the leading, coincident, and lagging economic indexes only incorporate revisions to data over the past six months.) The factors for the leading economic index were calculated using 1984-2007 as the sample period for measuring volatility. A separate set of factors for the 1959-1983 period is available upon request. The primary sample period for the coincident and lagging economic indexes was 1959-2007. For additional information on the standardization factors and the index methodology see: “Benchmark Revisions in the Composite Indexes,” *Business Cycle Indicators* December 1997 and “Technical Appendix: Calculating the Composite Indexes” *Business Cycle Indicators* December 1996, or the Web site: www.conference-board.org/economics/bci.

The trend adjustment factor for the leading economic index is -0.0101, and the trend adjustment factor for the lagging economic index is 0.1615.

To address the problem of lags in available data, those leading, coincident and lagging indicators that are not available at the time of publication are estimated using statistical imputation. An autoregressive model is used to estimate each unavailable component. The resulting indexes are therefore constructed using real and estimated data, and will be revised as the unavailable data during the time of publication become available. Such revisions are part of the monthly data revisions, now a regular part of the U.S. Business Cycle Indicators program. The main advantage of this procedure is to utilize in the leading economic index data such as stock prices, interest rate spread, and manufacturing hours that are available sooner than other data on real aspects of the economy such as manufacturers’ new orders. Empirical research by The Conference Board suggests that there are real gains in adopting this procedure to make all the indicator series as up-to-date as possible.

U.S. Leading Economic Index news release schedule for 2009:

Thursday, February 19, 2009	for January 2009 data
Thursday, March 19, 2009	for February 2009 data
Monday, April 20, 2009	for March 2009 data
Thursday, May 21, 2009	for April 2009 data
Thursday, June 18, 2009	for May 2009 data
Monday, July 20, 2009	for June 2009 data
Thursday, August 20, 2009	for July 2009 data
Monday, September 21, 2009	for August 2009 data
Thursday, October 22, 2009	for September 2009 data
Thursday, November 19, 2009	for October 2009 data
Thursday, December 17, 2009	for November 2009 data

All releases are at 10:00 AM ET.

About The Conference Board

For over 90 years, The Conference Board has created and disseminated knowledge about management and the marketplace to help businesses strengthen their performance and better serve society. The Conference Board operates as a global independent membership organization working in the public interest. It publishes information and analysis, makes economics-based forecasts and assesses trends, and facilitates learning by creating dynamic communities of interest that bring together senior executives from around the world. The Conference Board is a not-for-profit organization and holds 501(c)(3) tax-exempt status in the United States. For additional information about The Conference Board and how it can meet your needs, visit our website at www.conference-board.org.

AVAILABLE FROM THE CONFERENCE BOARD

U.S. Business Cycle Indicators Internet Subscription <i>(Includes monthly release, data, charts and commentary)</i>	\$635 per year (1 user)
Individual Data Series	\$35 per series downloaded
Monthly BCI Report <i>(Sample available at http://www.conference-board.org/publications/describeBCI.cfm)</i>	\$275 per year
BCI Handbook (published 2001)	\$20
Corporate Site License	contact Indicators Program at (212) 339-0330

Business Cycle Indicators for France, Germany, Japan, Korea, Mexico, Spain and the U.K. are available at \$635 per country per year (1 user). Discounts are available to Associates of The Conference Board and accredited academic institutions.

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Table 1.--Summary of U.S. Composite Economic Indexes

	2008							
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Leading index	102.1	r 101.4	r 100.6	r 100.6	r 99.6	r 99.2	99.5	p
Percent change	.1	r -7	-8	r .0	-1.0	r -4	.3	p
Diffusion index	45.0	45.0	30.0	40.0	20.0	20.0	50.0	
Coincident index	106.4	r 106.2	r 105.8	r 104.6	r 104.9	r 104.6	p 104.1	p
Percent change	-.1	r -2	-4	r -1.1	r .3	p -3	-5	p
Diffusion index	25.0	25.0	25.0	0.0	75.0	50.0	37.5	
Lagging index	111.7	r 112.5	113.0	r 113.6	113.7	p 113.7	p 113.3	p
Percent change	.0	r .7	r .4	r .5	p .1	p .0	-4	p
Diffusion index	64.3	92.9	50.0	64.3	14.3	42.9	7.1	
Coincident-lagging ratio	95.3	r 94.4	r 93.6	r 92.1	p 92.3	p 92.0	91.9	p
	Dec to	Jan to	Feb to	Mar to	Apr to	May to	Jun to	
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Leading index								
Percent change	-9	-1.1	-1.6	-1.4	-2.4	-2.7	-2.5	
Diffusion index	40.0	30.0	10.0	30.0	30.0	30.0	30.0	
Coincident index								
Percent change	-7	-7	-9	-2.0	-1.7	-1.8	-2.2	
Diffusion index	.0	.0	.0	.0	.0	25.0	25.0	
Lagging index								
Percent change	.5	1.1	1.0	1.3	1.5	1.8	1.4	
Diffusion index	42.9	85.7	57.1	57.1	42.9	57.1	57.1	

p Preliminary. r Revised (noted only for index levels and one-month percent changes). c Corrected.

CALCULATION NOTE: The diffusion indexes measure the proportion of the components that are rising. Components that rise more than 0.05 percent are given a value of 1.0, components that change less than 0.05 percent are given a value of 0.5, and components that fall more than 0.05 percent are given a value of 0.0.

The full history of composite and diffusion indexes is available by subscription on our web site at www.conference-board.org/economics/bci

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Table 2.--Data and Net Contributions for Components of the U.S. Leading Economic Index

Component	2008						
	Jun	Jul	Aug	Sep	Oct	Nov	Dec
U.S. Leading Economic Index component data							
Average workweek, production workers, mfg. (hours).....	41.0	41.0	40.9	40.5	40.4	40.3	39.9
Average weekly initial claims, state unemployment insurance (thousands)*.....	390.5	420.1	439.9	474.3	477.8	526.0	552.9
Manufacturers' new orders, consumer goods and materials (mil. 1982 dol.).....	136,032	134,878	129,914 r	127,676	125,047 r	123,668 r	123,903 **
Index of supplier deliveries -- vendor performance (percent).....	54.5 r	54.1 r	50.5 r	51.8 r	49.3 r	48.6 r	45.7 r
Manufacturers' new orders, nondefense capital goods (mil. 1982 dol.).....	47,001	48,375	44,433 r	43,765	40,723 r	40,085 r	40,238 **
Building permits (thous.).....	1,138	937	857	805	730	615 r	549
Stock prices, 500 common stocks (c) (index: 1941-43=10).....	1,341.25	1,257.33	1,281.47	1,217.01	968.80	883.04	877.56
Money supply, M2 (bil. chn. 2000 dol.).....	6,251.5 r	6,258.2 r	6,249.5 r	6,332.7 r	6,465.4 r	6,584.8 r	6,769.4 **
Interest rate spread, 10-year Treasury bonds less federal funds.....	2.10	2.00	1.89	1.88	2.84	3.14	2.26
Index of consumer expectations (c) (1966:1=100).....	49.2	53.5	57.9	67.2	57.0	53.9	54.0
LEADING INDEX (2004=100).....	102.1 r	101.4 r	100.6 r	100.6 r	99.6 r	99.2 r	99.5 p
Percent change from preceding month.....	0.1 r	-0.7	-0.8 r	0.0	-1.0 r	-0.4	0.3 p
U.S. Leading Economic Index net contributions							
Average workweek, production workers, mfg.....	....	.00	-.06	-.25	-.06 r	-.06 r	-.25
Average weekly initial claims, state unemployment insurance.....	....	-.22	-.14	-.23	-.02	-.29	-.15
Manufacturers' new orders, consumer goods and materials.....	....	-.07	-.29 r	-.13 r	-.16 r	-.09 r	.01 **
Index of supplier deliveries -- (vendor performance).....	....	-.03 r	-.24 r	.09 r	-.17 r	-.05	-.20
Manufacturers' new orders, nondefense capital goods.....	....	.05	-.15	-.03	-.13 r	-.03 r	.01 **
Building permits.....	....	-.52 r	-.24	-.17	-.26	-.46	-.31
Stock prices, 500 common stocks (c).....	....	-.25	.07	-.20	-.89	-.36	-.02
Money supply, M2.....	....	.04 r	-.05 r	.47 r	.74 r	.66 r	.99 **
Interest rate spread, 10-year Treasury bonds less federal funds.....	....	.20	.19	.19	.28 r	.31 r	.22
Index of consumer expectations (c).....	....	.12	.12	.26	-.29	-.09	.00

p Preliminary. r Revised. c Corrected.

* Inverted series; a negative change in this component makes a positive contribution to the index.

** Statistical Imputation (See page 3 for more details)

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CALCULATION NOTE--The percent change in the index does not always equal the sum of the net contributions of the individual components (because of rounding effects and base value differences).

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Table 3.—Data and Net Contributions for Components of the U.S. Coincident Economic Index and the U.S. Lagging Economic Index

Component	2008						
	Jun	Jul	Aug	Sep	Oct	Nov	Dec
U.S. Coincident Economic Index component data							
Employees on nonagricultural payrolls (thousands).....	137,617	137,550	137,423	137,020	136,597 r	136,013 r	135,489
Personal income less transfer payments (ann. rate, bil. chn. 2000 dol.).....	8,384.1	8,362.3 r	8,377.5 r	8,341.1 r	8,407.2 r	8,480.1 r	8,479.7 **
Industrial production (index: 2002=100).....	111.285	111.238 r	109.805 r	105.225 r	107.137 r	105.712 r	103.597
Manufacturing and trade sales (mil. chn. 2000 dol.).....	960,562	951,457 r	939,041 r	918,093 r	922,578 r	923,392 **	924,880 **
COINCIDENT INDEX (2004=100).....	106.4 r	106.2 r	105.8 r	104.6 r	104.9 r	104.6 p	104.1 p
Percent change from preceding month.....	-0.1 r	-0.2	-0.4	-1.1 r	0.3	-0.3 p	-0.5 p
U.S. Coincident Economic Index net contributions							
Employees on nonagricultural payrolls.....	...	-.03	-.05	-.16	-.17 r	-.23	-.21
Personal income less transfer payments.....	...	-.05 r	.03	-.08	.15 r	.16 r	.00 **
Industrial production.....	...	-.01 r	-.19 r	-.64 r	.27 r	-.20 r	-.30
Manufacturing and trade sales.....	...	-.11 r	-.16 r	-.27 r	.06	.01 **	.02 **
U.S. Lagging Economic Index component data							
Average duration of unemployment (weeks)*.....	17.6 r	17.3 r	17.6 r	18.7 r	19.8 r	18.9 r	19.7
Ratio, manufacturing and trade inventories to sales (chain 2000 dol.).....	1.325	1.341 r	1.356 r	1.383 r	1.375 r	1.376 **	1.375 **
Change in index of labor cost per unit of output, mfg. (6-month percent, ann. rate).....	2.7	3.7	4.3	11.40 r	11.2 **	10.2 **	9.3 **
Average prime rate charged by banks (percent).....	5.00	5.00	5.00	5.00	4.56	4.00	3.61
Commercial and industrial loans outstanding (mil. chn. 2000 dol.).....	775,153 r	776,772 r	793,780 r	795,793 r	830,274 r	838,987 r	836,375 **
Ratio, consumer installment credit out- standing to personal income (percent).....	21.04	21.27	21.16 r	21.21	21.17 r	21.14 r	21.15 **
Change in CPI for services (6-month percent, ann. rate).....	4.3	4.8	4.7	4.0	3.4	2.5	1.7
LAGGING INDEX (2004=100).....	111.7 r	112.5	113.0 r	113.6	113.7 p	113.7 p	113.3 p
Percent change from preceding month.....	.0 r	.7 r	.4	.5 r	.1 p	.0 p	-.4 p
U.S. Lagging Economic Index net contributions							
Average duration of unemployment.....	...	.06 r	-.06	-.22 r	-.21 r	.17	-.15
Ratio, manufacturing and trade inventories to sales.....	...	.15 r	.14 r	.24 r	-.07 r	.01 **	-.01 **
Change in index of labor cost per unit of output, mfg.....	...	.06	.04	.43 r	-.01 **	-.06 **	-.05 **
Average prime rate charged by banks.....	...	.00	.00	.00	-.12	-.16	-.11
Commercial and industrial loans outstanding.....	...	.02	.24	.03	.48 r	.12 r	-.04 **
Ratio, consumer installment credit out- standing to personal income.....	...	.20	-.10 r	.04	-.04 r	-.03 r	.01 **
Change in CPI for services.....	...	.10	-.02	-.14	-.12	-.18	-.16

CPI Consumer Price Index. For additional notes see table 2.

* Inverted series; a negative change in this component makes a positive contribution to the index.

** Statistical Imputation (See page 3 for more details)

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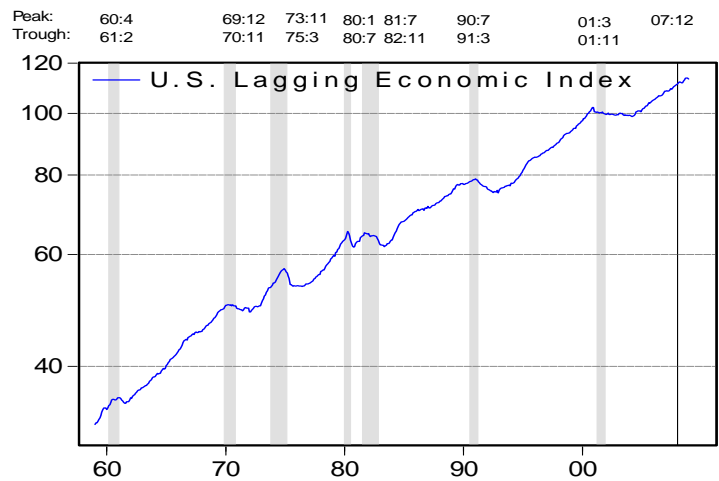
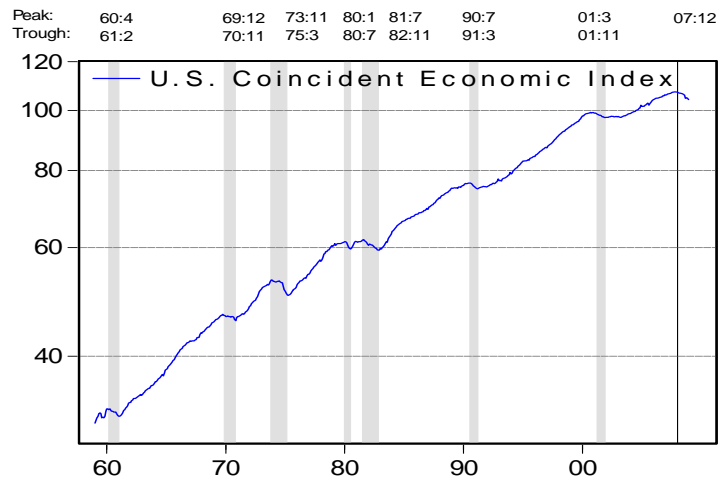
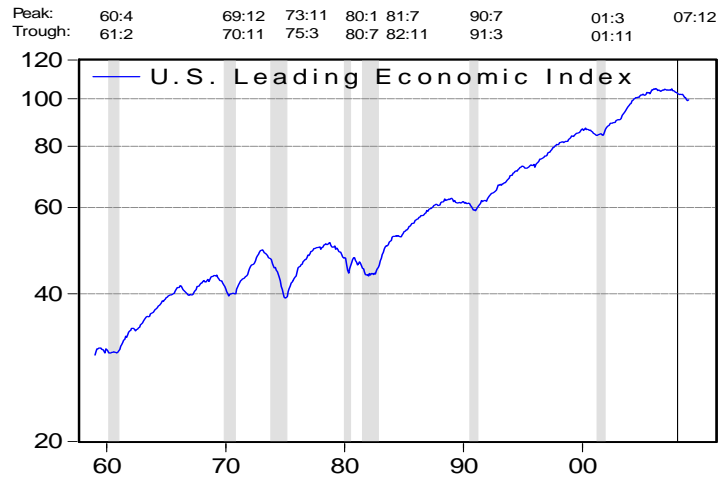
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U.S. Composite Economic Indexes (2004=100)



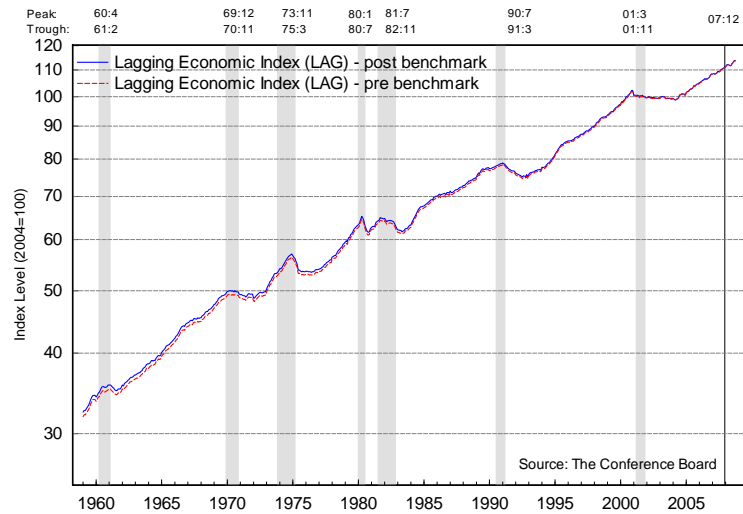
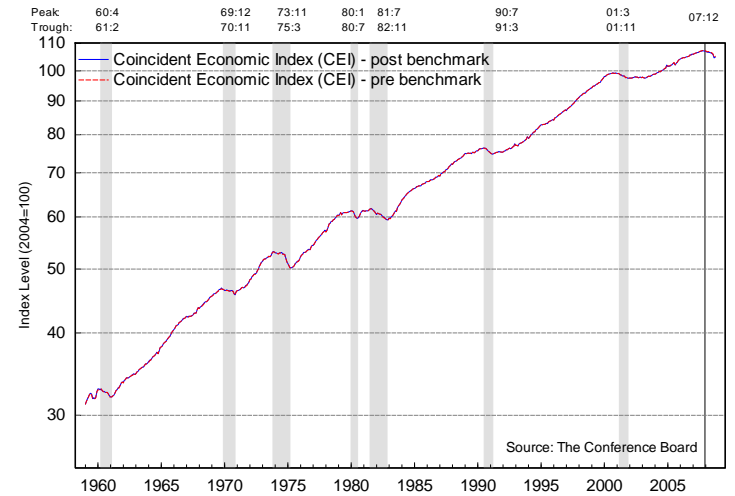
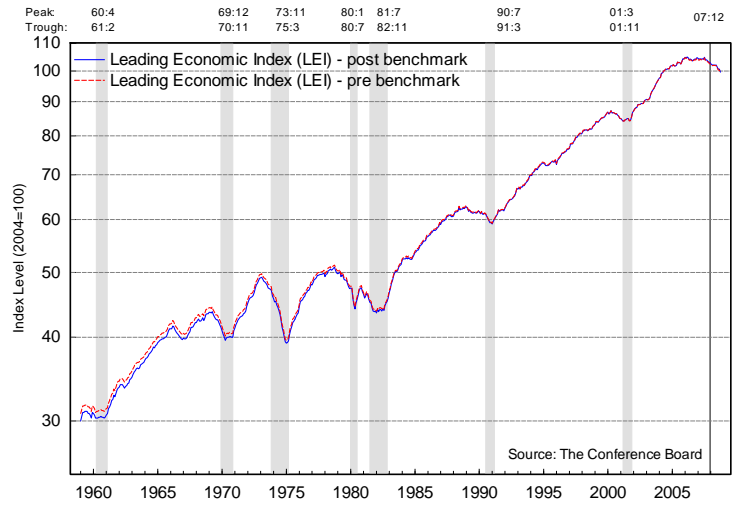
Shaded areas represent recessions.

Source: The Conference Board

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U.S. Composite Economic Indexes (2004=100)

Pre- and Post-Benchmark



Shaded areas represent recessions.

Source: The Conference Board