



THE CONFERENCE BOARD

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The Conference Board®
Japan Business Cycle IndicatorsSM
**THE CONFERENCE BOARD LEADING ECONOMIC INDEX™ (LEI)
FOR JAPAN
AND RELATED COMPOSITE ECONOMIC INDEXES FOR MAY 2009**

The Conference Board Leading Economic Index™ (LEI) for Japan increased 0.8 percent and **The Conference Board Coincident Economic Index™ (CEI)** decreased 0.2 percent in May.

- The Conference Board LEI for Japan increased in May for the first time since June 2007, and the strengths among its components were also more widespread than the weaknesses this month. Substantial gains in the six-month growth rate of productivity, the index of overtime worked, stock prices, and money supply more than offset the large declines in operating profits and the Tankan business conditions index. With May's increase, the six-month change in the leading economic index stands at -21.8 percent (about a -38.9 percent annual rate), which is slightly less negative than it has been in recent months. The weaknesses among the leading indicators have also grown less widespread during this period.
- The Conference Board CEI for Japan declined slightly in May, following its first gain in a year in April. Large declines in the number of employees and the retail, wholesale, and manufacturing sales component offset the record monthly increase in industrial production this month. The six-month decline in the index has moderated in recent months -- to 7.1 percent (a -13.6 percent annual rate) for the period ending in May, but the weaknesses among its components have remained widespread. At the same time, real GDP contracted at a 14.2 percent annual rate in the first quarter of 2009, the largest drop in 35 years, following a 13.5 percent contraction in the fourth quarter of 2008.
- The rates of decline in The Conference Board LEI and The Conference Board CEI for Japan, which became very sharp beginning in the third quarter of 2008, seem to have moderated somewhat in recent months. However, given the still deep and widespread declines in both indexes, it is too early to tell whether Japan's economy is starting to recover. Taken together, the recent behavior of the composite indexes suggests that the current contraction in economic activity is likely to continue, but will probably become less severe in the near term.

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

With the increase of 0.8 percent in May, The Conference Board LEI for Japan now stands at 67.0 (2004=100). Based on revised data, this index decreased 3.1 percent in April and decreased 3.7 percent in March. During the six-month span through May, the index decreased 21.8 percent, and four of the ten components advanced (diffusion index, six-month span equals 40.0 percent).

The next release is scheduled for Friday, August 7, 2009 at 10:00 A.M. (JST)

In the U.S – Thursday, August 6, 2009 at 9:00 P.M (ET)

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

With the decrease of 0.2 percent in May, The Conference Board CEI for Japan now stands at 92.0 (2004=100). Based on revised data, this index increased 0.4 percent in April and decreased 1.6 percent in March. During the six-month span through May, the index decreased 7.1 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) for Japan and **The Conference Board Coincident Economic Index™** (CEI) for Japan reported in this release are those available “as of” 10:00 A.M. ET July 8, 2009. 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	0.0751
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 effective on the release for January 2009, 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 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 Conference Board CEI 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 Conference Board LEI 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 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 2009 schedule for **The Conference Board Leading Economic Index™** (LEI) news releases is:

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

ABOUT THE CONFERENCE BOARD

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The Conference Board Japan Business Cycle Indicators

Table 1.--Summary of Japan Composite Economic Indexes

	2009						
	Nov	Dec	Jan	Feb	Mar	Apr	May
Leading index	85.7	81.1	76.0	71.2 p	68.6 p	66.5 p	67.0 p
Percent change	-4.7	-5.4	-6.3	-6.3 p	-3.7 p	-3.1 p	0.8 p
Diffusion index	10.0	30.0	30.0	35.0	50.0	60.0	70.0
Coincident index	99.0	97.2	95.6	93.3 p	91.8 p	92.2 p	92.0 p
Percent change	-1.5	-1.8	-1.6	-2.4 p	-1.6 p	0.4 p	-0.2 p
Diffusion index	50.0	25.0	50.0	0.0	25.0	25.0	50.0
	May to Nov	Jun to Dec	Jul to Jan	Aug to Feb	Sep to Mar	Oct to Apr	Nov to May
Leading index							
Percent change	-14.1	-17.1	-21.7	-25.6 p	-26.6 p	-26.0 p	-21.8 p
Diffusion index	20.0	10.0	15.0	25.0	30.0	30.0	40.0
Coincident index							
Percent change	-4.7	-5.6	-6.9	-8.4 p	-9.4 p	-8.3 p	-7.1 p
Diffusion index	0.0	25.0	50.0	50.0	25.0	25.0	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	2009							
	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May.	
Japan Leading Economic Index Component Data								
Real Operating Profits, (Bill. 1990 Yen, S.A., Q)....	6160.96	4979.68 r	3798.40 r	2617.12 **	1722.78 **	1052.55 **	912.55 **	
Dwelling Units Started, (Tens, S.A.) (3 mo. moving avg.).....	9119.47	8619.90	7905.40	7172.93	6653.97	6504.30	6521.03	
Business Failures, (Number, S.A.)* (3 mo. moving avg.).....	504.15 r	500.46 r	476.92 r	464.49 r	459.23 r	454.18 r	440.78	
Index of Overtime Worked, Mfg. (2000=100, S.A.)	86.1	73.4	61.8	52.3	52.2	54.0 r	59.3	
Stock Price Index, (Jan. 4, 1968=100).....	834.82	859.24	794.03	756.71	773.66	837.79	897.91	
Six Month Growth Rate of Labor Productivity Mfg. (3 mo. moving avg., pct.).....	-18.29	-27.47	-38.49	-48.28	-52.88	-50.52 r	-41.41	
Tankan Business Conditions, All Enterprises, All Industries (Balance +/-, Q).....	-19.0	-25.3	-31.7	-38.0	-42.7	-47.3	-52.0	
Real Money Supply, M2 + CD Money, (10 Bill. 2005 Yen, S.A.).....	72280.66	72901.75	73456.31	73728.88	73782.74	74218.48	74794.68	
Yield Spread, 10 year minus 3 months.....	0.53	0.43	0.55	0.56	0.69	0.83	0.91	
New Orders for Machinery and Construction, (3 mo. moving avg., 100 Mill. 1995 Yen, S.A.).....	18331	16319	15032	15475	17414	17211	15730 **	
LEADING INDEX (2004=100).....	85.7	81.1	76.0	71.2 p	68.6 p	66.5 p	67.0 p	
Percent change from preceding month.....	-4.7	-5.4	-6.3	-6.3 p	-3.7 p	-3.1 p	0.8 p	
Japan Leading Economic Index Net Contributions								
Real Operating Profits, (Bill. 1990 Yen, S.A., Q)....	....	-1.59 r	-2.02 r	-2.77 **	-3.10 **	-3.63 **	-1.07 **
Dwelling Units Started, (Tens, S.A.) (3 mo. moving avg.).....	....	-0.19	-0.29	-0.33	-0.25	-0.08	0.01
Business Failures, (Number, S.A.)* (3 mo. moving avg.).....	....	0.04 r	0.29 r	0.16 r	0.07 r	0.07 r	0.18
Index of Overtime Worked, Mfg. (2000=100, S.A.)	....	-1.68	-1.81	-1.76	-0.02	0.36 r	0.99
Stock Price Index, (Jan. 4, 1968=100).....	....	0.11	-0.30	-0.18	0.08	0.30	0.26
Six Month Growth Rate of Labor Productivity Mfg. (3 mo. moving avg., pct.).....	....	-1.14	-1.36	-1.21	-0.57	0.29 r	1.13
Tankan Business Conditions, All Enterprises, All Industries (Balance +/-, Q).....	....	-0.54	-0.54	-0.54	-0.40	-0.39	-0.40
Real Money Supply, M2 + CD Money, (10 Bill. 2005 Yen, S.A.).....	....	0.23	0.20	0.10	0.02	0.16	0.21
Yield Spread, 10 year minus 3 months.....	....	0.07	0.09	0.09	0.11	0.13	0.14
New Orders for Machinery and Construction, (3 mo. moving avg., 100 Mill. 1995 Yen, S.A.).....	....	-0.59	-0.42	0.15	0.60	-0.06 r	-0.46 **

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						
	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May.
Japan Coincident Economic Index Component Data							
Number of Employed Persons, (Thousands of persons, S.A.).....	63800	63690	63950	63730	63110	63050	62610
Industrial Production, (2005=100, S.A.).....	93.1	85.3	76.7	69.5	70.6	74.8 r	79.2
Wage and Salary Income, (2005=100, S.A.).....	98.8	99.6	100.0	99.6	98.8	98.5 r	99.2
Real Retail, Wholesale, and Manuf. Sales (Billions of 2005 Yen, S.A.).....	136278.0 r	130213.4 r	124927.6 r	117990.0 r	110828.2 r	110052.4 r	106474.6
COINCIDENT INDEX (2004=100).....	99.0	97.2	95.6	93.3 p	91.8 p	92.2 p	92.0 p
Percent change from preceding month....	-1.5	-1.8	-1.6	-2.4 p	-1.6 p	0.4 p	-0.2 p
Japan Coincident Economic Index Net Contributions							
Number of Employed Persons, (Thousands of persons, S.A.).....	....	-0.09 r	0.22 r	-0.18 r	-0.52 r	-0.05 r	-0.38
Industrial Production, (2005=100, S.A.).....	....	-1.02	-1.24	-1.15	0.18	0.68 r	0.67
Wage and Salary Income, (2005=100, S.A.).....	....	0.13	0.07	-0.07	-0.13	-0.05 r	0.12
Real Retail, Wholesale, and Manuf. Sales (Billions of 2005 Yen, S.A.).....	....	-0.82	-0.75	-1.03	-1.13 r	-0.13 r	-0.59

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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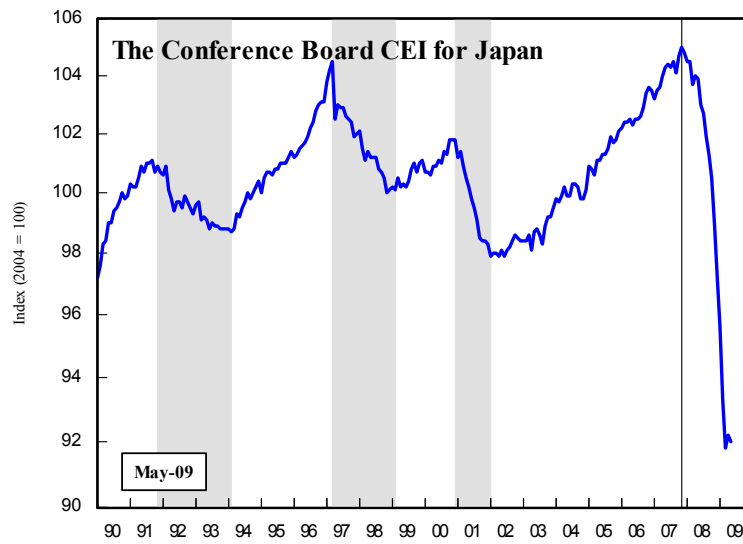
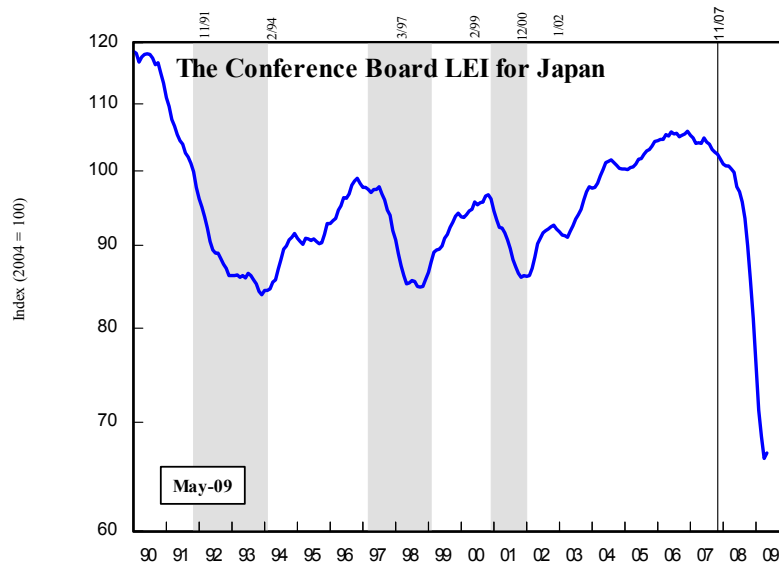
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Japan



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