



THE CONFERENCE BOARD

FOR RELEASE: 10:00 A.M. JST, FRIDAY, FEBRUARY 6, 2009

The Conference Board®
Japan Business Cycle IndicatorsSM
**THE CONFERENCE BOARD LEADING ECONOMIC INDEX (LEI)
FOR JAPAN
AND RELATED COMPOSITE ECONOMIC INDEXES FOR DECEMBER 2008**

The Conference Board Leading Economic Index (LEI) for Japan decreased 4.3 percent and The Conference Board Coincident Economic Index (CEI) decreased 1.4 percent in December.

- The LEI experienced its largest monthly decline since 1974. The index of overtime worked, six-month growth rate of labor productivity, new orders for machinery and construction, the Tankan business conditions index, and dwelling units started all made large negative contributions in December. The six-month growth rate for the LEI fell to -12.7 percent (about a -23.8 percent annual rate) from June to December 2008, and the weaknesses among the leading indicators continued to be very widespread.
- The CEI also declined sharply in December. Industrial production registered a record drop this month. The number of employed persons and the real retail, wholesale, and manufacturing sales component also made negative contributions to the index. The six-month growth rate of the CEI fell to -3.9 percent (a -7.6 percent annual rate), also its lowest level since 1974. Moreover, the weaknesses among the coincident indicators continued to be very widespread. At the same time, real GDP continued its downtrend through the third quarter of 2008 – it declined at a 1.8 percent annual rate. This is the first time since 2001 that real GDP has declined in two consecutive quarters.
- The LEI and the CEI have been falling for more than a year now, and their rate of decline continued to accelerate in the second half of 2008. In addition, the weaknesses in both composite indexes have been very widespread. Taken together, the accelerating and widespread deterioration in the composite economic indexes suggests that the current contraction in economic activity will continue through the first half of 2009.

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

With the decrease of 4.3 percent in December, the leading economic index now stands at 85.4 (2004=100). Based on revised data, this index decreased 2.9 percent in November and decreased 2.5 percent in October. During the six-month span through December, the index decreased 12.7 percent, and one of the ten components advanced (diffusion index, six-month span equals 10.0 percent).

The next release is scheduled for Friday, March 6, 2009 at 10:00 A.M. (JST)

In the U.S – Thursday, March 5, 2009 at 8:00 P.M (ET)

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

With the decrease of 1.4 percent in December, the coincident index now stands at 99.0 (2004=100). Based on revised data, this index decreased 1.0 percent in November and decreased 0.4 percent in October. During the six-month span through December, the index decreased 3.9 percent, and one of the four components advanced (diffusion index, six-month span equals 25.0 percent).

FOR TABLES AND CHARTS, SEE BELOW

DATA AVAILABILITY AND NOTES. The data series used to compute The Conference Board Leading Economic Index (LEI) and The Conference Board Coincident Economic Index (CEI) for Japan reported in this release are those available “as of” 5:00 P.M. ET February 3, 2009. Some series are estimated as noted below.

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

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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 economic indexes are essentially composite averages of several individual leading or coincident economic 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 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.

Japan Composite Economic Indexes: Components and Standardization Factors

<u>Leading Economic Index</u>	<u>Factor</u>
1 Operating Profits	0.0751
2 Dwelling Units Started	0.0335
3 Business Failures	0.0594
4 Index of Overtime Worked	0.1056
5 Stock Prices (TOPIX)	0.0379
6 Six Month Growth Rate of Labor Productivity	0.1237
7 Tankan Business Conditions Survey	0.0851
8 Money Supply	0.2700
9 Yield Spread	0.1590
10 New Orders for Machinery and Construction	0.0507
 <u>Coincident Economic Index</u>	
1 Number of Employed Persons	0.5360
2 Industrial Production	0.1170
3 Wage and Salary Income	0.1670
4 Real Retail, Wholesale, and Manufacturing Sales	0.1800

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 revised with the January 8, 2009 release, and all historical values for the two composite indexes were revised at this 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 economic index were calculated using the September 1974 to December 2007 period as the sample period for measuring volatility. Separate sets of factors for the September 1974 to December 2007 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 economic index were calculated using the August 1978 to December 2007 period as the sample period. Separate sets of factors for the August 1978 to December 2007 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>.

The trend adjustment factors for the leading economic index are -0.2687 (calculated over the 1992-2007 period) and -0.2092 (calculated over the 1965 – 1991 period).

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 monthly data revisions are now a regular part of the U.S. Business Cycle and Global Indicators program. The main advantage of this procedure is to utilize in the leading index the data such as bond yields, stock prices, and change in consumer confidence that are available sooner than other data on real aspects of the economy such as housing starts and new orders. 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:

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. (9:00 P.M. EST) ET

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Monthly BCI Report <i>(Sample available at http://www.conference-board.org/publications/describeBCI.cfm)</i>	\$ 275 per year
BCI Handbook (published 2001)	\$ 20
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The Conference Board Japan Business Cycle Indicators

Table 1.--Summary of Japan Composite Economic Indexes

	2008						
	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Leading index	97.8	97.1	95.7	94.3 p	91.9 p	89.2 p	85.4 p
Percent change	-2.0	-0.7	-1.4	-1.5 p	-2.5 p	-2.9 p	-4.3 p
Diffusion index	25.0	20.0	30.0	25.0	10.0	10.0	35.0
Coincident index	103.0	102.7	101.9	101.8 p	101.4 p	100.4 p	99.0 p
Percent change	-0.9	-0.3	-0.8	-0.1 p	-0.4 p	-1.0 p	-1.4 p
Diffusion index	0.0	25.0	37.5	50.0	37.5	50.0	25.0
	Dec to Jun	Jan to Jul	Feb to Aug	Mar to Sep	Apr to Oct	May to Nov	Jun to Dec
Leading index							
Percent change	-3.8	-3.9	-5.0	-6.4 p	-8.4 p	-10.6 p	-12.7 p
Diffusion index	20.0	20.0	20.0	20.0	10.0	20.0	10.0
Coincident index							
Percent change	-1.7	-1.7	-2.5	-1.8 p	-2.5 p	-3.4 p	-3.9 p
Diffusion index	0.0	0.0	0.0	0.0	0.0	0.0	25.0

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 Economic Index

Component	2008						
	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Japan Leading Economic Index Component Data							
Real Operating Profits, (Bill. 1990 Yen, S.A., Q).....	13846.76	12876.87	11906.98	11258.60 **	10823.92 **	10531.26 **	10333.03 **
Dwelling Units Started, (Tens, S.A.) (3 mo. moving avg.).....	9655.43	9631.50	9834.87	9710.03	9540.40	9119.47	8619.90
Business Failures, (Number, S.A.)* (3 mo. moving avg.).....	466.78 r	476.92 r	468.58 r	483.93 r	493.65 r	506.46 r	503.81
Index of Overtime Worked, Mfg. (2000=100, S.A.)	100.5	100.3	97.5	97.2	95.7	85.7 r	73.0
Stock Price Index, (Jan. 4, 1968=100).....	1320.10	1303.62	1254.71	1087.41	867.12	834.82	859.24
Six Month Growth Rate of Labor Productivity Mfg. (3 mo. moving avg., pct.).....	-3.16	-1.95	-4.80	-5.76	-9.09	-15.15 r	-26.00
Tankan Business Conditions, All Enterprises, All Industries (Balance +/-, Q).....	-8.7	-10.3	-12.0	-14.3	-16.7	-19.0	-25.3
Real Money Supply, M2 + CD Money, (10 Bill. 2005 Yen, S.A.).....	71797.90	71334.62	71775.98	71855.19	71821.17	72236.96	72861.68
Yield Spread, 10 year minus 3 months.....	0.76	0.68	0.57	0.61	0.60	0.53	0.53
New Orders for Machinery and Construction, (3 mo. moving avg., 100 Mill. 1995 Yen, S.A.).....	18517	19725	19448	20058	19004	18280	16286 **
LEADING INDEX (2004=100).....	97.8	97.1	95.7	94.3 p	91.9 p	89.2 p	85.4 p
Percent change from preceding month.....	-2.0	-0.7	-1.4	-1.5 p	-2.5 p	-2.9 p	-4.3 p
Japan Leading Economic Index Net Contributions							
Real Operating Profits, (Bill. 1990 Yen, S.A., Q).....	....	-0.55	-0.59	-0.42 **	-0.30 **	-0.21 **	-0.14 **
Dwelling Units Started, (Tens, S.A.) (3 mo. moving avg.).....	....	-0.01	0.07	-0.04	-0.06	-0.15	-0.19
Business Failures, (Number, S.A.)* (3 mo. moving avg.).....	....	-0.13 r	0.10 r	-0.19 r	-0.12 r	-0.15 r	0.03
Index of Overtime Worked, Mfg. (2000=100, S.A.)	....	-0.02	-0.30	-0.03	-0.16	-1.16 r	-1.69
Stock Price Index, (Jan. 4, 1968=100).....	....	-0.05	-0.14	-0.54	-0.85	-0.14	0.11
Six Month Growth Rate of Labor Productivity Mfg. (3 mo. moving avg., pct.).....	....	0.15	-0.35	-0.12	-0.41	-0.75 r	-1.34
Tankan Business Conditions, All Enterprises, All Industries (Balance +/-, Q).....	....	-0.14	-0.14	-0.20	-0.20	-0.20	-0.54
Real Money Supply, M2 + CD Money, (10 Bill. 2005 Yen, S.A.).....	....	-0.17	0.17 r	0.03 r	-0.01 r	0.16 r	0.23
Yield Spread, 10 year minus 3 months.....	....	0.11	0.09	0.10	0.10	0.08 r	0.08
New Orders for Machinery and Construction, (3 mo. moving avg., 100 Mill. 1995 Yen, S.A.).....	....	0.32	-0.07	0.16	-0.27	-0.20 r	-0.58 **

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 Economic Index

Component	2008						
	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Japan Coincident Economic Index Component Data							
Number of Employed Persons, (Thousands of persons, S.A.).....	63870	63590	63590	63480	63550	63910	63730
Industrial Production, (2005=100, S.A.).....	106.9	108.3	104.5	105.6	102.3	93.6 r	84.6
Wage and Salary Income, (2005=100, S.A.)	99.9	99.1	99.6 r	99.8	99.8 r	100.3 r	100.7
Real Retail, Wholesale, and Manuf. Sales (Billions of 2005 Yen, S.A.).....	157515.4 r	156955.2 r	153293.8 r	151917.0 #	151753.7 #	148641.6 #	147394.3 #
COINCIDENT INDEX (2004=100).....	103.0	102.7	101.9	101.8 p	101.4 p	100.4 p	99.0 p
Percent change from preceding month.....	-0.9	-0.3	-0.8	-0.1 p	-0.4 p	-1.0 p	-1.4 p
Japan Coincident Economic Index Net Contributions							
Number of Employed Persons, (Thousands of persons, S.A.).....	....	-0.24 r	0.00	-0.09 r	0.06 r	0.30	-0.15
Industrial Production, (2005=100, S.A.).....	....	0.15	-0.42	0.12	-0.37	-1.04 r	-1.18
Wage and Salary Income, (2005=100, S.A.)	....	-0.13	0.08 r	0.03 r	0.00 r	0.08 r	0.07
Real Retail, Wholesale, and Manuf. Sales (Billions of 2005 Yen, S.A.).....	....	-0.06	-0.42	-0.16 r	-0.02 r	-0.37 r	-0.15

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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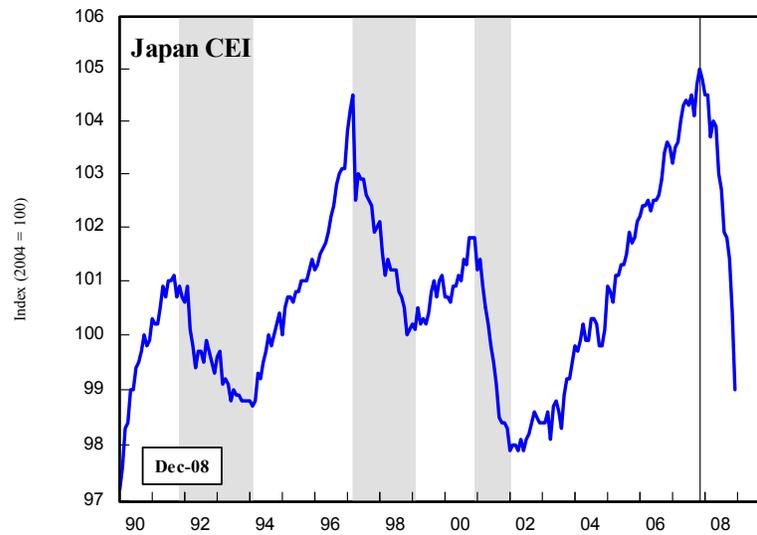
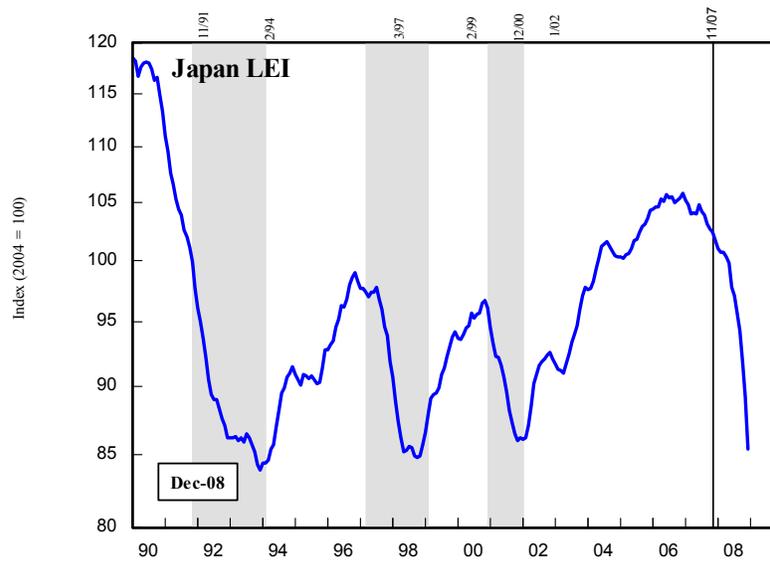
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Japan



Note: The shaded areas represent business cycle recessions.
The peaks and troughs are designated by The Conference Board based on the coincident index and real GDP.

Source: The Conference Board