



THE CONFERENCE BOARD

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The Conference Board®
Japan Business Cycle IndicatorsSM

JAPAN LEADING ECONOMIC INDICATORS AND RELATED COMPOSITE INDEXES FOR OCTOBER 2008

Next month's release will incorporate annual benchmark revisions to the composite indexes, which bring them up-to-date with revisions in the source data. Also, the base year of the composite indexes will be changed to 2004=100 from 1990=100. 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 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 Conference Board reports today that the leading index for Japan decreased 2.5 percent and the coincident index decreased 0.5 percent in October.

- In October, the leading index experienced its largest monthly decline since 1975, due to substantial declines in stock prices, the six-month growth rate of labor productivity, index of overtime worked, Tankan business conditions index, new orders for machinery and construction, dwelling starts, and (inverted) business failures. With October's large decline, the six-month growth rate for the leading index fell to -5.8 percent (about a -11.2 percent annual rate) from April to October 2008, down from the 2.1 percent decline (a -4.2 percent annual rate) during the previous six-month period. Moreover, during the last six months, the weaknesses among the leading indicators have been very widespread.
- The coincident index, a measure of current economic activity, declined for the fifth time in six months in October, with industrial production making the largest negative contribution. Between April and October, the coincident index fell by 2.6 percent (a -5.1 percent annual rate), well below the 0.6 percent decline (about a -1.3 percent annual rate) for the period between October 2007 and April 2008. The weaknesses among the coincident indicators continued to be very widespread, as all four components declined in the last six months. At the same time, real GDP continued its downtrend through the third quarter of 2008 – it declined at a 0.4 percent annual rate, following a 3.7 percent contraction in the second quarter of the year. This is the first time since the second half of 2001 that real GDP has declined in consecutive quarters.
- The leading index has been falling for more than a year now, and its rate of decline has picked up in recent months. Following the leading index, the coincident index has also been on a downward trend since late 2007. In addition, the weaknesses in both composite indexes have been very widespread during this period. All in all, the accelerating and widespread deterioration in the leading and coincident indexes suggests that economic weakness is likely to continue, and that the contraction in economic activity may deepen in 2009.

LEADING INDICATORS. Two of the ten components that make up the leading index increased in October. The positive contributors to the index – in order from the larger positive contributor to the smaller – include interest rate spread and real operating profits*. The negative contributors – in order from the largest negative contributor to the smallest – include stock prices, the six month growth rate of labor productivity, the index of overtime worked, the Tankan business conditions survey, the new orders for machinery and construction component*, the (inverted) business failures*, dwelling units started, and real money supply.

With the decrease of 2.5 percent in October, the leading index now stands at 78.3 (1990=100). Based on revised data, this index decreased 1.1 percent in September and decreased 0.7 percent in August. During the six-month span through October, the index decreased 5.8 percent, and two of the ten components advanced (diffusion index, six-month span equals 20.0 percent).

COINCIDENT INDICATORS. Only one of the four components that make up the coincident index increased in October. The positive contributor to the index was number of employed persons. Industrial production, wage and salary income*, and the retail, wholesale, and manufacturing sales* component all declined in October.

With the decrease of 0.5 percent in October, the coincident index now stands at 105.6 (1990=100). Based on revised data, this index remained unchanged in September and decreased 0.7 percent in August. During the six-month span through October, the index decreased 2.6 percent, and none of the four components advanced (diffusion index, six-month span equals 0.0 percent).

The next release of the Japan Composite Indexes is scheduled for Thursday, January 8, 2009 at 8:00 P.M. (ET) <i>In Japan--- January 9, 2009 at 10:00 A.M. (JST)</i>
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FOR TABLES AND CHARTS, SEE BELOW

DATA AVAILABILITY AND NOTES. The data series used to compute the two composite indexes reported in this release are those available “as of” 5:00 P.M. ET December 8, 2008. Some series are estimated as noted below.

* The series in the leading index that are based on The Conference Board estimates are real operating profits and new orders for machinery. The series in the coincident index that are based on The Conference Board estimates are real manufacturing sales and wage and salary income.

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THE CYCLICAL INDICATOR APPROACH. The composite indexes are the key elements in an analytic system designed to signal peaks and troughs in the business cycle. The leading and coincident indexes are essentially composite averages of several individual leading or coincident indicators. (See page 3 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 index have occurred before those in aggregate economic activity, while the cyclical turning points in the coincident index have occurred at about the same time as those in aggregate economic activity.

Further explanations of the cyclical indicator approach and the composite index methodology appear in The Conference Board’s *Business Cycle Indicators* report and Web site: <http://www.conference-board.org/economics/bci>.

Japan Composite Indexes: Components and Standardization Factors

<u>Leading Index</u>	<u>Factor</u>
1 Operating Profits	0.0724
2 Dwelling Units Started	0.0633
3 Business Failures	0.0584
4 Index of Overtime Worked	0.1013
5 Stock Prices (TOPIX)	0.0442
6 Six Month Growth Rate of Labor Productivity	0.1008
7 Tankan Business Conditions Survey	0.0813
8 Money Supply	0.2878
9 Yield Spread	0.1525
10 New Orders for Machinery and Construction	0.0380
 <u>Coincident Index</u>	
1 Number of Employed Persons	0.4990
2 Industrial Production	0.1090
3 Wage and Salary Income	0.2240
4 Real Retail, Wholesale, and Manufacturing Sales	0.1680

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. These factors were last revised effective with the November 2006 release, and all historical values for the two composite indexes were revised at that time to reflect the changes. (Under normal circumstances, updates to the leading and coincident indexes only incorporate revisions to data over the past six months.)

The factors above for the leading index were calculated using the September 1974 to December 2005 period as the sample period for measuring volatility. Separate sets of factors for the September 1974 to December 2005 period, the March 1974 to August 1974 period, the February 1973 to February 1974 period, and February 1965 to January 1973 period, are available upon request. The factors above for the coincident index were calculated using the August 1978 to December 2005 period as the sample period. Separate sets of factors for the August 1978 to December 2005 period, the February 1970 to July 1978 period, and the February 1965 to January 1970 period are available upon request. These multiple sample periods are the result of different starting dates for the component data. When one or more components is missing, the other factors are adjusted proportionately to ensure that the total continues to sum to 1. For additional information on the standardization factors and the index methodology visit our Web site: <http://www.conference-board.org/economics/bci>.

To address the problem of lags in available data, those leading and coincident indicators that are not available at the time of publication are estimated using statistical imputation. An autoregressive model is used to estimate each component. The resulting indexes are constructed using real and estimated data, and will be revised as the data unavailable at 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 index the data such as bond yields and stock prices that are available sooner than other data on real aspects of the economy such as sales and operating profits. Empirical research by The Conference Board suggests there are real gains in adopting this procedure to make all the indicator series as up-to-date as possible.

NOTICES

The 2009 schedule for “Japan Leading Economic Indicators” news releases is:

November 2008 Data ... Thursday, January 08, 2009
December 2008 Data ... Thursday, February 05, 2009
January 2009 Data ... Thursday, March 05, 2009
February 2009 Data ... Tuesday, April 07, 2009
March 2009 Data ... Thursday, May 07, 2009
April 2009 Data ... Thursday, June 11, 2009
May 2009 Data ... Thursday, July 09, 2009
June 2009 Data ... Thursday, August 06, 2009
July 2009 Data ... Thursday, September 10, 2009
August 2009 Data ... Thursday, October 08, 2009
September 2009 Data ... Tuesday, November 10, 2009
October 2009 Data ... Tuesday, December 08, 2009

All releases are at 10:00 A.M. JST (following day), 8:00 P.M. ET

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Japan 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 the U.S., France, Germany, Spain, Japan, Korea, Mexico, 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.

The Conference Board Japan Business Cycle Indicators

Table 1.--Summary of Japan Composites Indexes

	Apr	May	2008 Jun	Jul	Aug	Sep	Oct
Leading index	83.1	82.8	82.0	81.8 p	81.2 p	80.3 p	78.3 p
Percent change	-0.1	-0.4	-1.0	-0.2 p	-0.7 p	-1.1 p	-2.5 p
Diffusion index	45.0	50.0	35.0	30.0	40.0	35.0	15.0
Coincident index	108.4	108.2	107.2 r	106.8 r	106.1 r	106.1 p	105.6 p
Percent change	0.4	-0.2	-0.9 r	-0.4 r	-0.7 r	0.0 p	-0.5 p
Diffusion index	75.0	25.0	0.0	25.0	37.5	50.0	25.0
	Oct to Apr	Nov to May	Dec to Jun	Jan to Jul	Feb to Aug	Mar to Sep	Apr to Oct
Leading index							
Percent change	-2.1	-2.5	-2.7	-2.4 p	-2.6 p	-3.5 p	-5.8 p
Diffusion index	35.0	45.0	30.0	30.0	30.0	30.0	20.0
Coincident index							
Percent change	-0.6	-1.0	-1.7 r	-1.9 r	-2.6 r	-1.8 p	-2.6 p
Diffusion index	50.0	25.0	0.0	0.0	0.0	0.0	0.0

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

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.

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The Conference Board Japan Business Cycle Indicators

Table 2.--Data and Net Contributions for Components of the Japan Leading Index

Component	2008						
	Apr.	May.	Jun.	Jul.	Aug.	Sep.	Oct.
Japan Leading Index Component Data							
Real Operating Profits, (Bill. 1990 Yen, S.A., Q).....	14337.49 r	14828.47 r	15147.40 r	15352.83 **	15483.39 **	15564.58 **	15613.21 **
Dwelling Units Started, (Tens, S.A.) (3 mo. moving avg.).....	8829.43	9090.83	9655.43	9631.50	9834.87	9710.03	9540.40
Business Failures, (Number, S.A.)* (3 mo. moving avg.).....	444.93 r	471.19 r	468.11 r	478.02 r	468.96 r	483.93 r	493.49
Index of Overtime Worked, Mfg. (2000=100, S.A.)	101.1	101.9	100.5	100.3	97.5	97.2 r	94.5
Stock Price Index, (Jan. 4, 1968=100).....	1358.65	1408.14	1320.10	1303.62	1254.71	1087.41	867.12
Six Month Growth Rate of Labor Productivity Mfg. (3 mo. moving avg., pct.).....	-2.23	-3.19	-3.16	-1.95	-4.80	-5.76 r	-9.09
Tankan Business Conditions, All Enterprises, All Industries (Balance +/-, Q).....	-5.3	-7.0	-8.7	-10.3	-12.0	-14.3	-16.7
Real Money Supply, M2 + CD Money, (10 Bill. 2005 Yen, S.A.).....	72126.46	71955.11	71797.90	71334.62	71706.23	71787.86	71729.06
Yield Spread, 10 year minus 3 months.....	0.74	0.90	0.76	0.68	0.57	0.61	0.62
New Orders for Machinery and Construction, (3 mo. moving avg., 100 Mill. 1995 Yen, S.A.).....	23650	22383	18517	19725	19448	20058	19102 **
LEADING INDEX (1990=100).....	83.1	82.8	82.0	81.8 p	81.2 p	80.3 p	78.3 p
Percent change from preceding month.....	-0.1	-0.4	-1.0	-0.2 p	-0.7 p	-1.1 p	-2.5 p
Japan Leading Index Net Contributions							
Real Operating Profits, (Bill. 1990 Yen, S.A., Q).....	....	0.24 r	0.15 r	0.10 **	0.06 **	0.04 **	0.02 **
Dwelling Units Started, (Tens, S.A.) (3 mo. moving avg.).....	....	0.18	0.38	-0.02	0.13	-0.08	-0.11
Business Failures, (Number, S.A.)* (3 mo. moving avg.).....	....	-0.33 r	0.04 r	-0.12 r	0.11 r	-0.18 r	-0.11
Index of Overtime Worked, Mfg. (2000=100, S.A.)	....	0.08	-0.14	-0.02	-0.29	-0.03 r	-0.29
Stock Price Index, (Jan. 4, 1968=100).....	....	0.16	-0.29	-0.06	-0.17	-0.63	-1.00
Six Month Growth Rate of Labor Productivity Mfg. (3 mo. moving avg., pct.).....	....	-0.10	0.00	0.12	-0.29	-0.10 r	-0.34
Tankan Business Conditions, All Enterprises, All Industries (Balance +/-, Q).....	....	-0.14	-0.14	-0.13	-0.14	-0.19 r	-0.20
Real Money Supply, M2 + CD Money, (10 Bill. 2005 Yen, S.A.).....	....	-0.07	-0.06	-0.19	0.15 r	0.03 r	-0.02
Yield Spread, 10 year minus 3 months.....	....	0.14	0.12	0.10	0.09	0.09	0.09
New Orders for Machinery and Construction, (3 mo. moving avg., 100 Mill. 1995 Yen, S.A.).....	....	-0.21	-0.72	0.24	-0.05	0.12 r	-0.19 **

p Preliminary. r Revised. n.a. Not available. c Corrected. -- * Inverted series; a negative change in this component makes a positive contribution.

** Statistical Imputation (See page 2 for more details) -- Q: Quarterly series; these series are converted to monthly through a linear interpolation

Data Sources: Economic and Social Research Institute - Cabinet Office, M.E.T.I. Japan, Management and Coordination Agency, Ministry of Finance

Datastream, Ministry of Labor, Japan Securities Dealers Association

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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The Conference Board Japan Business Cycle Indicators

Table 3.--Data and Net Contributions for Japan Coincident Index

Component	2008						
	Apr.	May.	Jun.	Jul.	Aug.	Sep.	Oct.
Japan Coincident Index Component Data							
Number of Employed Persons, (Thousands of persons, S.A.).....	64190	64000	63870	63590	63590	63480	63550
Industrial Production, (2005=100, S.A.).....	106.3	109.3	106.9	108.3	104.5	105.6 r	102.3
Wage and Salary Income, (2005=100, S.A.).....	103.0	102.0	99.9	99.1	99.5	99.8 r	99.4
Real Retail, Wholesale, and Manuf. Sales (Billions of 2005 Yen, S.A.).....	160135.3 r	159075.6 r	157564.5 r	156997.6 #	153382.6 #	152327.2 #	152099.5 #
COINCIDENT INDEX (1990=100).....	108.4	108.2	107.2 r	106.8 p	106.1 p	106.1 p	105.6 p
Percent change from preceding month....	0.4	-0.2	-0.9 r	-0.4 p	-0.7 p	0.0 p	-0.5 p
Japan Coincident Index Net Contributions							
Number of Employed Persons, (Thousands of persons, S.A.).....	....	-0.15 r	-0.10	-0.22 r	0.00	-0.09 r	0.05
Industrial Production, (2005=100, S.A.).....	....	0.30	-0.24	0.14	-0.39	0.11 r	-0.34
Wage and Salary Income, (2005=100, S.A.).....	....	-0.22	-0.47	-0.18	0.09	0.07 r	-0.09
Real Retail, Wholesale, and Manuf. Sales (Billions of 2005 Yen, S.A.).....	....	-0.11	-0.16 r	-0.06 r	-0.39 r	-0.12 r	-0.03

One of the sales components: manufacturing sales, is a quarterly series and converted to monthly through a linear interpolation
And missing months are estimated by The Conference Board

** Statistical Imputation (See page 2 for more details)

Data Sources: Economic and Social Research Institute, M.E.T.I. Japan, Management & Coordination Agency, Ministry of Finance, Ministry of Labor
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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Japan

