



**THE CONFERENCE BOARD**

Brussels    Copenhagen    Frankfurt    Hong Kong    London    Mexico City    New Delhi    Ottawa  
New York    Chicago    San Francisco    Washington

**FOR RELEASE: 10:00 A.M. ET, THURSDAY, JUNE 22, 2006**

The Conference Board® U.S. Business Cycle Indicators<sup>SM</sup>  
**U.S. LEADING ECONOMIC INDICATORS**  
**AND RELATED COMPOSITE INDEXES FOR MAY 2006**

The Conference Board announced today that the U.S. leading index decreased 0.6 percent, the coincident index increased 0.1 percent and the lagging index increased 0.2 percent in May.

- The leading index decreased sharply in May, the third decline in the last six months. The largest negative contributors to the leading index in May were initial claims for unemployment insurance (inverted) and the index of consumer expectations. From November to May, the leading index fell by 0.2 percent and declining housing permits made the largest negative contribution over this period. In addition, the strengths and weaknesses among the leading indicators have gradually become more balanced in recent months.
- The coincident index, a measure of current economic activity, continued to increase steadily as it has since September 2005. The six month growth rate of the coincident index is now fluctuating within a range of 2.5 to 3.5 percent annual rate in recent months, up from an average growth of about 2.0 percent in the fourth quarter of 2005. From November to May, the coincident index grew 1.2 percent (a 2.5 percent annual rate) and all four components contributed about equally to this growth.
- After a pick up at the end of 2005 and beginning of 2006, the leading index has fallen slightly below its level at the end of 2005. Correspondingly, economic activity and real GDP growth (a 5.3 percent annual rate) picked up in the first quarter of 2006. But, the current behavior of the leading index so far suggests the rapid pace of economic activity in the first quarter is unlikely to be sustained and economic growth should continue, but at a slow to moderate rate in the near term.

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

The leading index now stands at 137.9 (1996=100). Based on revised data, this index decreased 0.1 percent in April and increased 0.4 percent in March. During the six-month span through May, the leading index decreased 0.2 percent, with five out of ten components advancing (diffusion index, six-month span equals fifty percent).

The next release is scheduled for July 20, Thursday at 10 A.M. ET.

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

The coincident index now stands at 122.7 (1996=100). This index increased 0.2 percent in both April and March. During the six-month period through May, the coincident index increased 1.2 percent.

LAGGING INDICATORS. The lagging index now stands at 123.0 (1996=100) in May, with five of the seven components advancing. The positive contributors to the index – beginning with the largest positive contributor – were commercial and industrial loans outstanding\*, average prime rate charged by banks, change in labor cost per unit of output\*, ratio of manufacturing and trade inventories to sales\*, and ratio of consumer installment credit to personal income\*. The negative contributors – beginning with the largest negative contributor – were average duration of unemployment (inverted) and change in CPI for services. Based on revised data, the lagging index increased 0.2 percent in both April and March.

#### 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 June 21, 2006. 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.

Effective with the January 22, 2004 release a programming error in the calculation of the leading index -- in place since January 2002 -- has been corrected. The cyclical behavior of the leading index was not affected by either the calculation error or its correction, but the level of the index in the 1959-1996 period is slightly higher.

###

#### Professional Contacts at The Conference Board:

Ken Goldstein: 212-339-0331  
Indicators Program: 212-339-0330

#### Media Contacts:

Randy Poe: 212-339-0234  
Frank Tortorici: 212-339-0231

Email: [indicators@conference-board.org](mailto:indicators@conference-board.org)  
Website: [www.conference-board.org/economics/bci](http://www.conference-board.org/economics/bci)

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	0.2542
2 Average weekly initial claims for unemployment insurance	0.0333
3 Manufacturers' new orders, consumer goods and materials	0.0753
4 Vendor performance, slower deliveries diffusion index	0.0698
5 Manufacturers' new orders, nondefense capital goods	0.0186
6 Building permits, new private housing units	0.0266
7 Stock prices, 500 common stocks	0.0377
8 Money supply, M2	0.3535
9 Interest rate spread, 10-year Treasury bonds less federal funds	0.1019
10 Index of consumer expectations	0.0291
 <u>Coincident Index</u>	
1 Employees on nonagricultural payrolls	0.5293
2 Personal income less transfer payments	0.2077
3 Industrial production	0.1469
4 Manufacturing and trade sales	0.1161
 <u>Lagging Index</u>	
1 Average duration of unemployment	0.0373
2 Inventories to sales ratio, manufacturing and trade	0.1221
3 Labor cost per unit of output, manufacturing	0.0623
4 Average prime rate	0.2777
5 Commercial and industrial loans	0.1137
6 Consumer installment credit to personal income ratio	0.1931
7 Consumer price index for services	0.1937

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 2006, 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 1984-2004 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 1959-2004. 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 -0.0164, and the trend adjustment factor for the lagging index is 0.1744.

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.

**U.S. Leading Economic Indicators news release schedule for 2006:**

Thursday, July 20.....for June 2006 data  
 Thursday, August 17.....for July 2006 data  
 Thursday, September 21.....for August 2006 data  
 Thursday, October 19.....for September 2006 data  
 Monday, November 20.....for October 2006 data  
 Thursday, December 21.....for November 2006 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 <i>(Includes monthly release, data, charts and commentary)</i>	\$ 535 per year (1 user)
Individual Data Series	\$ 25 per series downloaded
Monthly BCI Report <i>(Sample available on request)</i>	\$ 235 per year
Monthly News Release (fax or email)	\$ 55 per year
BCI Handbook (published 2001)	\$ 20
Corporate Site License	contact Indicators Program at (212) 339-0330

Business Cycle Indicators for Australia, France, Germany, Japan, Korea, Mexico, Spain and the UK are available at \$535 per country per year (1 user). Discounts are available to Associates of The Conference Board and accredited academic institutions.

THESE DATA ARE FOR NEWS ANALYSIS PURPOSES ONLY. NOT FOR  
REDISTRIBUTION OR PUBLIC POSTING WITHOUT EXPRESS PERMISSION.

**Table 1.--Summary of Composites Indexes**

	2005		Jan	Feb	2006		
	Nov	Dec			Mar	Apr	May
Leading index	138.2	138.5 r	139.1	138.4 r	138.9 r	138.7 r	137.9 p
Percent change	.9	.2 r	.4	-.5 r	.4	-.1	-.6 p
Diffusion index	70.0	65.0	80.0	40.0	70.0	40.0	30.0
Coincident index	121.2	121.6 r	121.9 r	122.1	122.3	122.6 p	122.7 p
Percent change	.6	.3 r	.2 r	.2	.2	.2 p	.1 p
Diffusion index	100.0	100.0	62.5	75.0	100.0	100.0	75.0
Lagging index	122.0	121.8 r	122.2 r	122.2 r	122.4	122.7 r	123.0 p
Percent change	.2	-.2 r	.3	.0	.2 r	.2 r	.2 p
Diffusion index	57.1	35.7	57.1	50.0	50.0	78.6	64.3
Coincident-lagging ratio	99.3	99.8	99.8 r	99.9 r	99.9	99.9 p	99.8 p
	May to	Jun to	Jul to	Aug to	Sep to	Oct to	Nov to
	Nov	Dec	Jan	Feb	Mar	Apr	May
Leading index							
Percent change	1.9	1.0	1.6	1.0	2.3	1.3	-.2
Diffusion index	80.0	60.0	80.0	70.0	75.0	70.0	50.0
Coincident index							
Percent change	1.2	1.2	1.2	2.2	1.8	1.7	1.2
Diffusion index	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Lagging index							
Percent change	1.5	1.2	1.3	.9	1.2	.7	.8
Diffusion index	57.1	42.9	57.1	57.1	57.1	42.9	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)

**THESE DATA ARE FOR NEWS ANALYSIS PURPOSES ONLY. NOT FOR  
REDISTRIBUTION OR PUBLIC POSTING WITHOUT EXPRESS PERMISSION.**

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

Component	2005			2006			
	Nov	Dec	Jan	Feb	Mar	Apr	May
Leading index component data							
Average work week, production workers, mfg. (hours).....	40.8	40.8	40.9	41.0	41.1	41.2 r	41.1 p
Average weekly initial claims, state unemployment insurance (thousands)*.	315.6	310.4	286.3	306.0	308.9	314.8 r	333.5
Manufacturers' new orders, consumer goods and materials (mil. 1982 dol.).....	143,552 r	144,132 r	144,831 r	142,615 r	144,754 r	143,059 r	143,393 **
Vendor performance--slower deliveries diffusion index (percent).....	56.9	52.9	55.3	52.2	53.1	57.7	57.6
Manufacturers' new orders, nondefense capital goods (mil. 1982 dol.).....	55,472 r	55,149 r	45,159 r	47,213 r	52,627 r	49,399 r	50,436 **
Building permits (thous.).....	2,191 r	2,107 r	2,195 r	2,147 r	2,085 r	1,973 r	1,932
Stock prices, 500 common stocks (c) (index: 1941-43=10).....	1,237.37	1,262.07	1,278.72	1,276.65	1,293.74	1,302.18	1,290.00
Money supply, M2 (bil. chn. 2000 dol.)....	5,910.2	5,935.6	5,963.0 r	5,979.9 r	5,972.6 r	5,962.0 r	5,938.0 **
Interest rate spread, 10-year Treasury bonds less federal funds.....	0.54	0.31	0.13	0.08	0.13	0.20	0.17
Index of consumer expectations (c) (1966:1=100).....	69.6	80.2	78.9	74.5	76.0	73.4	68.2
LEADING INDEX (1996=100).....	138.2	138.5 r	139.1	138.4 r	138.9 r	138.7 r	137.9 p
Percent change from preceding month..	0.9	0.2 r	0.4	-0.5 r	0.4	-0.1	-0.6 p
Leading index net contributions							
Average work week, production workers, mfg.....	....	.00	.06	.06	.06	.06	-.06
Average weekly initial claims, state unemployment insurance.....	....	.06	.27	-.22	-.03	-.06	-.19
Manufacturers' new orders, consumer goods and materials.....	....	.03	.04	-.12	.11	-.09	.02 **
Vendor performance--slower deliveries diffusion index.....	....	-.28	.17	-.22	.06	.32	-.01
Manufacturers' new orders, nondefense capital goods.....	....	-.01	-.37	.08	.20	-.12	.04 **
Building permits.....	....	-.10	.11	-.06	-.08	-.15	-.06
Stock prices, 500 common stocks (c)	....	.07	.05	-.01	.05	.02	-.04
Money supply, M2.....	....	.15	.16	.10	-.04	-.06	-.14 **
Interest rate spread, 10-year Treasury bonds less federal funds.....	....	.03	.01	.01	.01	.02	.02
Index of consumer expectations (c)	....	.31	-.04	-.13	.04	-.08	-.15

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)

(c) Copyrighted. Series from private sources are provided through the courtesy of the compilers and are subject to their copyrights: Stock prices, Standard & Poor's Corporation; Index of consumer expectations, University of Michigan's Survey Research Center.

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).

THESE DATA ARE FOR NEWS ANALYSIS PURPOSES ONLY. NOT FOR  
REDISTRIBUTION OR PUBLIC POSTING WITHOUT EXPRESS PERMISSION.

**Table 3.--Data and Net Contributions for Components of the Coincident and Lagging Indexes**

Component	2005		2006				
	Nov	Dec	Jan	Feb	Mar	Apr	May
Coincident index component data							
Employees on nonagricultural payrolls (thousands).....	134,231	134,376	134,530	134,730	134,905 r	135,031 r	135,106
Personal income less transfer payments (ann. rate, bil. chn. 2000 dol.).....	7,903.5 r	7,945.0 r	7,943.8 r	7,967.8 r	7,972.9 r	7,985.6 r	8,002.7 **
Industrial production (index: 2002=100).....	109.388	110.428	110.349	110.735 r	111.339 r	112.192 r	112.099
Manufacturing and trade sales (mil. chn. 2000 dol.).....	958,151	965,048	975,775 r	973,560 r	977,666 r	979,706 **	982,187 **
COINCIDENT INDEX (1996=100).....	121.2	121.6 r	121.9 r	122.1	122.3	122.6 p	122.7 p
Percent change from preceding month.....	0.6	0.3 r	0.2 r	0.2	0.2	0.2 p	0.1 p
Coincident index net contributions							
Employees on nonagricultural payrolls.....	....	.06	.06	.08	.07	.05	.03
Personal income less transfer payments.....	....	.11	.00	.06	.01	.03	.04 **
Industrial production.....	....	.14	-.01	.05	.08	.11	-.01
Manufacturing and trade sales.....	....	.08	.13	-.03	.05	.02 **	.03 **
Lagging index component data							
Average duration of unemployment (weeks)*.....	17.6	17.3	16.8	17.6	16.9	16.8	17.1
Ratio, manufacturing and trade inventories to sales (chain 2000 dol.).....	1.293	1.286	1.272 r	1.274 r	1.276	1.277 **	1.278 **
Change in index of labor cost per unit of output, mfg. (6-month percent, ann. rate)....	-2.8 r	-3.1 r	-5.1 r	-3.90 r	-5.6 r	-5.1 **	-4.4 **
Average prime rate charged by banks (percent).....	7.00	7.15	7.26	7.50	7.53	7.75	7.93
Commercial and industrial loans outstanding (mil. chn. 2000 dol.).....	587,487 r	571,180 r	583,786 r	580,956 r	582,631 r	591,656 r	596,064 **
Ratio, consumer installment credit out- standing to personal income (percent).....	20.55 r	20.49 r	20.42 r	20.38 r	20.30 r	20.29 r	20.30 **
Change in CPI for services (6-month percent, ann. rate).....	4.7	4.7	4.9	4.9	4.5	3.4	3.2
LAGGING INDEX (1996=100).....	122.0	121.8 r	122.2 r	122.2 r	122.4 p	122.7 p	123.0 p
Percent change from preceding month.....	.2	-.2 r	.3	.0	.2 p	.2 p	.2 p
Lagging index net contributions							
Average duration of unemployment.....	....	.06	.11	-.17	.15	.02	-.07
Ratio, manufacturing and trade inventories to sales.....	....	-.07	-.13	.02	.02	.01 **	.01 **
Change in index of labor cost per unit of output, mfg.....	....	-.02	-.12	.07 r	-.11 r	.03 **	.04 **
Average prime rate charged by banks.....	....	.04	.03	.07	.01	.06	.05
Commercial and industrial loans outstanding.....	....	-.32	.25	-.06	.03	.17	.08 **
Ratio, consumer installment credit out- standing to personal income.....	....	-.06	-.07	-.04	-.08	-.01	.01 **
Change in CPI for services.....	....	.00	.04	.00	-.08	-.21	-.04

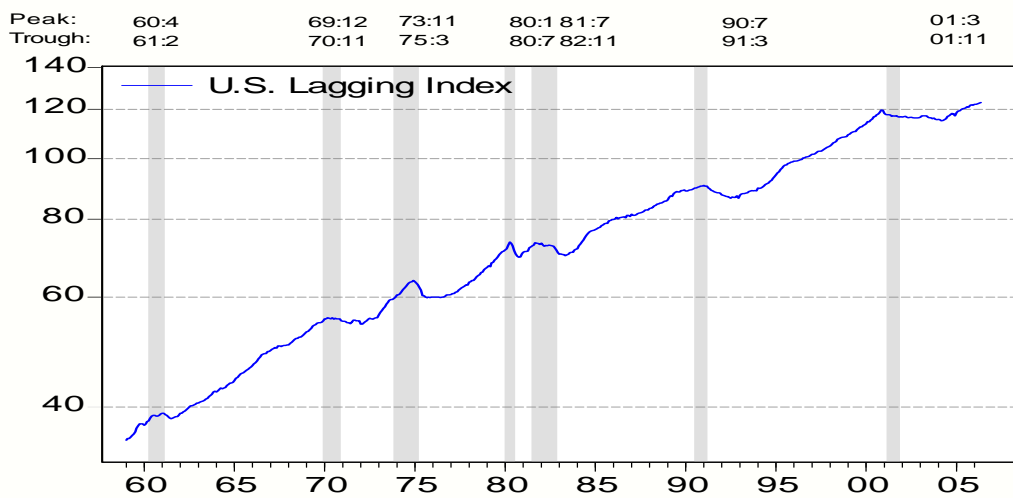
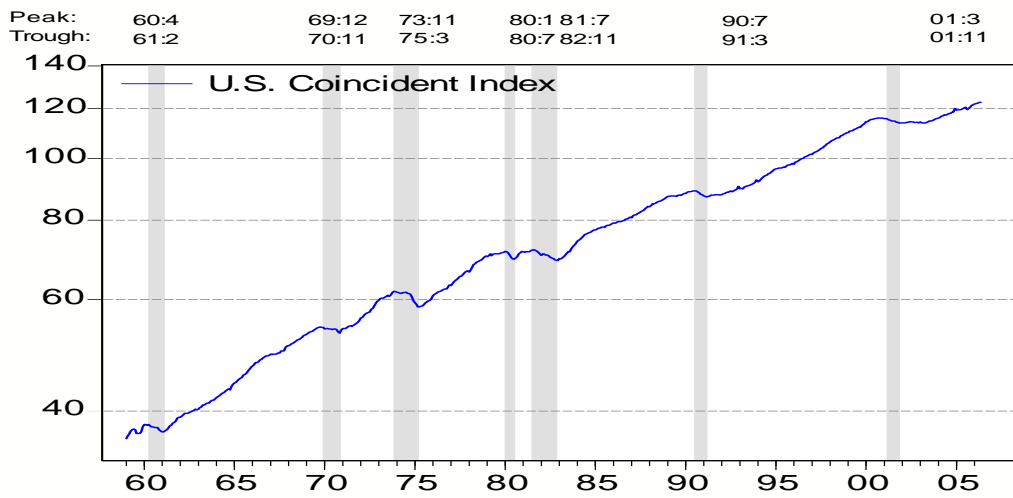
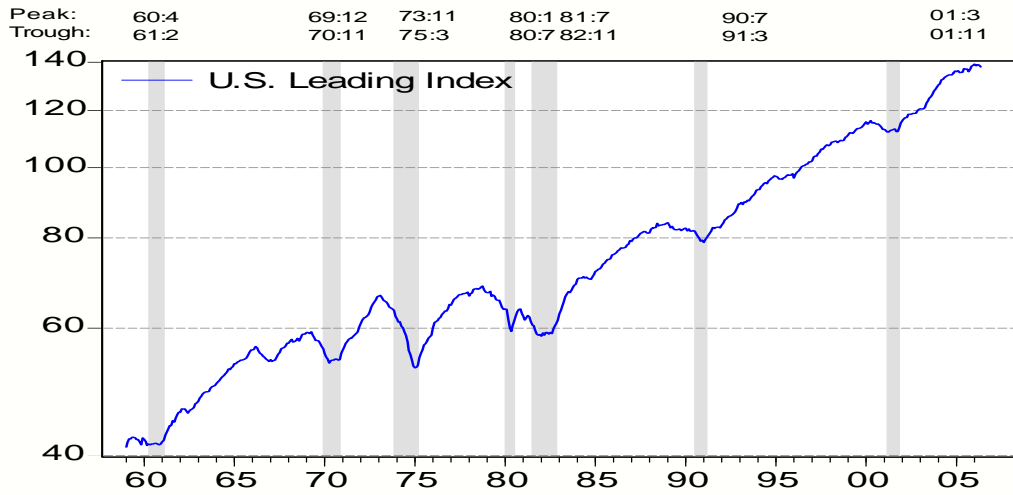
CPI Consumer Price Index. For additional notes see table 2.

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

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

THESE DATA ARE FOR NEWS ANALYSIS PURPOSES ONLY. NOT FOR REDISTRIBUTION OR PUBLIC POSTING WITHOUT EXPRESS PERMISSION.

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



Shaded areas represent recessions.

Source: The Conference Board