



THE CONFERENCE BOARD

FOR RELEASE: 10:00 A.M. JST, WEDNESDAY, NOVEMBER 11, 2009

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

The Conference Board Leading Economic Index™ (LEI) for Japan increased 2.4 percent, and **The Conference Board Coincident Economic Index™ (CEI)** increased 0.2 percent in September.

- The Conference Board LEI for Japan increased again in September, and it has risen sharply for the last seven months. Apart from stock prices and dwelling units started, all the other leading indicators made positive contributions to the index this month. The leading economic index increased by 18.6 percent (a 40.6 percent annual rate) in the six months ending in September 2009 – the highest six-month growth rate since the index started in 1965 and a sharp reversal from the 22.4 percent decline (about a -39.7 percent annual rate) during the previous six months. Moreover, the strengths among the leading indicators have remained widespread in recent months.
- The Conference Board CEI for Japan increased for the sixth consecutive month in September. With this increase, the six-month growth rate of the index continued to pick up, to 2.6 percent (a 5.3 percent annual rate) from March to September 2009, well above the 8.8 percent decline (about a -16.8 percent annual rate) during the previous six months. Additionally, in the last six months, the strengths among the coincident indicators have become more widespread than the weaknesses for the first time since the beginning of 2008. At the same time, real GDP growth was revised down from 3.7 percent (annual rate) to 2.3 percent for the second quarter of 2009, due to adjustments in private sector inventory and investments. However, this is the first increase in GDP in more than a year and is a large improvement from the 12.4 percent contraction in the first quarter of 2009.
- After declining sharply from the third quarter of 2008, The Conference Board LEI for Japan has risen strongly since March this year, and its six-month growth rate has continued to accelerate. Meanwhile, The Conference Board CEI for Japan also began to increase in the second quarter, and its six-month growth rate has picked up further. Taken together, the behavior of the composite indexes suggests that economic activity will likely continue to improve, but perhaps at a modest pace in the near term.

LEADING INDICATORS. Eight of the ten components that make up The Conference Board LEI for Japan increased in September. 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 new orders for machinery and construction component*, the index of overtime worked, the (inverted) business failures, real operating profits*, the Tankan business conditions survey, the interest rate spread, and real money supply. The negative contributors include stock prices and dwelling units started.

The next release is scheduled for Wednesday, December 9, 2009 at 10:00 A.M. (JST)

In the U.S – Tuesday, December 8, 2009 at 8:00 P.M (ET)

With the increase of 2.4 percent in September, The Conference Board LEI for Japan now stands at 86.1 (2004=100). Based on revised data, this index increased 2.9 percent in August and increased 3.5 percent in July. During the six-month span through September, the index increased 18.6 percent, and eight of the ten components advanced (diffusion index, six-month span equals 80.0 percent).

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

With the increase of 0.2 percent in September, The Conference Board CEI for Japan now stands at 94.8 (2004=100). Based on revised data, this index increased 0.4 percent in August and increased 0.4 percent in July. During the six-month span through September, the index increased 2.6 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 November 9, 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:

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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| | |
|--|--|
| Japan Business Cycle Indicators Internet Subscription <i>(Includes monthly release, data, charts and commentary)</i> | \$ 635 per year (1 user) |
| Individual Data Series | \$ 35 per series downloaded |
| Monthly BCI Report <i>(Sample available at http://www.conference-board.org/publications/describeBCI.cfm)</i> | \$ 275 per year |
| BCI Handbook (published 2001) | \$ 20 |
| Corporate Site License | contact Indicators Program at (212) 339-0330 |

Business Cycle Indicators for the U.S., France, Germany, Spain, Japan, Korea, Mexico, and the U.K., are available at \$635 per country per year (1 user). Discounts are available to Associates of The Conference Board and accredited academic institutions.

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The Conference Board Japan Business Cycle Indicators

Table 1.--Summary of Japan Composite Economic Indexes

| | 2009 | | | | | | |
|------------------|--------|--------|--------|--------|--------|--------|--------|
| | Mar | Apr | May | Jun | Jul | Aug | Sep |
| Leading index | 72.6 | 74.4 | 77.0 | 78.9 | 81.7 p | 84.1 p | 86.1 p |
| Percent change | 2.0 | 2.5 | 3.5 | 2.5 | 3.5 p | 2.9 p | 2.4 p |
| Diffusion index | 60.0 | 70.0 | 80.0 | 80.0 | 90.0 | 80.0 | 75.0 |
| Coincident index | 92.4 | 93.4 r | 93.7 r | 93.8 r | 94.2 p | 94.6 p | 94.8 p |
| Percent change | -1.0 | 1.1 r | 0.3 r | 0.1 r | 0.4 p | 0.4 p | 0.2 p |
| Diffusion index | 25.0 | 50.0 | 50.0 | 75.0 | 87.5 | 75.0 | 75.0 |
| | Sep to | Oct to | Nov to | Dec to | Jan to | Feb to | Mar to |
| | Mar | Apr | May | Jun | Jul | Aug | Sep |
| Leading index | | | | | | | |
| Percent change | -22.4 | -17.2 | -10.2 | -2.7 | 7.5 p | 18.1 p | 18.6 p |
| Diffusion index | 30.0 | 30.0 | 40.0 | 50.0 | 70.0 | 70.0 | 80.0 |
| Coincident index | | | | | | | |
| Percent change | -8.8 | -7.1 r | -5.4 r | -3.5 r | -1.5 p | 1.4 p | 2.6 p |
| Diffusion index | 25.0 | 25.0 | 25.0 | 0.0 | 25.0 | 50.0 | 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.

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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 | | | | | | |
|--|-------------|-------------|-------------|---------------|---------------|---------------|---------------|
| | Mar. | Apr. | May. | Jun. | Jul. | Aug. | Sep. |
| Japan Leading Economic Index Component Data | | | | | | | |
| Real Operating Profits, (Bill. 1990 Yen, S.A., Q)..... | 3707.12 | 4783.65 | 5860.17 | 6653.70 ** | 7237.20 ** | 7664.83 ** | 7976.81 ** |
| Dwelling Units Started, (Tens, S.A.) (3 mo. moving avg.)..... | 6653.97 | 6504.30 | 6521.03 | 6575.70 | 6568.23 | 6466.37 | 6230.13 |
| Business Failures, (Number, S.A.)* (3 mo. moving avg.)..... | 458.58 | 453.16 | 437.32 | 406.64 | 387.22 | 370.03 | 351.22 |
| Index of Overtime Worked, Mfg. (2000=100, S.A.) | 52.2 | 54.0 | 59.3 | 60.4 | 66.1 | 70.4 r | 73.6 |
| Stock Price Index, (Jan. 4, 1968=100)..... | 773.66 | 837.79 | 897.91 | 929.76 | 950.26 | 965.73 | 909.84 |
| Six Month Growth Rate of Labor Productivity Mfg. (3 mo. moving avg., pct.)..... | -52.88 | -50.52 | -41.53 | -31.23 | -21.52 | -13.45 r | -5.72 |
| Tankan Business Conditions, All Enterprises, All Industries (Balance +/-, Q)..... | -42.7 | -47.3 | -52.0 | -48.3 | -44.7 | -41.0 | -38.7 |
| Real Money Supply, M2 + CD Money, (10 Bill. 2005 Yen, S.A.)..... | 73782.36 | 74218.45 | 74796.73 | 74985.93 | 75240.36 | 75696.43 | 75884.31 |
| Yield Spread, 10 year minus 3 months..... | 0.69 | 0.83 | 0.91 | 0.79 | 0.87 | 0.77 | 0.76 |
| New Orders for Machinery and Construction, (3 mo. moving avg., 100 Mill. 1995 Yen, S.A.)..... | 17423 r | 17216 | 16143 | 13690 | 13961 | 14343 | 15931 ** |
| LEADING INDEX (2004=100)..... | 72.6 | 74.4 | 77.0 | 78.9 p | 81.7 p | 84.1 p | 86.1 p |
| Percent change from preceding month..... | 2.0 | 2.5 | 3.5 | 2.5 p | 3.5 p | 2.9 p | 2.4 p |
| Japan Leading Economic Index Net Contributions | | | | | | | |
| Real Operating Profits, (Bill. 1990 Yen, S.A., Q)..... | .... | 1.90 | 1.52 | 0.95 ** | 0.63 ** | 0.43 ** | 0.30 ** |
| Dwelling Units Started, (Tens, S.A.) (3 mo. moving avg.)..... | .... | -0.08 | 0.01 | 0.03 | 0.00 | -0.05 | -0.12 |
| Business Failures, (Number, S.A.)* (3 mo. moving avg.)..... | .... | 0.07 | 0.21 | 0.43 | 0.29 | 0.27 | 0.31 |
| Index of Overtime Worked, Mfg. (2000=100, S.A.) | .... | 0.36 | 0.99 | 0.19 | 0.95 | 0.67 r | 0.47 |
| Stock Price Index, (Jan. 4, 1968=100)..... | .... | 0.30 | 0.26 | 0.13 | 0.08 | 0.06 | -0.23 |
| Six Month Growth Rate of Labor Productivity Mfg. (3 mo. moving avg., pct.)..... | .... | 0.29 | 1.11 | 1.28 | 1.20 | 1.00 r | 0.96 |
| Tankan Business Conditions, All Enterprises, All Industries (Balance +/-, Q)..... | .... | -0.39 | -0.40 | 0.31 | 0.31 | 0.31 | 0.20 |
| Real Money Supply, M2 + CD Money, (10 Bill. 2005 Yen, S.A.)..... | .... | 0.16 | 0.21 | 0.07 | 0.09 r | 0.16 r | 0.07 |
| Yield Spread, 10 year minus 3 months..... | .... | 0.13 | 0.14 | 0.13 | 0.14 | 0.12 | 0.12 |
| New Orders for Machinery and Construction, (3 mo. moving avg., 100 Mill. 1995 Yen, S.A.)..... | .... | -0.06 r | -0.33 r | -0.83 r | 0.10 r | 0.14 r | 0.53 ** |

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 | | | | | | |
|---|-------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | Mar. | Apr. | May. | Jun. | Jul. | Aug. | Sep. |
| Japan Coincident Economic Index Component Data | | | | | | | |
| Number of Employed Persons, (Thousands of persons, S.A.)..... | 63110 | 63050 | 62610 | 62330 | 62310 | 62600 | 62640 |
| Industrial Production, (2005=100, S.A.)..... | 70.6 | 74.8 | 79.1 | 80.9 | 82.6 | 83.9 r | 85.1 |
| Wage and Salary Income, (2005=100, S.A. | 98.8 | 98.5 | 99.2 | 99.3 | 99.6 | 100.4 r | 100.6 |
| Real Retail, Wholesale, and Manuf. Sales (Billions of 2005 Yen, S.A.)..... | 115342.6 r | 118082.6 r | 117590.7 r | 118098.3 ** | 119427.4 ** | 118150.4 ** | 117991.2 ** |
| COINCIDENT INDEX (2004=100)..... | 92.4 | 93.4 r | 93.7 r | 93.8 p | 94.2 p | 94.6 p | 94.8 p |
| Percent change from preceding month.... | -1.0 | 1.1 r | 0.3 | 0.1 p | 0.4 p | 0.4 p | 0.2 p |
| Japan Coincident Economic Index Net Contributions | | | | | | | |
| Number of Employed Persons, (Thousands of persons, S.A.)..... | .... | -0.05 r | -0.38 r | -0.24 r | -0.02 r | 0.25 r | 0.03 |
| Industrial Production, (2005=100, S.A.)..... | .... | 0.68 | 0.65 | 0.26 | 0.24 | 0.18 r | 0.17 |
| Wage and Salary Income, (2005=100, S.A. | .... | -0.05 | 0.12 | 0.02 | 0.05 | 0.13 r | 0.03 |
| Real Retail, Wholesale, and Manuf. Sales (Billions of 2005 Yen, S.A.)..... | .... | 0.42 r | -0.08 r | 0.08 ** | 0.20 ** | -0.19 ** | -0.02 ** |

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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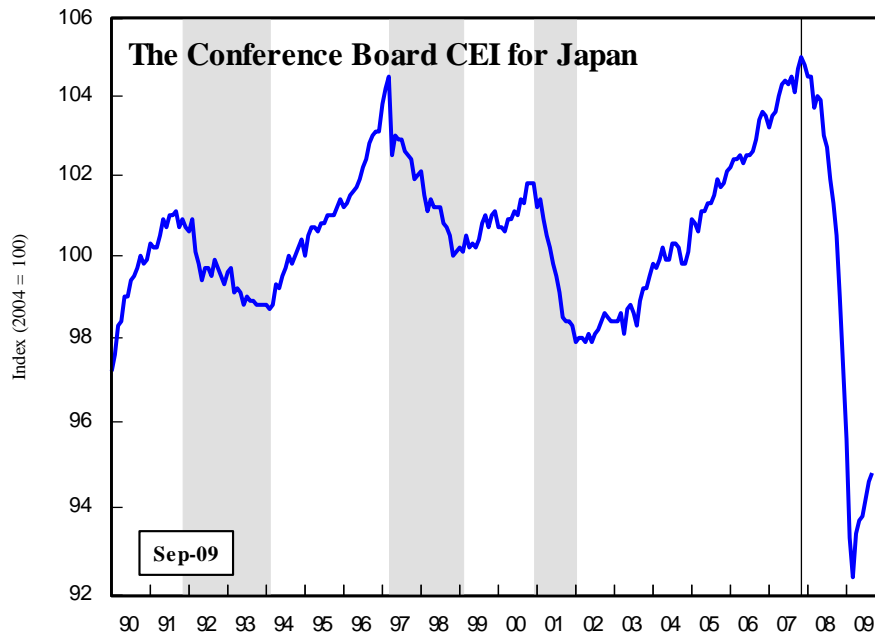
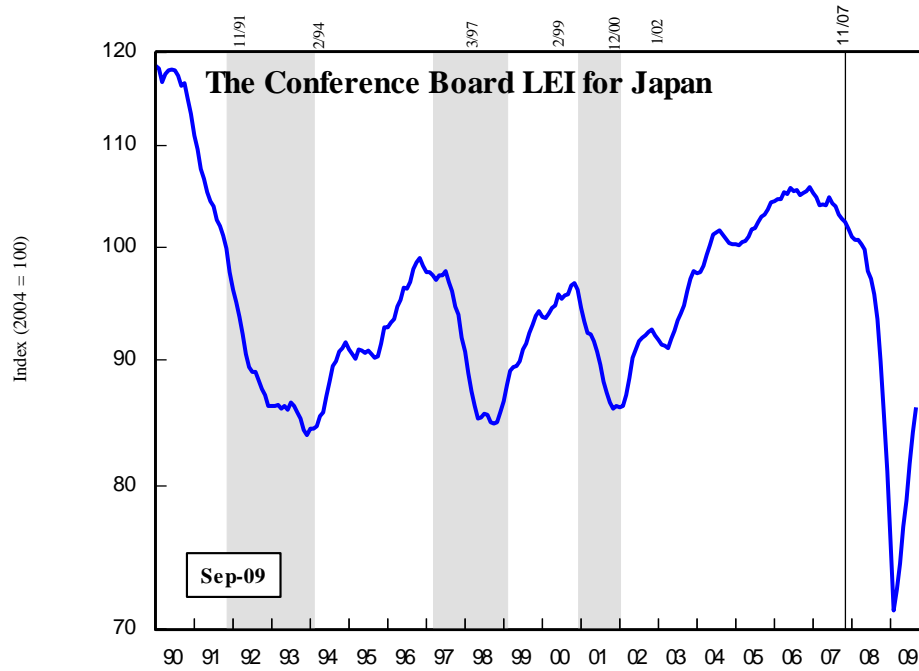
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Japan



Note: The shaded areas represent business cycle recessions.

Source: The Conference Board

The peaks and troughs are designated by The Conference Board based on the coincident index and real GDP.