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# The Conference Board® U.S. Business Cycle Indicators<sup>SM</sup> **U.S. LEADING ECONOMIC INDICATORS** **AND RELATED COMPOSITE INDEXES FOR DECEMBER 2007**

Effective February 1, 2008, a technical database error that affected two components of the LEI has been corrected. The two components are 1) manufacturers' new orders for consumer goods and materials and 2) manufacturers' new orders for nondefense capital goods. The monthly change reported for December 2007 on the January 18, 2008 release, the latest available observation for the LEI, remains the same. The historical cyclical behavior of the leading index was not affected by either the database error or its correction, but the level of the index for July to December 2007 is slightly lower. The website and database have been updated with the corrected values. This document reports corrected values for all components and index values that were affected.

The Conference Board announced today that the U.S. leading index decreased 0.2 percent, the coincident index increased 0.1 percent and the lagging index increased 0.4 percent in December.

- The leading index decreased again in December, the third consecutive decline, and it has been down in four of the last six months. Housing permits made the largest negative contribution to the index. Average working hours in manufacturing also made a large negative contribution to the index this month, followed by smaller declines in manufacturers' new orders for nondefense capital goods\*, initial claims for unemployment insurance (inverted), the index of consumer expectations, and interest rate spread. With this month's decline, the leading index is down 1.2 percent (a decline of 2.5 percent annual rate) from June to December, and it is 1.8 percent below its December 2006 level. While the strengths and weaknesses among its components were roughly balanced throughout most of 2007, weaknesses have become more widespread in the last two months.
- The coincident index increased modestly again in December, and all the components except for the industrial production index made small positive contributions this month. The coincident index increased 0.7 percent (a 1.5 percent annual rate) from June to December and the strengths among the coincident indicators remained very widespread. The coincident index, an index of current economic activity, has continued to increase on a steady upward trend, but its growth has been slowing in the fourth quarter. The lagging index increased again in December, and the ratio of coincident to lagging indexes declined again.
- The leading index has weakened sharply since mid-2007, with widespread weakness among its components in the last two months, and it has returned to the level attained in mid-2005. However, despite the spreading weakness, the index has declined only 1.9 percent (-1.0 percent at an annual rate) from its highest level in January 2006, compared to a decrease of about 3.0 percent (-2.6 percent at an annual rate) between its previous peak in January 2000 and March 2001. In addition, real GDP grew at an average annual rate of 3.1 percent through the third quarter of 2007 (including a 4.9 percent annual rate growth in the third quarter). Taken together, the recent behavior of the composite indexes highlights increasing risks for further economic weakness, and suggest that economic activity is likely to be sluggish in the near term.

The next release is scheduled for February 21, Thursday at 10 A.M. ET.

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

The leading index now stands at 135.9 (1996=100). Based on revised data, this index decreased 0.5 percent in November and decreased 0.5 percent in October. During the six-month span through December, the leading index decreased 1.2 percent, with two out of ten components advancing (diffusion index, six-month span equals 20 percent).

**COINCIDENT INDICATORS.** Three of the four indicators that make up the coincident index increased in December. The positive contributors to the index – beginning with the largest positive contributor – were personal income less transfer payments\*, manufacturing and trade sales\*, and employees on nonagricultural payrolls. The negative contributor was industrial production.

The coincident index now stands at 125.2 (1996=100). This index increased 0.1 percent in November and remained unchanged in October. During the six-month period through December, the coincident index increased 0.7 percent.

**LAGGING INDICATORS.** The lagging index stands at 130.6 (1996=100) in December, with five of the seven components advancing. The positive contributors to the index – beginning with the largest positive contributor – were average duration of unemployment (inverted), commercial and industrial loans outstanding\*, change in labor cost per unit of output\*, change in CPI for services, and ratio of consumer installment credit to personal income\*. The negative contributor was the average prime rate charged by banks. The ratio of manufacturing and trade inventories to sales\*\* held steady in December. Based on revised data, the lagging index increased 0.2 percent in November and increased 0.2 percent in October.

#### **DATA AVAILABILITY AND NOTES.**

The data series used by The Conference Board to compute the three composite indexes and reported in the tables in this release are those available “as of” 12 Noon on January 17, 2008. Some series are estimated as noted below.

\* Series in the leading 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 index that are based on The Conference Board estimates are personal income less transfer payments and manufacturing and trade sales. Series in the lagging 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 Indicators.

Effective with the September 18, 2003 release, the method for calculating manufacturers’ new orders for consumer goods and materials (A0M008) and manufacturers’ new orders for nondefense capital goods (A0M027) has been revised. Both series are now constructed by deflating nominal aggregate new orders data instead of aggregating deflated industry level new orders data. Both the new and the old methods utilize appropriate producer price indices. This simplification remedies several issues raised by the recent conversion of industry data to the North American Classification System (NAICS), as well as several other issues, e.g. the treatment of semiconductor orders. While this simplification caused a slight shift in the levels of both new orders series, the growth rates were essentially the same. As a result, this simplification had no significant effect on the leading index.

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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, coincident, and lagging indexes are essentially composite averages of between four and ten individual leading, coincident, or lagging 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. The cyclical turning points in the lagging index generally have occurred after those in aggregate economic activity.

U.S. Composite Indexes: Components and Standardization Factors

<u>Leading Index</u>	<u>Factor</u>
1 Average weekly hours, manufacturing	0.2565
2 Average weekly initial claims for unemployment insurance	0.0310
3 Manufacturers' new orders, consumer goods and materials	0.0763
4 Vendor performance, slower deliveries diffusion index	0.0672
5 Manufacturers' new orders, nondefense capital goods	0.0186
6 Building permits, new private housing units	0.0270
7 Stock prices, 500 common stocks	0.0384
8 Money supply, M2	0.3530
9 Interest rate spread, 10-year Treasury bonds less federal funds	0.1037
10 Index of consumer expectations	0.0283
<u>Coincident Index</u>	
1 Employees on nonagricultural payrolls	0.5411
2 Personal income less transfer payments	0.1908
3 Industrial production	0.1491
4 Manufacturing and trade sales	0.1190
<u>Lagging Index</u>	
1 Average duration of unemployment	0.0374
2 Inventories to sales ratio, manufacturing and trade	0.1235
3 Labor cost per unit of output, manufacturing	0.0624
4 Average prime rate	0.2808
5 Commercial and industrial loans	0.1113
6 Consumer installment credit to personal income ratio	0.1891
7 Consumer price index for services	0.1955

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 2007, 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 indexes only incorporate revisions to data over the past six months.) The factors for the leading index were calculated using 1984-2005 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 indexes was 1959-2005. 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](http://www.conference-board.org/economics/bci).

The trend adjustment factor for the leading index is -0.0188, and the trend adjustment factor for the lagging index is 0.1714.

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 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.

**NOTE ON BENCHMARK REVISIONS:**

The Conference Board will announce its regular annual benchmark revisions to the U.S. LEADING ECONOMIC INDICATORS AND RELATED COMPOSITE INDEXES at the end of March 2008. In the past, these benchmark revisions were completed in January. However, because a number of underlying data series – such as industrial production and employment – will be revised in early 2008 by the source agencies, a later annual benchmark for the LEI and related composite indexes will allow for the incorporation of more up-to-date component data. These annual benchmark revisions to the composite indexes bring them up-to-date with revisions in the source data, and usually do not change the cyclical properties of the indexes. The indexes are updated every month, but only for the previous six months. Data revisions that fall outside of the moving six-month window are not incorporated until the annual benchmark revisions when the histories of the indexes are recomputed.

For more information please visit our website at <http://www.conference-board.org/economics/bci/> or contact us by email or phone at [indicators@conference-board.org](mailto:indicators@conference-board.org) or 212-339-0330.

**U.S. Leading Economic Indicators news release schedule for 2008:**

Thursday February 21, 2008	for January 2008 data
Thursday, March 20, 2008	for February 2008 data
Thursday, April 17, 2008	for March 2008 data
Monday, May 19, 2008	for April 2008 data
Thursday, June 19, 2008	for May 2008 data
Monday, July 21, 2008	for June 2008 data
Thursday, August 21, 2008	for July 2008 data
Thursday, September 18, 2008	for August 2008 data
Monday, October 20, 2008	for September 2008 data
Thursday, November 20, 2008	for October 2008 data
Thursday, December 18, 2008	for November 2008 data

All releases are at 10:00 AM ET.

**ABOUT THE CONFERENCE BOARD.** The Conference Board is the premier business membership and research network founded in 1916. It has become a global leader in helping executives build strong professional relationships, expand their business knowledge and find solutions to a wide range of business challenges. Its Economics Program, under the direction of Chief Economist Gail Fosler, is a recognized source of forecasts, analysis and objective indicators such as Leading Economic Indicators and Consumer Confidence.

This role is part of a long tradition of research and education that stretches back to the compilation of the first continuous measure of the cost of living in the United States in 1919. In 1995, The Conference Board assumed responsibility for computing the composite indexes from the U.S. Department of Commerce. The Conference Board now produces business cycle indexes for the U.S., Australia, France, Germany, Korea, Japan, Mexico, Spain and the U.K. To subscribe to any of these indexes, please visit [www.conference-board.org/economics/bci](http://www.conference-board.org/economics/bci) or contact the customer service department at 212-339-0345 or email [indicators@conference-board.org](mailto:indicators@conference-board.org).

**AVAILABLE FROM THE CONFERENCE BOARD**

U.S. Business Cycle Indicators Internet Subscription	\$ 575 per year (1 user)
<i>(Includes monthly release, data, charts and commentary)</i>	
Individual Data Series	\$ 30 per series downloaded
Monthly BCI Report	\$ 250 per year
<i>(Sample available on request)</i>	
BCI Handbook (published 2001)	\$ 20
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Business Cycle Indicators for Australia, France, Germany, Japan, Korea, Mexico, Spain and the UK are available at \$575 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 Composites Indexes**

	2007									
	Jun	Jul	Aug	Sep	Oct	Nov	Dec			
Leading index	137.6	138.6 c	137.4 c	137.6 c	136.9 c	136.2 c	135.9 c,p			
Percent change	-.2	.7 c	-.9 c	.1 c	-.5 c	-.5 c	-.2 p			
Diffusion index	25.0	70.0 c	20.0 c	60.0	25.0 c	30.0	40.0			
Coincident index	124.3	124.7	124.9	125.0	125.0 r	125.1 p	125.2 p			
Percent change	.2	.3	.2	.1 r	.0 r	.1 p	.1 p			
Diffusion index	75.0	100.0	75.0	75.0	50.0	87.5	75.0			
Lagging index	128.8	128.5	129.0	129.6 r	129.8 p	130.1 p	130.6 p			
Percent change	.5	-.2	.4	.5 r	.2 p	.2 p	.4 p			
Diffusion index	57.1	28.6	64.3	57.1	42.9	71.4	71.4			
Coincident-lagging ratio	96.5	97.0	96.8	96.5	96.3 p	96.2 p	95.9 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	-.6	.5 c	.2 c	-.2 c	-.5 c	-1.2 c	-1.2 c			
Diffusion index	50.0	50.0	50.0 c	60.0 c	50.0	30.0	20.0 c			
Coincident index										
Percent change	.7	1.1	1.1	1.0	.8	.8	.7			
Diffusion index	100.0	100.0	100.0	100.0	100.0	100.0	100.0			
Lagging index										
Percent change	.9	.5	.6	1.3	1.6	1.6	1.4			
Diffusion index	21.4	21.4	35.7	42.9	35.7	28.6	42.9			

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](http://www.conference-board.org/economics/bci)

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

Component	2007						
	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Leading index component data							
Average workweek, production workers, mfg. (hours).....	41.4	41.3	41.4	41.3	41.2	41.3 r	41.1
Average weekly initial claims, state unemployment insurance (thousands)*.....	319.6	306.0	324.9	313.1	327.5	340.4	343.3
Manufacturers' new orders, consumer goods and materials (mil. 1982 dol.).....	142,582 c	146,086 c	144,405 c	141,880 c	142,978 c	141,053 c	141,395 c**
Vendor performance--slower deliveries diffusion index (percent).....	49.7	52.0	50.0	51.9	50.6	51.7	53.3
Manufacturers' new orders, nondefense capital goods (mil. 1982 dol.).....	51,800 c	54,152 c	47,643 c	50,023 c	48,779 c	50,636 c	49,759 c**
Building permits (thous.).....	1,413	1,389	1,322	1,261	1,170	1,162 r	1,068
Stock prices, 500 common stocks (c) (index: 1941-43=10).....	1,514.49	1,520.70	1,454.62	1,497.12	1,539.66	1,463.39	1,479.23
Money supply, M2 (bil. chn. 2000 dol.).....	6,162.7 r	6,176.6 r	6,232.5 r	6,242.1 r	6,243.3 r	6,232.3 r	6,244.3 **
Interest rate spread, 10-year Treasury bonds less federal funds.....	-0.15	-0.26	-0.35	-0.42	-0.23	-0.34	-0.14
Index of consumer expectations (c) (1966:1=100).....	74.7	81.5	73.7	74.1	70.1	66.2	65.6
LEADING INDEX (1996=100).....	137.6	138.6 c	137.4 c	137.6 c	136.9 c	136.2 c	135.9 c,p
Percent change from preceding month.....	-0.2	0.7 c	-0.9 c	0.1 c	-0.5 c	-0.5 c	-0.2 p
Leading index net contributions							
Average workweek, production workers, mfg.....	....	-.06	.06	-.06	-.06	.06 r	-.12
Average weekly initial claims, state unemployment insurance.....	....	.13	-.19	.11	-.14	-.12	-.03
Manufacturers' new orders, consumer goods and materials.....	....	.19 c	-.09 c	-.13 c	.06 c	-.10 c	.02 c**
Vendor performance--slower deliveries diffusion index.....	....	.15	-.13	.13	-.09	.07	.11
Manufacturers' new orders, nondefense capital goods.....	....	.08 c	-.24 c	.09 c	-.05 c	.07 c	-.03 c**
Building permits.....	....	-.05	-.13	-.13	-.20	-.02 r	-.23
Stock prices, 500 common stocks (c)	....	.02	-.17	.11	.11	-.20	.04
Money supply, M2.....	....	.08 r	.32 r	.05	.01 r	-.06 r	.07 **
Interest rate spread, 10-year Treasury bonds less federal funds.....	....	-.03	-.04	-.04	-.02	-.04	-.01
Index of consumer expectations (c)	....	.19	-.22	.01	-.11	-.11	-.02

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 Coincident and Lagging Indexes**

Component	2007						
	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Coincident index component data</b>							
Employees on nonagricultural payrolls (thousands).....	137,973	138,066	138,159	138,203	138,362 r	138,477 r	138,495
Personal income less transfer payments (ann. rate, bil. chn. 2000 dol.).....	8,441.7	8,477.9 r	8,513.5 r	8,534.6 r	8,520.5 r	8,516.3 r	8,541.6 **
Industrial production (index: 2002=100).....	113.503	114.239	114.104	114.207 r	113.671 r	114.018 r	113.967
Manufacturing and trade sales (mil. chn. 2000 dol.).....	964,686	973,244 r	977,926 r	977,810 r	984,382 r	985,494 **	987,831 **
COINCIDENT INDEX (1996=100).....	124.3	124.7	124.9	125.0	125.0 r	125.1 p	125.2 p
Percent change from preceding month.....	0.2	0.3	0.2	0.1 r	0.0 r	0.1 p	0.1 p
<b>Coincident index net contributions</b>							
Employees on nonagricultural payrolls.....	....	.04	.04	.02	.06 r	.04 r	.01
Personal income less transfer payments....	....	.08 r	.08 r	.05	-.03 r	-.01 r	.06 **
Industrial production.....	....	.10	-.02	.01 r	-.07	.05 r	-.01
Manufacturing and trade sales.....	....	.11	.06 r	.00 r	.08	.01 **	.03 **
<b>Lagging index component data</b>							
Average duration of unemployment (weeks)*.....	16.8	17.3	16.9	16.6	17.0	17.2	16.6
Ratio, manufacturing and trade inventories to sales (chain 2000 dol.).....	1.323	1.315 r	1.310	1.313 r	1.303 r	1.305 **	1.305 **
Change in index of labor cost per unit of output, mfg. (6-month percent, ann. rate).....	.6	-3.0	-2.6	-3.00 r	-2.6 r	-2.1 **	-1.7 **
Average prime rate charged by banks (percent).....	8.25	8.25	8.25 r	8.03 r	7.74 r	7.50 r	7.33
Commercial and industrial loans outstanding (mil. chn. 2000 dol.).....	718,242 r	725,966 r	737,309 r	753,251 r	770,983 r	773,214 r	777,019 **
Ratio, consumer installment credit out- standing to personal income (percent).....	21.01	21.01 r	21.09 r	21.04 r	21.01 r	21.07 r	21.08 **
Change in CPI for services (6-month percent, ann. rate).....	3.4	3.2 r	2.7	2.9	3.0	3.2	3.3
LAGGING INDEX (1996=100).....	128.8	128.5	129.0	129.6 r	129.8 p	130.1 p	130.6 p
Percent change from preceding month.....	.5	-.2	.4	.5 r	.2 p	.2 p	.4 p
<b>Lagging index net contributions</b>							
Average duration of unemployment.....	....	-.11	.09	.07	-.09	-.04	.13
Ratio, manufacturing and trade inventories to sales.....	....	-.07 r	-.05 r	.03 r	-.09 r	.02 **	.00 **
Change in index of labor cost per unit of output, mfg.....	....	-.22	.02	-.02 r	.02 r	.03 r	.02 **
Average prime rate charged by banks.....	....	.00	.00	-.06	-.08	-.07	-.05
Commercial and industrial loans outstanding.....	....	.12	.17 r	.24 r	.26	.03	.05 **
Ratio, consumer installment credit out- standing to personal income.....	....	.00 r	.07	-.04	-.03 r	.05 r	.01 **
Change in CPI for services.....	....	-.04	-.10	.04	.02	.04	.02

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

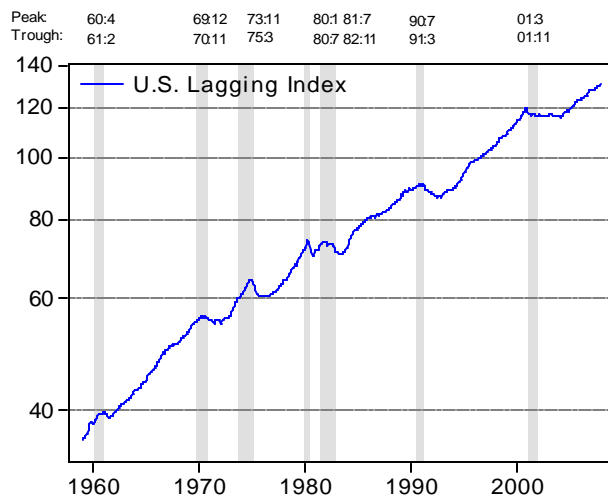
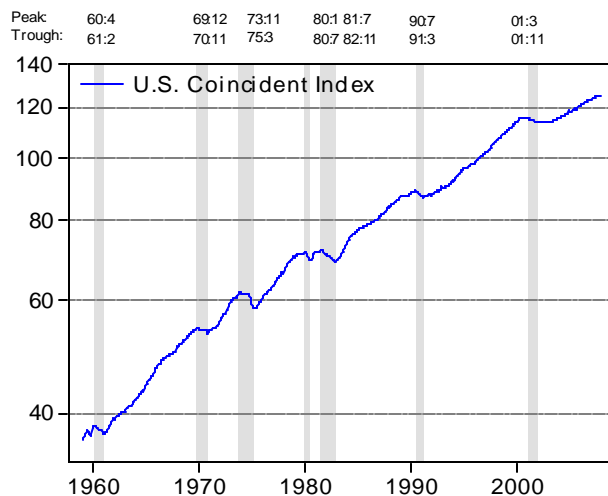
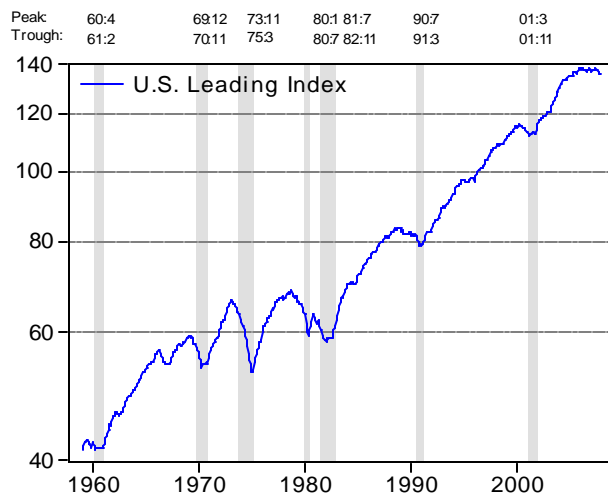
\* Inverted series; a negative change in this component makes a positive contribution to the index.

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



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## U.S. Composite Indexes (1996=100)



Shaded areas represent recessions.

Source: The Conference Board