

May 2008 Benchmark Revisions to The Conference Board's Mexico Leading Economic Indicators and Related Composite Indexes

The May 2008 release of The Conference Board's Mexico Leading Economic Indicators and Related Composite Indexes incorporates benchmark revisions to the composite leading and coincident indexes.

The composition of the coincident economic index (CEI) for Mexico was revised effective with the May 2008 release. The CEI for Mexico will be comprised of three components: employment, industrial production, and retail sales. With this revision the unemployment rate series has been omitted from the composition of the Coincident Economic Index (CEI) because of its lack of trend and high month to month volatility. In addition, the industrial production component will be seasonally adjusted by The Conference Board using the Census X-12 methodology; in the past, the industrial production series was seasonally adjusted by the source agency. As a result of these revisions, the CEI should provide an improved monthly measure of current economic activity for Mexico and better enable the measurement and analysis of the Mexican economy's cyclical dynamics.

The composition of the leading index has not been altered, but this benchmark revision also implements an old and well-known trend adjustment to the leading index, based on the average growth rate in the CEI. This procedure does not affect the cyclical properties of the LEI, but it offers two advantages: With this procedure, the trend in the LEI will not vary with changes in the composition of the index or set of indicators used to calculate it. This facilitates the interpretation of the indexes as cyclical measures, and provides a more consistent framework for their use. The trend adjustment also makes the long-term growth of the LEI more similar to that of the CEI, and makes the levels of the indexes more meaningful. While the composite indexes are mainly used to indicate directional changes in aggregate economic activity, many users also regard them as measures of the level of economic activity. The trend adjustment facilitates this use. The trend adjustment factor for the leading index is 0.0318 and it is calculated over the 1980-2006 period and applied to the complete history of the index.

The benchmark revisions also bring the history of the composite indexes up-to-date with data revisions in their existing components and update the standardization factors used in the calculations. This is a maintenance procedure typically done once a year, which usually does not change the cyclical properties of the indexes and has, as expected, relatively small effects.

These changes are the result of research at The Conference Board (TCB) and regular consultations with its Business Cycle Indicators Advisory Panel and other experts. The Conference Board continuously monitors the behavior and performance of the composite indexes and their components and makes changes from time to time. This revision is consistent with long-standing TCB policy to make changes to the indexes when research indicates substantial improvements are possible. Similar methodological changes were introduced into the US LEI recently and will be incorporated into the LEIs of other countries covered by the TCB's global indicators program. *Because of these revisions, the composite indexes and their monthly changes are no longer directly comparable with previous releases.*

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