



THE CONFERENCE BOARD

FOR RELEASE: 10:00 A.M. JST, FRIDAY, JANUARY 9, 2015

The Conference Board®
Japan Business Cycle IndicatorsSM
THE CONFERENCE BOARD LEADING ECONOMIC INDEX® (LEI)
FOR JAPAN
AND RELATED COMPOSITE ECONOMIC INDEXES FOR NOVEMBER 2014

This month's release incorporates annual benchmark revisions to the composite economic indexes, which bring them up-to-date with revisions in the source data. Also, with this benchmark revision, the base year of the composite indexes was changed to 2010 = 100 from 2004 = 100. These 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 not incorporated until the benchmark revision is made and the entire histories of the indexes are recomputed. As a result, the revised indexes, in levels and month-on-month changes, will not be directly comparable to those issued prior to the benchmark revision.

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

The Conference Board Leading Economic Index® (LEI) for Japan increased 0.6 percent and **The Conference Board Coincident Economic Index® (CEI)** decreased 0.1 percent in November.

- The Conference Board LEI for Japan continues to improve with November's gain driven by large positive contributions from money supply and stock prices. The leading economic index increased 0.2 percent (about a 0.4 percent annual rate) between May to November 2014, a substantial improvement from its decline of 2.6 percent (about a -5.2 percent annual rate) over the previous six months. In addition, the strengths among the leading indicators have become very widespread.
- The Conference Board CEI for Japan edged down in November, with the majority of components decreasing. Industrial production has been the weakest component of the coincident economic index in the second half of 2014. The six-month growth rate of the index, although still negative, improved to -0.3 percent (about a -0.6 percent annual rate) from -1.0 percent (about a -2.0 percent annual rate) in the previous six months. In addition, the weaknesses among the coincident indicators have become very widespread. At the same time, real GDP contracted at a 1.9 percent annual rate in the third quarter of 2014 after contracting 6.7 percent (annual rate) in the second quarter.
- The most recent improvement in The Conference Board LEI was largely the result of monetary policies and improved stock prices, although business failures (inverted) and the yield spread were also strong positive contributors to the LEI in the second half of 2014. Meanwhile, the Conference Board CEI for Japan continues on a downward trend, but the rate of decline has eased compared to first half of 2014. The moderately improved performance of the leading economic index suggests that the current contraction in economic activity is likely to continue subsiding, with some possible upside potential during the early months of 2015.

The next release is scheduled for Thursday, February 12, 2015 at 10:00 A.M. (JST)

In the U.S – Wednesday, February 11, 2015 at 8:00 P.M. (ET)

LEADING INDICATORS. Eight of the ten components that make up The Conference Board LEI for Japan increased in November. The positive contributors to the index—in order from the largest positive contributor to the smallest—were real money supply, stock prices, the six month growth rate of labor productivity, business failures (inverted), the new orders for machinery and construction component*, the index of overtime worked, the interest rate spread, and real operating profits*. The negative contributors—in order from the larger negative contributor to the smaller—were the Tankan business conditions survey and dwelling units started.

With the increase of 0.6 percent in November, The Conference Board LEI for Japan now stands at 103.3 (2010=100). Based on revised data, this index increased 0.1 percent in October and increased 0.8 percent in September. During the six-month span through November, the index increased 0.2 percent, and seven of the ten components advanced (diffusion index, six-month span equals 70.0 percent).

COINCIDENT INDICATORS. Only one of the four components that make up The Conference Board CEI for Japan improved in November. The positive contributor to the index was wage and salary income. Number of employed persons, industrial production, and the retail, wholesale, and manufacturing sales* components declined in November.

With the decrease of 0.1 percent in November, The Conference Board CEI for Japan now stands at 97.7 (2010=100). Based on revised data, this index remained unchanged in October and increased 0.5 percent in September. During the six-month span through November, the index decreased 0.3 percent, and only 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 January 6, 2015. Some series are estimated as noted below.

* The series in The Conference Board LEI that are based on our estimates are the six month growth rate of labor productivity, 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	0.0516
2 Dwelling Units Started	0.0298
3 Business Failures	0.0618
4 Index of Overtime Worked	0.0910
5 Stock Prices (TOPIX)	0.0385
6 Six Month Growth Rate of Labor Productivity	0.1031
7 Tankan Business Conditions Survey	0.0885
8 Money Supply	0.2996
9 Yield Spread	0.1811
10 New Orders for Machinery and Construction	0.0550
 <u>Coincident Economic Index</u>	
1 Number of Employed Persons	0.5625
2 Industrial Production	0.0934
3 Wage and Salary Income	0.1866
4 Real Retail, Wholesale, and Manufacturing Sales	0.1575

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 with the release in January 2015, 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 2013 period as the sample period for measuring volatility. Separate sets of factors for the December 1973 to August 1974 period, the February 1973 to November 1973 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 2013 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: www.conference-board.org/data/bci.cfm

The trend adjustment factors for The Conference Board LEI are -0.3201 (calculated over the 1992-2013 period) and -0.2633 (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 2015 schedule for “**The Conference Board Leading Economic Index**® (LEI) for Japan” news releases is:

Wednesday, February 11, 2015	For December 2014 data
Thursday, March 12, 2015	For January 2015 data
Thursday, April 9, 2015	For February 2015 data
Tuesday, May 12, 2015	For March 2015 data
Thursday, June 11, 2015	For April 2015 data
Monday, July 13, 2015	For May 2015 data
Thursday, August 13, 2015	For June 2015 data
Monday, September 14, 2015	For July 2015 data
Tuesday, October 13, 2015	For August 2015 data
Thursday, November 12, 2015	For September 2015 data
Thursday, December 10, 2015	For October 2015 data

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

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**The Conference Board Leading Economic Index® (LEI) and
The Conference Board Coincident Economic Index® (CEI) for Japan**

Table 1. - Summary of Japan Composite Economic Indexes

	2014						
	May	Jun	Jul	Aug	Sep	Oct	Nov
Leading index	103.1 r	102.3 r	101.6 r	101.8 r	102.6 p	102.7 p	103.3 p
Percent change	-1.2	-0.8 r	-0.7 r	0.2 r	0.8 p	0.1 p	0.6 p
Diffusion index	30.0	55.0	50.0	50.0	85.0	90.0	80.0
Coincident index	98.0 r	97.5 r	97.4 r	97.3 r	97.8 p	97.8 p	97.7 p
Percent change	0.3 r	-0.5 r	-0.1	-0.1	0.5 p	0.0 p	-0.1 p
Diffusion index	62.5	12.5	50.0	25.0	87.5	75.0	25.0
	Nov to May	Dec to Jun	Jan to Jul	Feb to Aug	Mar to Sep	Apr to Oct	May to Nov
Leading index							
Percent change	-2.6 r	-3.1 r	-3.4 r	-3.2 r	-2.0 p	-1.5 p	0.2 p
Diffusion index	40.0	20.0	45.0	50.0	50.0	50.0	70.0
Coincident index							
Percent change	-1.0	-1.5 r	-1.8 r	-1.8	-1.7 p	0.1 p	-0.3 p
Diffusion index	50.0	25.0	25.0	25.0	25.0	50.0	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.

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

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**The Conference Board Leading Economic Index® (LEI) and
The Conference Board Coincident Economic Index® (CEI) for Japan**

Table 2. - Data and Net Contributions for Components of The Conference Board Leading Economic Index® (LEI) for Japan

Component	2014						
	May.	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
Japan Leading Economic Index Component Data							
Real Operating Profits, (Bill. 2010 Yen, S.A., Q).....	14105.13	14082.93	14060.72	14038.52	14043.34 **	14067.41 **	14104.23 **
Dw elling Units Started (Thous. S.A.).....	72.68	73.60	69.95	70.41	73.31	75.32	73.99
Business Failures, (Number, S.A.)* (3 mo. moving avg.).....	135.09 r	145.29 r	135.64 r	121.60 r	108.79 r	108.53 r	105.69
Index of Overtime Worked, Mfg. (2010=100, S.A.)	111.8 r	109.3 r	109.1 r	107.7	109.4 r	110.8 r	111.9
Stock Price Index, (Jan. 4, 1968=100).....	1201.41	1262.56	1289.42	1277.97	1326.29	1333.64	1410.34
Six-Month Growth Rate of Labor Productivity Mfg. (3 mo. moving avg., pct.).....	4.03 r	0.79 r	-2.34 r	-4.23	-3.68 r	-3.27 r	-1.62 **
Tankan Business Conditions, All Enterprises, All Industries (Balance +/-, Q).....	1.0	3.0	5.0	7.0	5.0 r	3.0 r	1.0
Real Money Supply, M2 + CD Money, (10 Bill. 2010 Yen, S.A.).....	84114.55	84142.32	84220.42 r	84499.37 r	84696.09 r	85452.58 r	86197.12
Yield Spread, (10 year gov bonds minus 3 month interbank rate).....	0.36	0.35	0.32	0.27	0.30	0.26	0.24
New Orders for Machinery and Construction, (3 mo. moving avg., 100 Mill. 2010 Yen, S.A.).....	2100 r	2149 r	1891 r	1857 r	1859 r	1861 r	1902 **
LEADING INDEX (2010=100).....	103.1 r	102.3 r	101.6 r	101.8 r	102.6 p	102.7 p	103.3 p
Percent change from preceding month.....	-1.2	-0.8 r	-0.7 r	0.2 r	0.8 p	0.1 p	0.6 p
Japan Leading Economic Index Net Contributions							
Real Operating Profits, (Bill. 2010 Yen, S.A., Q).....	....	-0.01	-0.01	-0.01	0.00 **	0.01 **	0.01 **
Dw elling Units Started (Thous. S.A.).....	....	0.04	-0.15	0.02	0.12	0.08	-0.05
Business Failures, (Number, S.A.)* (3 mo. moving avg.).....	....	-0.45 r	0.42 r	0.67 r	0.69	0.01 r	0.16
Index of Overtime Worked, Mfg. (2010=100, S.A.)	....	-0.21	-0.02 r	-0.12 r	0.14 r	0.12 r	0.09
Stock Price Index, (Jan. 4, 1968=100).....	....	0.19	0.08	-0.03	0.14	0.02	0.22
Six-Month Growth Rate of Labor Productivity Mfg. (3 mo. moving avg., pct.).....	....	-0.33 r	-0.32 r	-0.19 r	0.06 r	0.04 r	0.17 **
Tankan Business Conditions, All Enterprises, All Industries (Balance +/-, Q).....	....	0.18	0.18	0.18	-0.18 r	-0.18 r	-0.18
Real Money Supply, M2 + CD Money, (10 Bill. 2010 Yen, S.A.).....	....	0.01	0.03	0.10	0.07	0.27 r	0.26
Yield Spread, (10 year gov bonds minus 3 month interbank rate).....	....	0.06	0.06	0.05	0.05	0.05	0.04
New Orders for Machinery and Construction, (3 mo. moving avg., 100 Mill. 2010 Yen, S.A.).....	....	0.13	-0.70 r	-0.10	0.01 r	0.00 r	0.12 **

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

Haver Analytics, 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 Leading Economic Index® (LEI) and
The Conference Board Coincident Economic Index® (CEI) for Japan**

Table 3. - Data and Net Contributions for Components of The Conference Board Coincident Economic Index® (CEI) for Japan

Component	2014						
	May.	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
Japan Coincident Economic Index Component Data							
Number of Employed Persons, (Thousands of persons, S.A.).....	63590	63590	63530	63620	63660	63550	63450
Industrial Production, (2010=100, S.A.).....	100.0	96.6	97.0	95.2	98.0	98.4 r	97.8
Wage and Salary Income, (2010=100, S.A.)	92.7	92.1	91.8	91.7	91.7	92.0 r	92.1
Real Retail, Wholesale, and Manuf. Sales (Billions of 2010 Yen, S.A.).....	126804.1 r	126615.6 r	126800.7 r	126465.0 r	128040.5 **	128260.1 **	127988.5 **
COINCIDENT INDEX (2010=100).....	98.0 r	97.5 r	97.4 r	97.3 r	97.8 p	97.8 p	97.7 p
Percent change from preceding month.....	0.3 r	-0.5 r	-0.1	-0.1	0.5 p	0.0 p	-0.1 p
Japan Coincident Economic Index Net Contributions							
Number of Employed Persons, (Thousands of persons, S.A.).....	....	0.00	-0.05	0.08	0.04	-0.10	-0.09
Industrial Production, (2010=100, S.A.).....	....	-0.32	0.04	-0.17 r	0.27	0.04 r	-0.06
Wage and Salary Income, (2010=100, S.A.)	....	-0.12	-0.06	-0.02	0.00	0.06 r	0.02
Real Retail, Wholesale, and Manuf. Sales (Billions of 2010 Yen, S.A.).....	....	-0.02	0.02	-0.04 r	0.20 **	0.03 **	-0.03 **

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, Haver Analytics

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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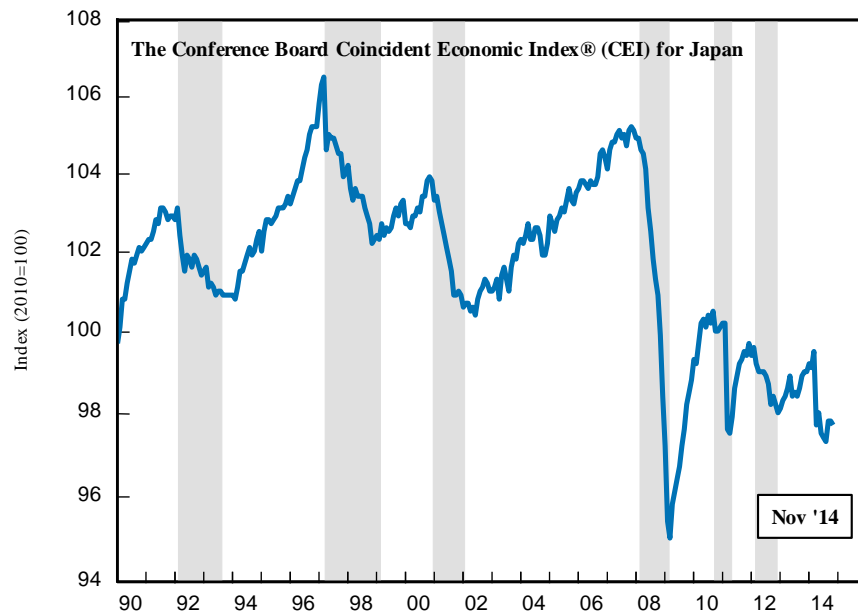
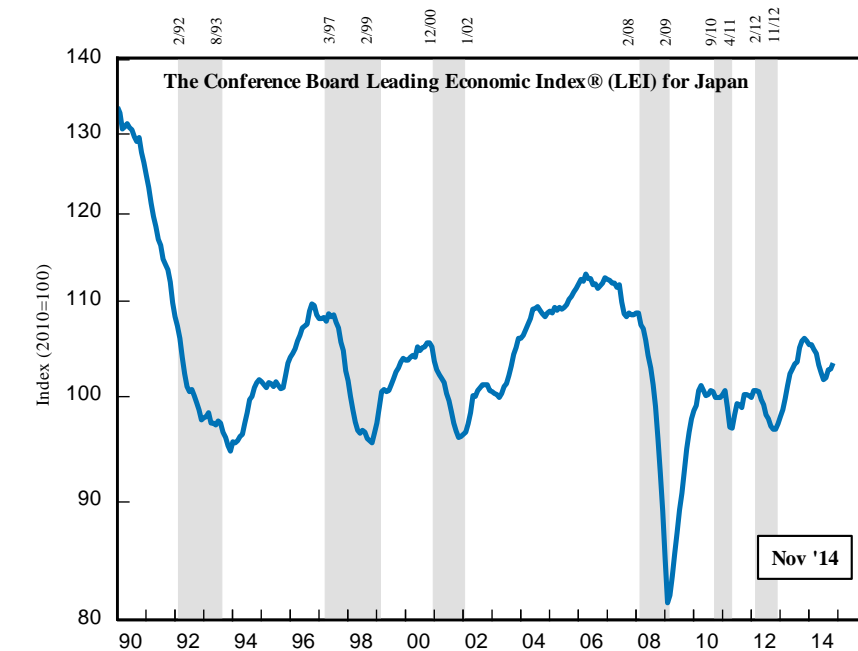
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Japan Composite Economic Indexes



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.

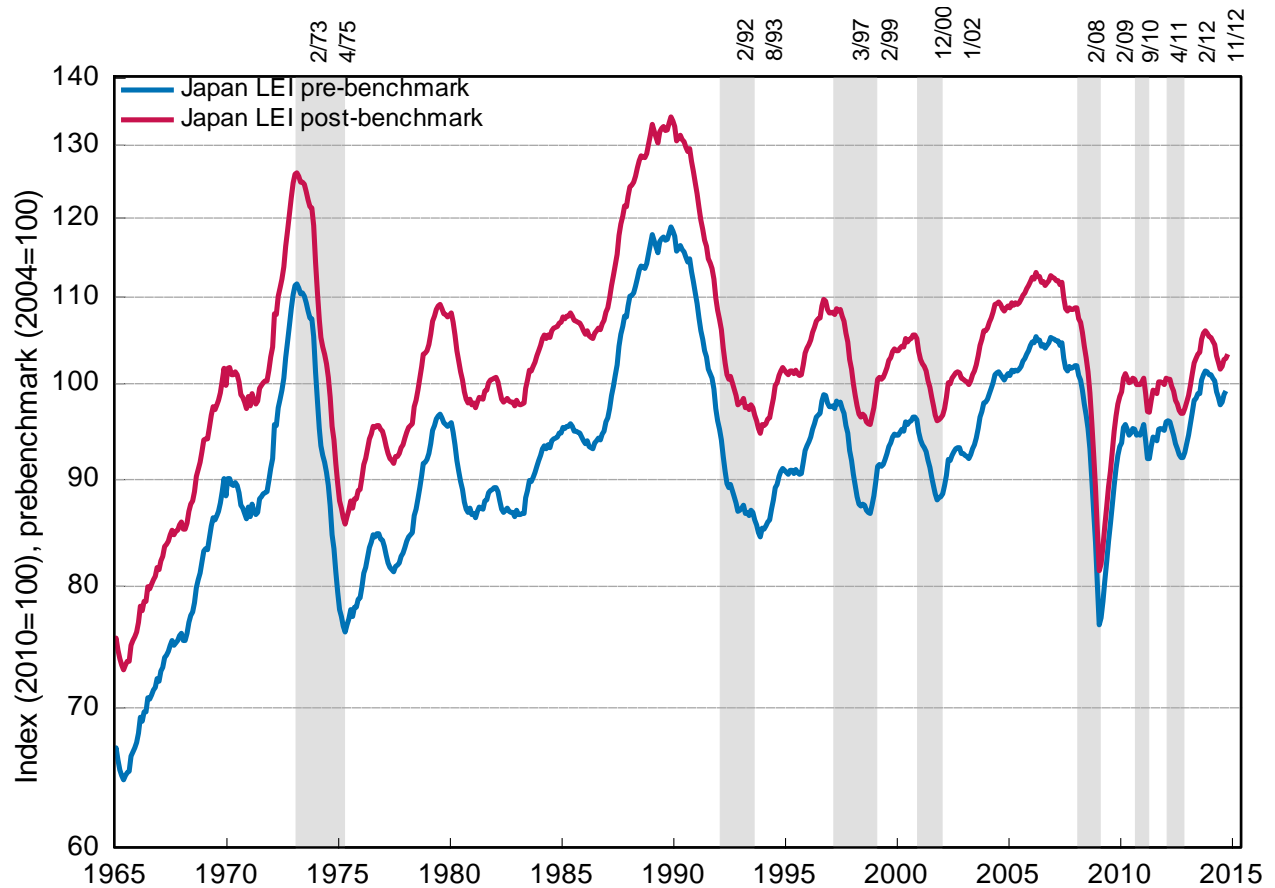
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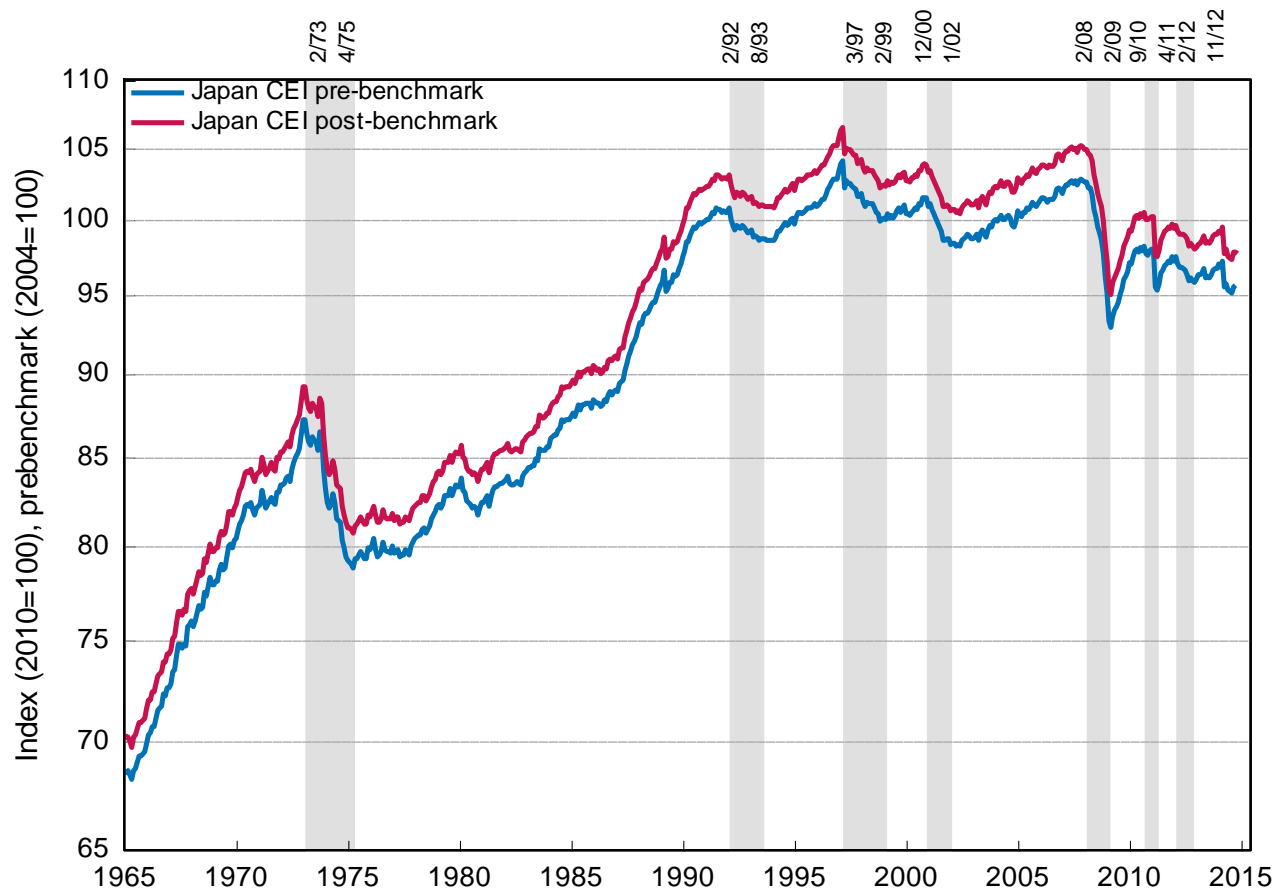
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The Conference Board Leading Economic Index® (LEI) for Japan before and after benchmark revision



The Conference Board Coincident Economic Index® (CEI) for Japan before and after benchmark revision



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.