News Release

Follow The Conference Board
twitter facebook LinkedIn

For further information:
Jonathan Liu 212-339-0257 / jonathan.liu@conference-board.org
Peter Tulupman 212-339-0231 / peter.tulupman@conference-board.org

For Release 10:00 AM ET, Thursday, January 26, 2012

The Conference Board Leading Economic Index® (LEI) for the U.S. Increases

NEW YORK, January 26, 2012…**The Conference Board Leading Economic Index®** (LEI) for the U.S. increased 0.4 percent in December to 94.3 (2004 = 100), following a 0.2 percent increase in November and a 0.6 percent increase in October. This month's data inaugurates a number of major changes to the components and calculation of the LEI [*see box below*].

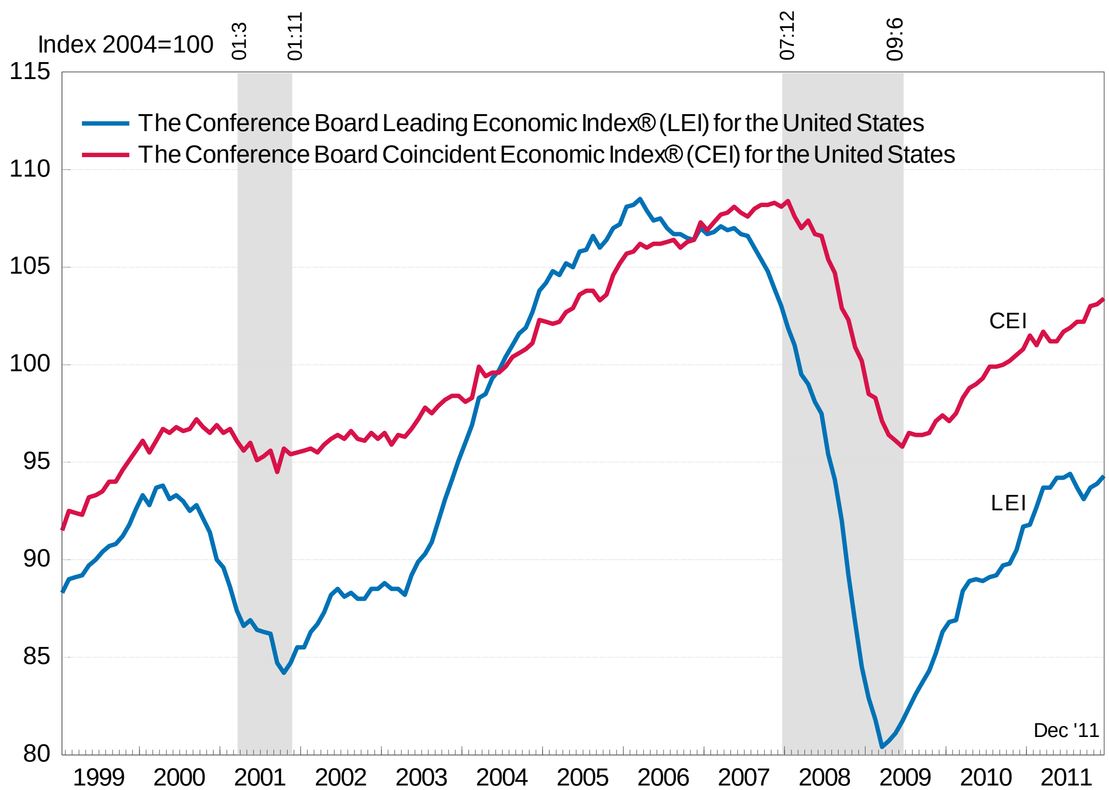
"Revised figures show that adding the new Leading Credit Index™, in conjunction with other changes, makes the LEI a more accurate predictor of U.S. business cycles since 1990," said Ataman Ozyildirim, economist at The Conference Board. "The improvement is especially pronounced before and during the 2008-2009 recession, and during the current expansion. In December, the LEI for the U.S. increased again. The gain was widespread among the leading indicators, suggesting economic conditions should improve in early 2012. However, the LEI gain in December was held back by negative contributions from the new Leading Credit Index — which indicates weak credit and financial conditions — and from consumer expectations for business and economic conditions."

Added Ken Goldstein, economist at The Conference Board: "The CEI and other recent data reflect an economy that ended 2011 on a positive note and the LEI provides some reason for cautious optimism in the first half of 2012. This somewhat positive outlook for a strengthening domestic economy would seem to be at odds with a global economy that is losing some steam. Looking ahead, the big question remains whether cooling conditions elsewhere will limit domestic growth or, conversely, growth in the U.S. will lend some economic support to the rest of the globe."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.3 percent in December to 103.4 (2004 = 100), following a 0.1 percent increase in November and a 0.8 percent increase in October.

The Conference Board Lagging Economic Index® (LAG) increased 0.3 percent in December to 113.4 (2004 = 100), following a 0.4 percent increase in November and a 0.5 percent increase in October.

***The Conference Board Leading Economic Index®* (LEI) for the U.S. Increases in December**



Latest LEI Trough March 2009, Latest CEI Trough June 2009
Shaded areas represent recessions as determined by the National Bureau of Economic Research.
Source: The Conference Board

Summary Table of Composite Economic Indexes

	2011				6-month
	Oct	Nov	Dec		Jun to Dec
Leading index	93.7	93.9	94.3	p	
Percent Change	.6	.2	.4	p	0.1
Diffusion	70.0	60.0	70.0		60.0
Coincident Index	103.0	103.1	103.4	p	
Percent Change	.8	.1	.3	p	1.7
Diffusion	100.0	75.0	100.0		100.0
Lagging Index	112.7	113.1	113.4	p	
Percent Change	.5	.4	.3	p	1.7
Diffusion	57.1	64.3	71.4		50.0

n.a. Not available p Preliminary r Revised
Indexes equal 100 in 2004
Source: The Conference Board

Annual Benchmark Revisions

January 26, 2012 release ***The Conference Board Leading Economic Index®*** (LEI) for The United States incorporates annual benchmark revisions to the composite indexes. These regular benchmark revisions bring the indexes up-to-date with revisions in the source data. The revisions do not change the cyclical properties of the indexes. The indexes are updated throughout the year, but only for the previous six months. Data revisions that fall outside of the moving six-month window are incorporated when the benchmark revision is made and the entire histories of the indexes are recomputed. As a result, the revised indexes and their month-over-month changes will no longer be directly comparable to those issued prior to the benchmark revision. The entire history of the indexes from 1959 to present has been revised.

Comprehensive Benchmark Revisions

In addition to these regular annual revisions, The Conference Board implemented a comprehensive revision of ***The Conference Board Leading Economic Index®*** (LEI) for the United States effective with the January 26, 2012 release. The last time the LEI had comprehensive revisions was in 1996 after The Conference Board received the responsibility for the LEI and the Business Cycle Indicators program from the Bureau of Economic Analysis at the U.S. Department of Commerce.

These comprehensive revisions are the result of an extensive reevaluation of existing components of ***The Conference Board Leading Economic Index®*** for the United States. Following discussions with the Business Cycle Indicators Advisory Panel and other experts, The Conference Board has decided to replace three of the ten components and make a minor adjustment to another component. The composition changes reflected in the new LEI address structural changes that have occurred in the U.S. economy in the last several decades. The upcoming changes in the LEI composition include:

1) incorporating the new ***Leading Credit Index™*** (LCI) and omitting the real money supply (M2) component starting in 1990 (real M2 remains in the index before 1990);

2) replacing the ISM Supplier Delivery Index with the ISM New Orders Index;

3) replacing the Reuters/University of Michigan Consumer Expectations Index with an equally weighted average of consumer expectations of business and economic conditions using questions from Surveys of Consumers conducted by Reuters/University of Michigan and Consumer Confidence Survey by The Conference Board (after 1978, Reuters/University of Michigan Consumer Expectations Index remains in the index before 1978); and

4) replacing “New Orders for (nondefense) Capital Goods” with “New Orders for (nondefense) Capital Goods excluding Aircraft.”

In addition to these major changes to the composition, The Conference Board has implemented changes in the methodology and procedures used in the calculation process. These modifications are:

1) normalized levels of the indicator rather than its monthly changes will be used to calculate the component contributions of components based on diffusion indexes such as the ISM New Orders Index;

2) when component data are missing, autoregressions in log differences instead of levels will be used to calculate the statistical imputation of the missing months;

3) trend adjustment will be done in two periods: 1959-1983 and 1984-2010 (same as the volatility adjustment); and

4) LCI contributions to the LEI are calculated from its levels (not monthly changes) and it is inverted

As a result of these changes, the history of the revised indexes and their month-over-month changes will no longer be directly comparable to those issued prior to the comprehensive benchmark revision. Based on its performance since 1990, and especially before and during the 2008-2009 recession, the new LEI should provide more accurate predictions of business cycle peaks and troughs.

Leading Credit Index™

Financial indicators such as yield curves and stock prices have been extensively used as leading indicators of economic activity due to their forward looking content. The coverage of financial and credit market activity can be improved to account for some of the structural changes in the U.S. economy (especially in financial markets). Over the past three decades, many new financial indicators, such as interest rate swaps, credit default swaps, certain corporate-treasury spreads, the Federal Reserve's senior loan officer survey, etc. have become available, but, since most of these new indicators have not been available for a long enough period, very little research has been conducted to evaluate their usefulness as leading indicators. The Conference Board research indicates that several of these financial indicators rank highly according to their ability to predict recessions (i.e. peaks and troughs in the business cycle). These financial indicators have been aggregated into a single composite index, named the *Leading Credit Index™*, and incorporated as a component in the revised LEI, replacing real money supply (M2).

The new Leading Credit Index™ differs from others in the literature in that it consists of a small, carefully selected set of component indicators that specifically target business cycle turning points rather than financial stress or instability.

For more information, please visit our website at http://www.conference-board.org/data/bci.cfm or contact indicators@conference-board.org.

About The Conference Board Leading Economic Index® (LEI) for the U.S.

The composite economic indexes are the key elements in an analytic system designed to signal peaks and troughs in the business cycle. The leading, coincident, and lagging economic indexes are essentially composite averages of several individual leading, coincident, or lagging indicators. 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.

The ten components of **The Conference Board Leading Economic Index®** for the U.S. include:

Average weekly hours, manufacturing
Average weekly initial claims for unemployment insurance
Manufacturers' new orders, consumer goods and materials
ISM Index of New Orders
Manufacturers' new orders, nondefense capital goods excluding aircraft orders
Building permits, new private housing units
Stock prices, 500 common stocks
Leading Credit Index™
Interest rate spread, 10-year Treasury bonds less federal funds
Average consumer expectations for business and economic conditions

For full press release and technical notes:
http://www.conference-board.org/data/bcicountry.cfm?cid=1

For more information about The Conference Board global business cycle indicators:
http://www.conference-board.org/data/bci.cfm

About The Conference Board

The Conference Board is a global, independent business membership and research association working in the public interest. Our mission is unique: To provide the world's leading organizations with the practical knowledge they need to improve their performance *and* better serve society. The Conference Board is a non-advocacy, not-for-profit entity holding 501 (c) (3) tax-exempt status in the United States. www.conference-board.org