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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 MAY 2007**

The Conference Board announced today that the U.S. leading index increased 0.3 percent, the coincident index increased 0.2 percent and the lagging index increased 0.2 percent in May.

- The May increase in the leading index reverses its April decline. And April's large decrease was revised up slightly due to data revisions in housing permits and manufacturers' new orders components. The leading index grew 0.3 percent from November to May (a 0.6 percent annual rate). In May, unemployment insurance claims (inverted) and stock prices made the largest positive contributions, followed by housing permits.
- The coincident index increased again in May. From November to May, the coincident index rose by 0.8 percent (a 1.6 percent annual rate). In May, employment made the largest contribution to the index. The coincident index grew at an average annual rate of about 2.5 percent in 2006, but in recent months, its growth has been fluctuating in the 1.5 to 2.0 percent range (annual rate).
- Following an essentially flat period in the second half of 2006, the leading index picked up somewhat in December, but this was followed by two consecutive declines. The leading index is still at the same level as in January 2007, and it is 0.3 percent above its May 2006 level. At the same time, real GDP grew only at a 0.6 percent annual rate in the first quarter of 2007, following a 2.5 percent rate in the fourth quarter of 2006. The recent performance of the leading index has been mixed with increases offsetting decreases and the number of components rising roughly equaling the number falling. The current behavior of the composite indexes suggests that economic growth is likely to continue, albeit at a slow pace, in the near term.

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

The leading index now stands at 138 (1996=100). Based on revised data, this index decreased 0.3 percent in April and increased 0.6 percent in March. During the six-month span through May, the leading index increased 0.3 percent, with four out of ten components advancing (diffusion index, six-month span equals forty five percent).

**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 employees on nonagricultural payrolls, personal income less transfer payments\*, and manufacturing and trade sales\*. The negative contributor was industrial production.

The coincident index now stands at 124 (1996=100). This index increased 0.1 percent in April and increased 0.2 percent in March. During the six-month period through May, the coincident index increased 0.8 percent.

The next release is scheduled for Thursday, July 19<sup>th</sup> at 10 A.M. ET.

LAGGING INDICATORS. The lagging index stands at 128.6 (1996=100) in May, with three of the seven components advancing. The positive contributors to the index – beginning with the largest positive contributor – were commercial and industrial loans outstanding\*, average duration of unemployment (inverted) and ratio of consumer installment credit to personal income\*. The negative contributors – beginning with the largest negative contributor – were change in CPI for services and change in labor cost per unit of output\*. The ratio of manufacturing and trade inventories to sales\* and average prime rate charged by banks\* held steady in May. Based on revised data, the lagging index increased 0.2 percent in April and decreased 0.1 percent in 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 20, 2007. 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.

**U.S. Leading Economic Indicators news release schedule for 2007:**

Monday, August 20, 2007	for July 2007 data
Thursday, September 20, 2007	for August 2007 data
Thursday, October 18, 2007	for September 2007 data
Wednesday, November 21, 2007	for October 2007 data
Thursday, December 20, 2007	for November 2007 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>	\$ 575 per year (1 user)
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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**

	2006		2007							
	Nov	Dec	Jan	Feb	Mar	Apr	May			
Leading index	137.6	138.4	138.0	137.2	138.0	137.6	r	138.0	p	
Percent change	.0	.6	-.3	-.6	.6	-.3	r	.3	p	
Diffusion index	40.0	75.0	40.0	30.0	70.0	30.0		55.0		
Coincident index	123.0	123.4	123.3	123.5	123.7	r	123.8	p	124.0	p
Percent change	.0	.3	-.1	.2	.2	r	.1	p	.2	p
Diffusion index	50.0	100.0	37.5	75.0	75.0		100.0		87.5	
Lagging index	126.7	127.7	127.8	r	128.2	r	128.1	p	128.3	p
Percent change	.7	.8	.1	r	.3	r	-.1	p	.2	p
Diffusion index	92.9	64.3	42.9		64.3		35.7		50.0	
Coincident-lagging ratio	97.1	r	96.6	r	96.5	r	96.3	r	96.6	r
	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	.0	.4	.4	.1	.3	.0	.3			
Diffusion index	50.0	40.0	40.0	40.0	40.0	30.0	45.0			
Coincident index										
Percent change	1.0	1.1	.9	.8	.9	.7	.8			
Diffusion index	75.0	100.0	75.0	62.5	100.0	100.0	100.0			
Lagging index										
Percent change	1.7	1.9	2.3	2.6	2.2	2.0	1.6			
Diffusion index	85.7	85.7	78.6	78.6	35.7	50.0	50.0			

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	2006		2007				
	Nov	Dec	Jan	Feb	Mar	Apr	May
Leading index component data							
Average workweek, production workers, mfg. (hours).....	41.0	41.0	40.9	40.9	41.2	41.1	41.0
Average weekly initial claims, state unemployment insurance (thousands)*.	327.4	320.0	310.3	338.2	316.3	328.9	307.6
Manufacturers' new orders, consumer goods and materials (mil. 1982 dol.).....	143,845 r	145,845 r	143,109 r	141,555 r	141,998 r	142,883 r	142,823 **
Vendor performance--slower deliveries diffusion index (percent).....	52.8	53.3	52.7	50.8	51.3	50.2	50.3
Manufacturers' new orders, nondefense capital goods (mil. 1982 dol.).....	48,889 r	52,394 r	43,712 r	46,143 r	52,565 r	52,466 r	52,349 **
Building permits (thous.).....	1,527	1,628	1,566	1,541	1,569	1,457 r	1,501
Stock prices, 500 common stocks (c) (index: 1941-43=10).....	1,388.63	1,416.42	1,424.16	1,444.79	1,406.95	1,463.65	1,511.15
Money supply, M2 (bil. chn. 2000 dol.).....	6,079.6	6,098.8	6,138.8 r	6,139.1 r	6,160.1 r	6,183.7 r	6,172.2 **
Interest rate spread, 10-year Treasury bonds less federal funds.....	-0.65	-0.68	-0.49	-0.54	-0.70	-0.56	-0.50
Index of consumer expectations (c) (1966:1=100).....	83.2	81.2	87.6	81.5	78.7	75.9	77.6
LEADING INDEX (1996=100).....	137.6	138.4	138.0	137.2	138.0	137.6 r	138.0 p
Percent change from preceding month..	0.0	0.6	-0.3	-0.6	0.6	-0.3 r	0.3 p
Leading index net contributions							
Average workweek, production workers, mfg.....	....	.00	-.06	.00	.19	-.06	-.06
Average weekly initial claims, state unemployment insurance.....	....	.07	.10	-.27	.21	-.12	.21
Manufacturers' new orders, consumer goods and materials.....	....	.11	-.14	-.08	.02	.05	.00 **
Vendor performance--slower deliveries diffusion index.....	....	.03	-.04	-.13	.03	-.07	.01
Manufacturers' new orders, nondefense capital goods.....	....	.13	-.34	.10	.24	.00	.00 **
Building permits.....	....	.17	-.10	-.04	.05	-.20	.08
Stock prices, 500 common stocks (c)	....	.08	.02	.06	-.10	.15	.12
Money supply, M2.....	....	.11	.23	.00	.12	.13	-.07 **
Interest rate spread, 10-year Treasury bonds less federal funds.....	....	-.07	-.05	-.06	-.07	-.06	-.05
Index of consumer expectations (c)	....	-.06	.18	-.17	-.08	-.08	.05

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	2006		2007				
	Nov	Dec	Jan	Feb	Mar	Apr	May
----- Coincident index component data -----							
Employees on nonagricultural payrolls (thousands).....	136,941	137,167	137,329	137,419	137,594	r 137,674	r 137,831
Personal income less transfer payments (ann. rate, bil. chn. 2000 dol.).....	8,284.6	r 8,294.3	r 8,272.4	r 8,290.3	r 8,316.1	r 8,323.5	r 8,344.2 **
Industrial production (index: 2002=100).....	111.529	112.230	111.683	112.532	r 112.242	r 112.731	r 112.689
Manufacturing and trade sales (mil. chn. 2000 dol.).....	949,150	954,317	954,006	r 949,823	r 955,326	r 956,473	** 958,594 **
COINCIDENT INDEX (1996=100).....	123.0	123.4	123.3	123.5	123.7	r 123.8	p 124.0 p
Percent change from preceding month.....	0.0	0.3	-0.1	0.2	0.2	r 0.1	p 0.2 p
----- Coincident index net contributions -----							
Employees on nonagricultural payrolls.....	....	.09	.06	.04	.07	.03	.06
Personal income less transfer payments.....	....	.02	-.05	.04	.06	.02	.05 **
Industrial production.....	....	.09	-.07	.11	-.04	.06	-.01
Manufacturing and trade sales.....	....	.06	.00	-.05	.07	.01 **	.03 **
----- Lagging index component data -----							
Average duration of unemployment (weeks)*.....	16.3	15.9	16.2	16.4	17.3	17.1	16.7
Ratio, manufacturing and trade inventories to sales (chain 2000 dol.).....	1.328	1.324	1.322	1.330	r 1.318	r 1.320	** 1.320 **
Change in index of labor cost per unit of output, mfg. (6-month percent, ann. rate).....	2.0	r 2.9	r 5.4	r 6.90	7.1	6.6	6.0 **
Average prime rate charged by banks (percent).....	8.25	8.25	8.25	8.25	8.25	8.25	8.25
Commercial and industrial loans outstanding (mil. chn. 2000 dol.).....	616,540	r 644,741	r 635,547	r 637,491	r 645,555	r 641,869	r 647,538 **
Ratio, consumer installment credit out- standing to personal income (percent).....	21.49	r 21.41	r 21.45	r 21.36	r 21.32	r 21.27	r 21.28 **
Change in CPI for services (6-month percent, ann. rate).....	3.3	3.5	3.5	3.7	3.4	3.7	3.5
LAGGING INDEX (1996=100).....	126.7	127.7	127.8	r 128.2	r 128.1	p 128.3	p 128.6 p
Percent change from preceding month.....	.7	.8	.1	r .3	r -.1	p .2	p .2 p
----- Lagging index net contributions -----							
Average duration of unemployment.....	....	.09	-.07	-.05	-.20	.04	.09
Ratio, manufacturing and trade inventories to sales.....	....	-.04	-.02	.07	-.11	.02 **	.00 **
Change in index of labor cost per unit of output, mfg.....	....	.06	.16	.09	.01	-.03	-.04 **
Average prime rate charged by banks.....	....	.00	.00	.00	.00	.00	.00
Commercial and industrial loans outstanding.....	....	.50	-.16	.03	.14	-.06	.10 **
Ratio, consumer installment credit out- standing to personal income.....	....	-.07	.04	-.08	-.04	-.04	.01 **
Change in CPI for services.....	....	.04	.00	.04	-.06	.06	-.04

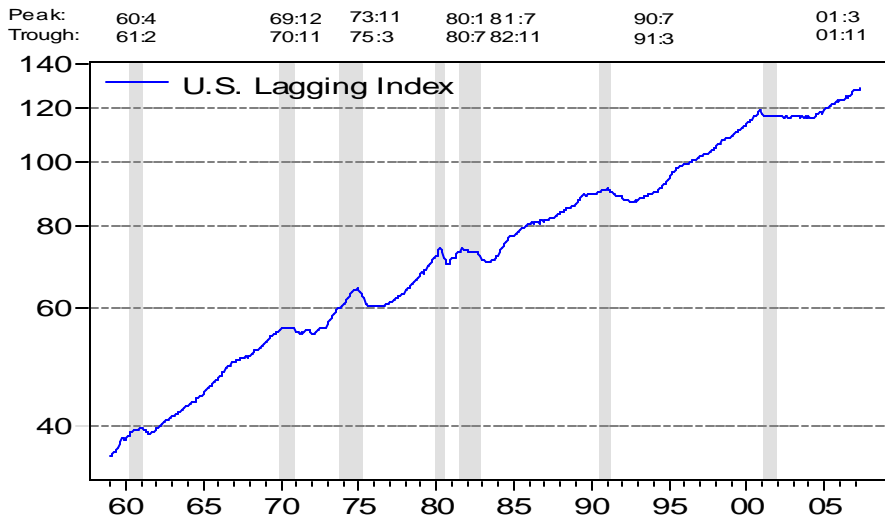
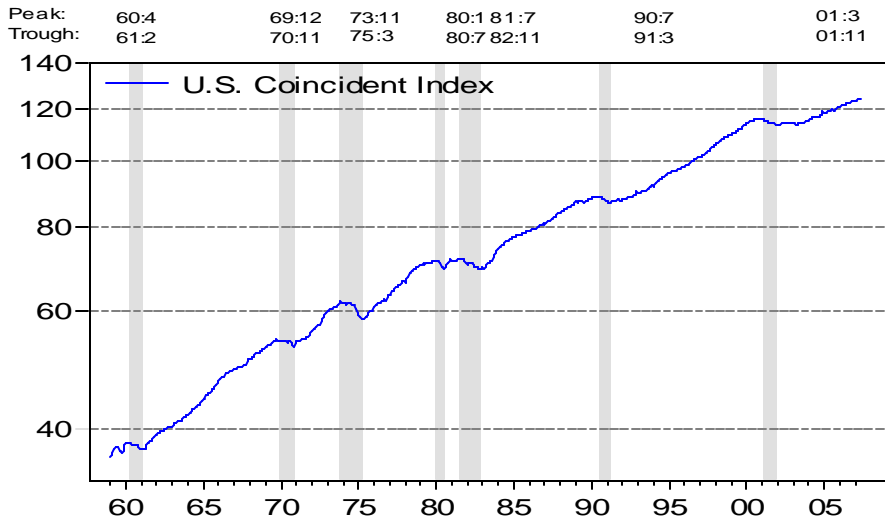
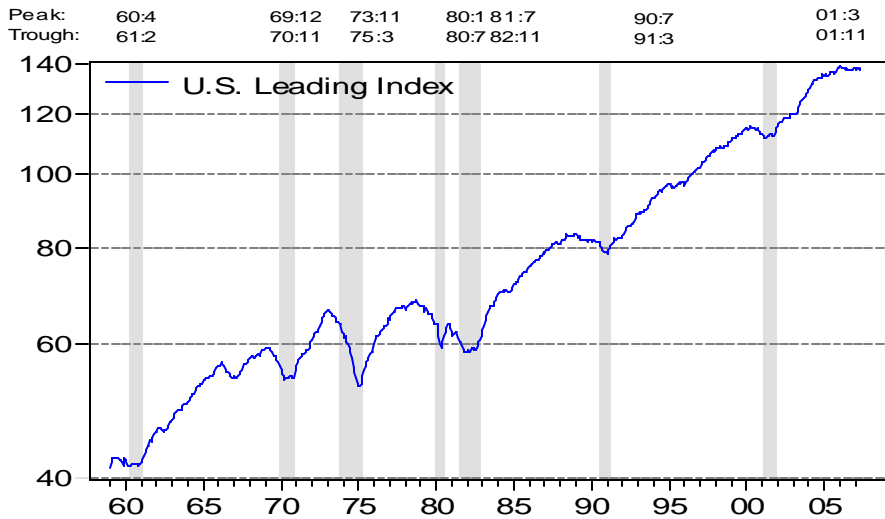
CPI Consumer Price Index. For additional notes see table 2.

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

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

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



Shaded areas represent recessions.

Source: The Conference Board