



THE CONFERENCE BOARD

FOR RELEASE: 10:00 A.M. JST, FRIDAY, JULY 9, 2010

The Conference Board[®]
Japan Business Cycle IndicatorsSM
THE CONFERENCE BOARD LEADING ECONOMIC INDEX[®] (LEI)
FOR JAPAN
AND RELATED COMPOSITE ECONOMIC INDEXES FOR MAY 2010

The Conference Board Leading Economic Index[®] (LEI) for Japan decreased 0.6 percent and **The Conference Board Coincident Economic Index[®] (CEI)** decreased 0.4 percent in May.

- The Conference Board LEI for Japan declined for the second consecutive month in May. Stock prices, the six-month growth rate of labor productivity, and new orders for machinery and construction all fell sharply this month. With the decline in May, the six-month growth rate in the leading economic index continued to moderate -- to 7.0 percent (a 14.5 percent annual rate) from November 2009 to May 2010, substantially down from 17.9 percent (about a 39.0 percent annual rate) in the previous six months. Nevertheless, the strengths among the leading indicators have remained very widespread in recent months.
- The Conference Board CEI for Japan also fell in May, and all its components declined this month. With this month's decrease, the growth rate of the coincident economic index has slowed to 1.8 percent (a 3.6 percent annual rate) in the six-month period through May 2010, down from 2.5 percent (about a 5.2 percent annual rate) for the previous six months. At the same time, real GDP increased by 5.0 percent (annual rate) in the first quarter of 2010, up from 4.6 percent (annual rate) in the fourth quarter and 0.4 percent (annual rate) in the third quarter of 2009.
- The Conference Board LEI for Japan has now declined for two consecutive months, and its six-month growth rate has continued to slow. In addition, growth in The Conference Board CEI for Japan has also slowed in recent months. Taken together, the behavior of the composite indexes suggests that the economy will continue to recover, but the pace of the recovery will likely be modest in the near term.

LEADING INDICATORS. Six of the ten components that make up The Conference Board LEI for Japan increased in May. The positive contributors to the index – in order from the largest positive contributor to the smallest – include the Tankan business conditions survey, the interest rate spread, real money supply, the index of overtime worked, dwelling units started, 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 new orders for machinery and construction component*, and the (inverted) business failures* .

With the decrease of 0.6 percent in May, The Conference Board LEI for Japan now stands at 102.2 (2004=100). Based on revised data, this index decreased 0.1 percent in April and increased 2.4 percent in March. During the six-month span through May, the index increased 7.0 percent, and nine of the ten components advanced (diffusion index, six-month span equals 90.0 percent).

The next release is scheduled for Friday, August 6, 2010 at 10:00 A.M. (JST)

In the U.S – Thursday, August 5, 2010 at 9:00 P.M (ET)

COINCIDENT INDICATORS. All four components that make up The Conference Board CEI for Japan decreased in May. The negative contributors to the index – in order from the largest negative contributor to the smallest – include number of employed persons, wage and salary income, the real retail, wholesale, and manufacturing sales* component, and industrial production.

With the decrease of 0.4 percent in May, The Conference Board CEI for Japan now stands at 98.3 (2004=100). Based on revised data, this index increased 0.2 percent in both April and March. During the six-month span through May, the index increased 1.8 percent, and three of the four components advanced (diffusion index, six-month span equals 75.0 percent).

FOR TABLES AND CHARTS, SEE BELOW

DATA AVAILABILITY AND NOTES. The data series used to compute **The Conference Board Leading Economic Index[®]** (LEI) for Japan and **The Conference Board Coincident Economic Index[®]** (CEI) for Japan reported in this release are those available “as of” 5:00 P.M. ET July 7, 2010. Some series are estimated as noted below.

* The series in The Conference Board LEI that are based on our estimates are real operating profits and new orders for machinery. The series in The Conference Board CEI that is based on our estimates is real manufacturing sales.

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THE CYCLICAL INDICATOR APPROACH. The composite economic 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	0.0608
2 Dwelling Units Started	0.0349
3 Business Failures	0.0618
4 Index of Overtime Worked	0.0987
5 Stock Prices (TOPIX)	0.0380
6 Six Month Growth Rate of Labor Productivity	0.1209
7 Tankan Business Conditions Survey	0.0875
8 Money Supply	0.2809
9 Yield Spread	0.1668
10 New Orders for Machinery and Construction	0.0497
 <u>Coincident Economic Index</u>	
1 Number of Employed Persons	0.5520
2 Industrial Production	0.1120
3 Wage and Salary Income	0.1720
4 Real Retail, Wholesale, and Manufacturing Sales	0.1640

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 effective on the release for January 2010, and all historical values for the two composite economic indexes were revised at this time to reflect the changes. (Under normal circumstances, updates to the leading and coincident economic indexes only incorporate revisions to data over the past six months.) The factors above for The Conference Board LEI were calculated using the September 1974 to December 2008 period as the sample period for measuring volatility. Separate sets of factors for 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 Conference Board CEI were calculated using the August 1978 to December 2008 period as the sample period. Separate sets of factors for 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 are 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/data/bci.cfm>

The trend adjustment factors for The Conference Board LEI are -0.2127 (calculated over the 1992-2008 period) and -0.2218 (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 The Conference Board LEI 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 2010 schedule for **The Conference Board Leading Economic Index**[®] (LEI) news releases is:

June 2010 Data ... Thursday, August 05, 2010
July 2010 Data ... Thursday, September 09, 2010
August 2010 Data ... Thursday, October 07, 2010
September 2010 Data ... Tuesday, November 09, 2010
October 2010 Data ... Tuesday, December 07, 2010

All releases are at 10:00 A.M. JST (following day), 8:00 P.M. (9:00 P.M. EST) ET

ABOUT THE CONFERENCE BOARD

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The Conference Board Japan Business Cycle Indicators

Table 1.--Summary of Japan Composite Economic Indexes

	2009						2010
	Nov	Dec	Jan	Feb	Mar	Apr	May
Leading index	95.5	97.3	99.5	100.5	102.9 p	102.8 p	102.2 p
Percent change	2.5	1.9	2.3	1.0	2.4 p	-0.1 p	-0.6 p
Diffusion index	65.0	85.0	70.0	60.0	90.0	55.0	55.0
Coincident index	96.6	97.2	98.5	98.3	98.5 p	98.7 p	98.3 p
Percent change	0.3	0.6	1.3	-0.2	0.2 p	0.2 p	-0.4 p
Diffusion index	50.0	100.0	100.0	25.0	75.0	75.0	0.0
	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	17.9	17.5	16.2	14.2	13.3 p	10.3 p	7.0 p
Diffusion index	70.0	85.0	85.0	80.0	90.0	90.0	90.0
Coincident index							
Percent change	2.5	3.0	3.7	3.0	2.8 p	2.5 p	1.8 p
Diffusion index	75.0	100.0	100.0	100.0	87.5	75.0	75.0

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.

For more information, visit our Web site at <http://www.conference-board.org/data/bci.cfm>

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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	2009						2010
	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May.
Japan Leading Economic Index Component Data							
Real Operating Profits, (Bill. 2005 Yen, S.A., Q).....	11042.49 r	11218.83 r	11395.16 r	11571.50 r	11685.42 **	11752.74 **	11785.36 **
Dw elling Units Started, (Tens, S.A.) (3 mo. moving avg.).....	6549.97	6820.53	6748.23	6359.20	6216.20	6270.10	6382.90
Business Failures, (Number, S.A.)* (3 mo. moving avg.).....	313.93 r	305.15 r	283.97 r	270.99 r	265.56 r	265.60 r	267.22
Index of Overtime Worked, Mfg. (2005=100, S.A.)	77.3	82.1	84.8	85.5	87.4	87.1	87.8
Stock Price Index, (Jan. 4, 1968=100).....	839.94	907.59	901.12	894.10	978.81	987.04	880.46
Six Month Grow th Rate of Labor Productivity Mfg. (3 mo. moving avg., pct.).....	7.25	16.38	27.32	33.48	36.18	33.77	30.84
Tankan Business Conditions, All Enterprises, All Industries (Balance +/-, Q).....	-34.0	-34.0	-34.0	-34.0	-31.3	-28.7	-26.0
Real Money Supply, M2 + CD Money, (10 Bill. 2005 Yen, S.A.).....	76475.39	76543.24	76778.45	76547.85	76754.85	77386.72	77745.02
Yield Spread, 10 year minus 3 months.....	0.75	0.83	0.87	0.86	0.97	0.88	0.87
New Orders for Machinery and Construction, (3 mo. moving avg., 100 Mill. 2005 Yen, S.A.).....	16087	14531	14710	15337	19059	18435	17591 **
LEADING INDEX (2004=100).....	95.5	97.3	99.5	100.5	102.9 p	102.8 p	102.2 p
Percent change from preceding month.....	2.5	1.9	2.3	1.0	2.4 p	-0.1 p	-0.6 p
Japan Leading Economic Index Net Contributions							
Real Operating Profits, (Bill. 2005 Yen, S.A., Q).....	....	0.10 r	0.09 r	0.09 r	0.06 **	0.03 **	0.02 **
Dw elling Units Started, (Tens, S.A.) (3 mo. moving avg.).....	....	0.14	-0.04	-0.21	-0.08	0.03	0.06
Business Failures, (Number, S.A.)* (3 mo. moving avg.).....	....	0.18 r	0.44 r	0.29 r	0.13 r	0.00 r	-0.04
Index of Overtime Worked, Mfg. (2005=100, S.A.)	....	0.59	0.32	0.08	0.22	-0.03	0.08
Stock Price Index, (Jan. 4, 1968=100).....	....	0.29	-0.03	-0.03	0.34	0.03	-0.43
Six Month Grow th Rate of Labor Productivity Mfg. (3 mo. moving avg., pct.).....	....	1.10	1.32	0.75	0.33	-0.29	-0.35
Tankan Business Conditions, All Enterprises, All Industries (Balance +/-, Q).....	....	0.00	0.00	0.00	0.24	0.23	0.24
Real Money Supply, M2 + CD Money, (10 Bill. 2005 Yen, S.A.).....	....	0.02	0.09	-0.08 r	0.08 r	0.23 r	0.13
Yield Spread, 10 year minus 3 months.....	....	0.14	0.15	0.14	0.16	0.15 r	0.15
New Orders for Machinery and Construction, (3 mo. moving avg., 100 Mill. 2005 Yen, S.A.).....	....	-0.51	0.06	0.21	1.08	-0.17 r	-0.23 **

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	2009						2010
	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May.
Japan Coincident Economic Index Component Data							
Number of Employed Persons, (Thousands of persons, S.A.).....	62430	62490	63030	62780	62730	62450	62210
Industrial Production, (2005=100, S.A.).....	88.1	90.4	94.3	93.7	94.8	96.0	95.9
Wage and Salary Income, (2005=100, S.A.)	100.9	101.1	101.7	101.1	101.5	102.0 r	101.3
Real Retail, Wholesale, and Manuf. Sales (Billions of 2005 Yen, S.A.).....	130568.9 r	132489.5 r	135230.9 r	136273.6 r	136711.1 **	138854.0 **	138351.3 **
COINCIDENT INDEX (2004=100).....	96.6	97.2	98.5	98.3	98.5 p	98.7 p	98.3 p
Percent change from preceding month....	0.3	0.6	1.3	-0.2	0.2 p	0.2 p	-0.4 p
Japan Coincident Economic Index Net Contributions							
Number of Employed Persons, (Thousands of persons, S.A.).....	....	0.05 r	0.48 r	-0.22 r	-0.04 r	-0.25 r	-0.21
Industrial Production, (2005=100, S.A.).....	....	0.29	0.47	-0.07	0.13	0.14	-0.01
Wage and Salary Income, (2005=100, S.A.)	....	0.03	0.10	-0.10	0.07	0.08 r	-0.12
Real Retail, Wholesale, and Manuf. Sales (Billions of 2005 Yen, S.A.).....	....	0.24	0.33 r	0.13 r	0.05 **	0.25 **	-0.06 **

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

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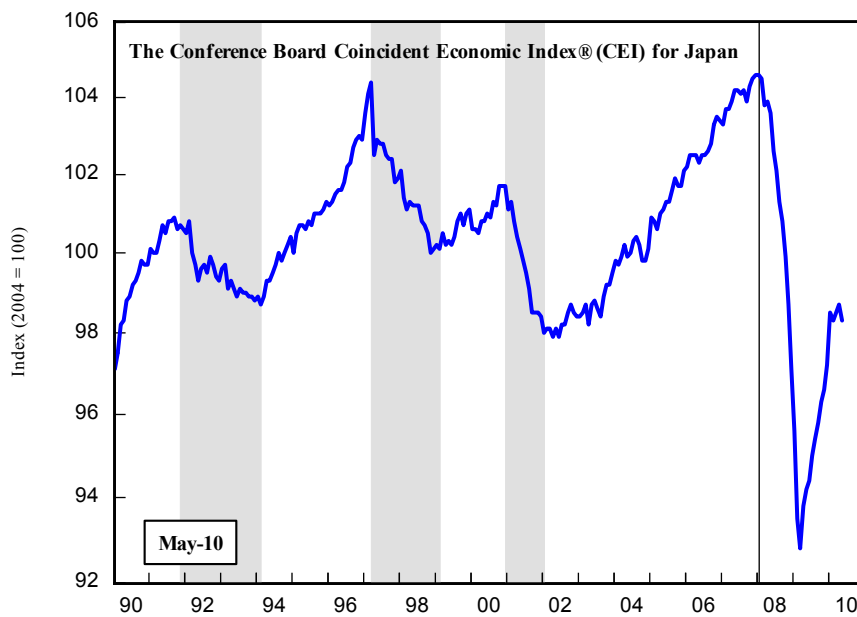
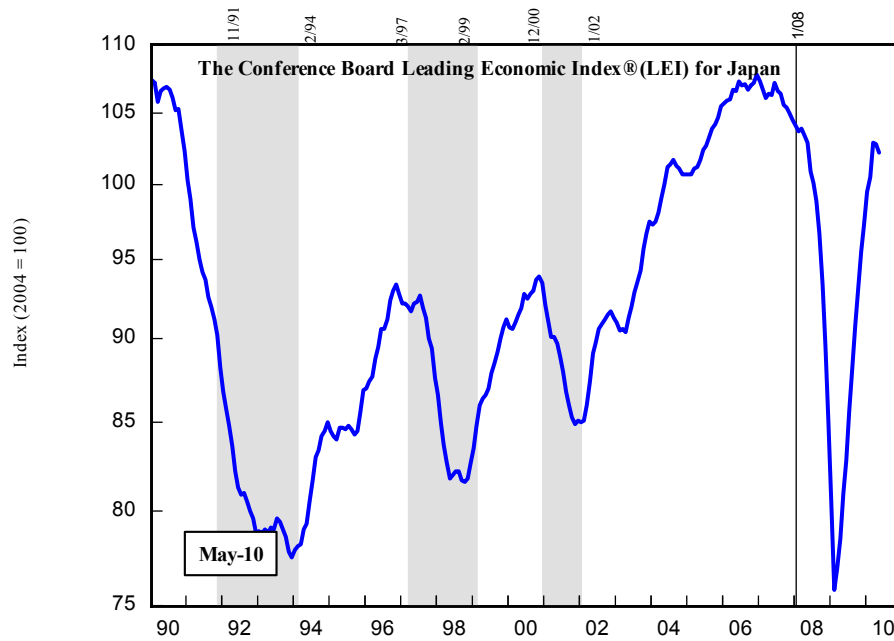
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Japan



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