

The Conference Board® Spain Business Cycle IndicatorsSM

September 2007 BENCHMARK REVISIONS

Spain LEADING ECONOMIC INDICATORS AND RELATED COMPOSITE INDEXES

With the September 2007 release, the composition of the coincident index for Spain has been revised to include national accounts employment series, and a new trend adjustment has been added to the LEI methodology. The employment series is an important coincident indicator that adds relevant information on labor market developments to the CEI. The trend adjustment facilitates interpretation and use of the LEI.

The benchmark revisions will 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. This benchmark revision also institutes an old and well-known trend adjustment procedure to the leading index. The trend adjustment factor of 0.0224 is applied over one sample period: 1984:1 to 2005:12. This procedure does not affect the cyclical properties of the LEI, but it offers two advantages:

1. The long-term trend in the LEI will be equated to the trend that is measured by the average growth rate in the coincident index (CEI). Hence, the trend of the LEI will not vary with changes in the composition of the index, i.e. the 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.
2. The trend adjustment makes the long term growth of the leading index more similar to that of the coincident index. In turn, the levels of these indexes are more meaningful since the coincident index is a measure of current economic activity. 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.

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. Because of these revisions, the composite indexes and their monthly changes are no longer directly comparable with previous releases.