



THE CONFERENCE BOARD

FOR RELEASE: 10:00 A.M. JST, WEDNESDAY, DECEMBER 8, 2010

The Conference Board[®]
Japan Business Cycle IndicatorsSM
THE CONFERENCE BOARD LEADING ECONOMIC INDEX[®] (LEI)
FOR JAPAN
AND RELATED COMPOSITE ECONOMIC INDEXES FOR OCTOBER 2010

Next month's release will incorporate 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.

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

The Conference Board Leading Economic Index[®] (LEI) for Japan decreased 1.5 percent and **The Conference Board Coincident Economic Index[®] (CEI)** decreased 0.8 percent in October.

- The Conference Board LEI for Japan fell sharply in October, and it has declined for five of the last six months. There were also downward revisions to the index for the previous four months, as actual data for real operating profits for the third quarter became available. With this month's decline, the six-month change in the leading economic index has continued to fall -- to -4.5 percent (a -8.9 percent annual rate) from April to October 2010, down sharply from 10.9 percent (about a 23.1 percent annual rate) for the previous six months. In addition, the weaknesses among the leading indicators have become more widespread than the strengths in recent months.
- The Conference Board CEI for Japan, a measure of current economic activity, also declined in October. There were also sharp downward revisions to the index in recent months as third quarter data for manufacturing sales became available. In October, all components of the coincident economic index fell. With this month's decline, the six-month change in the coincident economic index stands at -1.8 percent (a -3.6 percent annual rate) for the period through October 2010, down from 2.9 percent (about a 5.9 percent annual rate) for the previous six months. At the same time, real GDP grew at a 3.9 percent (annual rate) in the third quarter of 2010, up from the increase of 1.8 percent (annual rate) in the second quarter.
- The Conference Board LEI for Japan has continued to fall, and its six-month growth rate has become negative amid widespread weakness among its components. Meanwhile, The Conference Board CEI for Japan has also been decreasing, with its six-month growth rate turning negative recently. Taken together, the behavior of the composite indexes suggests that economic activity may weaken further in the coming months.

The next release is scheduled for Wednesday, January 12, 2011 at 10:00 A.M. (JST)

In the U.S – Tuesday, January 11, 2011 at 8:00 P.M (ET)

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

With the decrease of 1.5 percent in October, The Conference Board LEI for Japan now stands at 98.7 (2004=100). Based on revised data, this index decreased 0.6 percent in September and remained unchanged in August. During the six-month span through October, the index decreased 4.5 percent, and four of the ten components advanced (diffusion index, six-month span equals 40.0 percent).

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

With the decrease of 0.8 percent in October, The Conference Board CEI for Japan now stands at 97.3 (2004=100). Based on revised data, this index decreased 0.3 percent in both September and August. During the six-month span through October, the index decreased 1.8 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” 5:00 P.M. ET December 6, 2010. 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 | 0.0608 |
| 2 Dwelling Units Started | 0.0349 |
| 3 Business Failures | 0.0618 |
| 4 Index of Overtime Worked | 0.0987 |
| 5 Stock Prices (TOPIX) | 0.0380 |
| 6 Six Month Growth Rate of Labor Productivity | 0.1209 |
| 7 Tankan Business Conditions Survey | 0.0875 |
| 8 Money Supply | 0.2809 |
| 9 Yield Spread | 0.1668 |
| 10 New Orders for Machinery and Construction | 0.0497 |
| <u>Coincident Economic Index</u> | |
| 1 Number of Employed Persons | 0.5520 |
| 2 Industrial Production | 0.1120 |
| 3 Wage and Salary Income | 0.1720 |
| 4 Real Retail, Wholesale, and Manufacturing Sales | 0.1640 |

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 2010, 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 2008 period as the sample period for measuring volatility. Separate sets of factors for 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 2008 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 -0.2127 (calculated over the 1992-2008 period) and -0.2218 (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 2011 schedule for **The Conference Board Leading Economic Index**[®] (LEI) news releases is:

November 2011 Data ... Tuesday, January 11, 2011
December 2011 Data ... Thursday, February 10, 2011
January 2011 Data ... Tuesday, March 08, 2011
February 2011 Data ... Tuesday, April 05, 2011
March 2011 Data ... Thursday, May 05, 2011
April 2011 Data ... Thursday, June 09, 2011
May 2011 Data ... Thursday, July 07, 2011
June 2011 Data ... Tuesday, August 09, 2011
July 2011 Data ... Thursday, September 08, 2011
August 2011 Data ... Thursday, October 06, 2011
September 2011 Data ... Tuesday, November 08, 2011
October 2011 Data ... Tuesday, December 06, 2011

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

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BCI Handbook (published 2001)

\$ 25

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The Conference Board Japan Business Cycle Indicators

Table 1.--Summary of Japan Composite Economic Indexes

| | 2010 | | | | | | |
|------------------|-------|-------|---------|---------|---------|---------|--------|
| | Apr | May | Jun | Jul | Aug | Sep | Oct |
| Leading index | 103.4 | 102.9 | 101.0 r | 100.8 r | 100.8 r | 100.2 p | 98.7 p |
| Percent change | 0.3 | -0.5 | -1.8 r | -0.2 r | 0.0 r | -0.6 p | -1.5 p |
| Diffusion index | 50.0 | 55.0 | 50.0 | 65.0 | 55.0 | 40.0 | 35.0 |
| Coincident index | 99.1 | 99.0 | 98.7 r | 98.7 r | 98.4 r | 98.1 p | 97.3 p |
| Percent change | 0.4 | -0.1 | -0.3 r | 0.0 r | -0.3 r | -0.3 p | -0.8 p |
| Diffusion index | 75.0 | 50.0 | 50.0 | 50.0 | 37.5 | 25.0 | 0.0 |

| | Oct to | Nov to | Dec to | Jan to | Feb to | Mar to | Apr to |
|------------------|--------|--------|--------|--------|--------|--------|--------|
| | Apr | May | Jun | Jul | Aug | Sep | Oct |
| Leading index | | | | | | | |
| Percent change | 10.9 | 7.7 | 3.8 r | 1.3 r | 0.3 r | -2.8 p | -4.5 p |
| Diffusion index | 90.0 | 90.0 | 60.0 | 50.0 | 70.0 | 40.0 | 40.0 |
| Coincident index | | | | | | | |
| Percent change | 2.9 | 2.5 | 1.5 r | 0.2 r | 0.1 r | -0.6 p | -1.8 p |
| Diffusion index | 75.0 | 75.0 | 75.0 | 75.0 | 50.0 | 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.

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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 | 2010 | | | | | | | | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|-------------|----------|----------|
| | Apr. | May. | Jun. | Jul. | Aug. | Sep. | Oct. | | |
| Japan Leading Economic Index Component Data | | | | | | | | | |
| Real Operating Profits, (Bill. 2005 Yen, S.A., Q)..... | 12653.38 | 13217.40 | 12742.82 | 12268.24 | 11793.66 | 11425.45 | 11137.28 | ** | ** |
| Dw elling Units Started, (Tens, S.A.) (3 mo. moving avg.)..... | 6270.10 | 6382.90 | 6505.57 | 6580.27 | 6980.60 | 7090.93 | 7176.97 | | |
| Business Failures, (Number, S.A.)* (3 mo. moving avg.)..... | 266.03 | 267.55 | 256.73 | 258.17 | 258.25 | 260.53 | 258.66 | | |
| Index of Overtime Worked, Mfg. (2005=100, S.A.) | 87.1 | 87.2 | 87.4 | 88.2 | 88.3 | 86.4 | 83.0 | | |
| Stock Price Index, (Jan. 4, 1968=100)..... | 987.04 | 880.46 | 841.42 | 849.50 | 804.67 | 829.51 | 810.91 | | |
| Six Month Grow th Rate of Labor Productivity Mfg. (3 mo. moving avg., pct.)..... | 33.77 | 30.93 | 25.79 | 19.81 | 14.24 | 8.97 | 3.27 | | |
| Tankan Business Conditions, All Enterprises, All Industries (Balance +/-, Q)..... | -28.7 | -26.0 | -22.7 | -19.3 | -16.0 | -16.3 | -16.7 | | |
| Real Money Supply, M2 + CD Money, (10 Bill. 2005 Yen, S.A.)..... | 77387.07 | 77761.14 | 77853.05 | 78146.67 | 78559.55 | 78520.66 | 78300.96 | | |
| Yield Spread, 10 year minus 3 months..... | 0.88 | 0.87 | 0.71 | 0.69 | 0.62 | 0.57 | 0.57 | | |
| New Orders for Machinery and Construction, (3 mo. moving avg., 100 Mill. 2005 Yen, S.A.)..... | 18438 | 17275 | 12989 | 13731 | 15525 | 16978 | 17001 | ** | |
| LEADING INDEX (2004=100)..... | 103.4 | 102.9 | 101.0 | 100.8 | 100.8 | 100.2 | 98.7 | p | p |
| Percent change from preceding month..... | 0.3 | -0.5 | -1.8 | -0.2 | 0.0 | -0.6 | -1.5 | p | p |
| Japan Leading Economic Index Net Contributions | | | | | | | | | |
| Real Operating Profits, (Bill. 2005 Yen, S.A., Q)..... | .... | 0.27 | -0.22 | -0.23 | -0.24 | -0.19 | -0.16 | ** | ** |
| Dw elling Units Started, (Tens, S.A.) (3 mo. moving avg.)..... | .... | 0.06 | 0.07 | 0.04 | 0.21 | 0.05 | 0.04 | | |
| Business Failures, (Number, S.A.)* (3 mo. moving avg.)..... | .... | -0.04 | 0.26 | -0.03 | 0.00 | -0.05 | 0.04 | | |
| Index of Overtime Worked, Mfg. (2005=100, S.A.) | .... | 0.01 | 0.02 | 0.09 | 0.01 | -0.21 | -0.40 | | |
| Stock Price Index, (Jan. 4, 1968=100)..... | .... | -0.43 | -0.17 | 0.04 | -0.21 | 0.12 | -0.09 | | |
| Six Month Grow th Rate of Labor Productivity Mfg. (3 mo. moving avg., pct.)..... | .... | -0.34 | -0.62 | -0.72 | -0.67 | -0.64 | -0.69 | | |
| Tankan Business Conditions, All Enterprises, All Industries (Balance +/-, Q)..... | .... | 0.24 | 0.29 | 0.30 | 0.29 | -0.03 | -0.03 | | |
| Real Money Supply, M2 + CD Money, (10 Bill. 2005 Yen, S.A.)..... | .... | 0.14 | 0.03 | 0.11 | 0.15 | -0.01 | -0.08 | | |
| Yield Spread, 10 year minus 3 months..... | .... | 0.15 | 0.12 | 0.12 | 0.10 | 0.10 | 0.10 | | |
| New Orders for Machinery and Construction, (3 mo. moving avg., 100 Mill. 2005 Yen, S.A.)..... | .... | -0.32 | -1.41 | 0.28 | 0.61 | 0.44 | 0.01 | ** | |

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 | 2010 | | | | | | |
|---|-------------|-------------|---------------|---------------|---------------|---------------|---------------|
| | Apr. | May. | Jun. | Jul. | Aug. | Sep. | Oct. |
| Japan Coincident Economic Index Component Data | | | | | | | |
| Number of Employed Persons, (Thousands of persons, S.A.)..... | 62450 | 62210 | 62250 | 62460 | 62450 | 62860 | 62680 |
| Industrial Production, (2005=100, S.A.)..... | 96.0 | 96.1 | 95.0 | 94.8 | 94.3 | 92.8 r | 91.1 |
| Wage and Salary Income, (2005=100, S.A.) | 102.0 | 101.8 | 102.1 | 102.8 | 103.4 | 102.8 | 101.7 |
| Real Retail, Wholesale, and Manuf. Sales (Billions of 2005 Yen, S.A.)..... | 142909.7 r | 144041.9 r | 141764.4 r | 139340.6 r | 136339.4 r | 133598.6 ** | 130907.6 ** |
| COINCIDENT INDEX (2004=100)..... | 99.1 | 99.0 | 98.7 r | 98.7 r | 98.4 r | 98.1 p | 97.3 p |
| Percent change from preceding month.... | 0.4 | -0.1 | -0.3 r | 0.0 r | -0.3 r | -0.3 p | -0.8 p |
| Japan Coincident Economic Index Net Contributions | | | | | | | |
| Number of Employed Persons, (Thousands of persons, S.A.)..... | .... | -0.21 r | 0.04 r | 0.19 r | -0.01 r | 0.36 r | -0.16 |
| Industrial Production, (2005=100, S.A.)..... | .... | 0.01 | -0.13 | -0.02 | -0.06 | -0.18 r | -0.21 |
| Wage and Salary Income, (2005=100, S.A.) | .... | -0.03 | 0.05 | 0.12 | 0.10 | -0.10 | -0.19 |
| Real Retail, Wholesale, and Manuf. Sales (Billions of 2005 Yen, S.A.)..... | .... | 0.13 | -0.26 r | -0.28 r | -0.36 r | -0.33 ** | -0.33 ** |

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 La
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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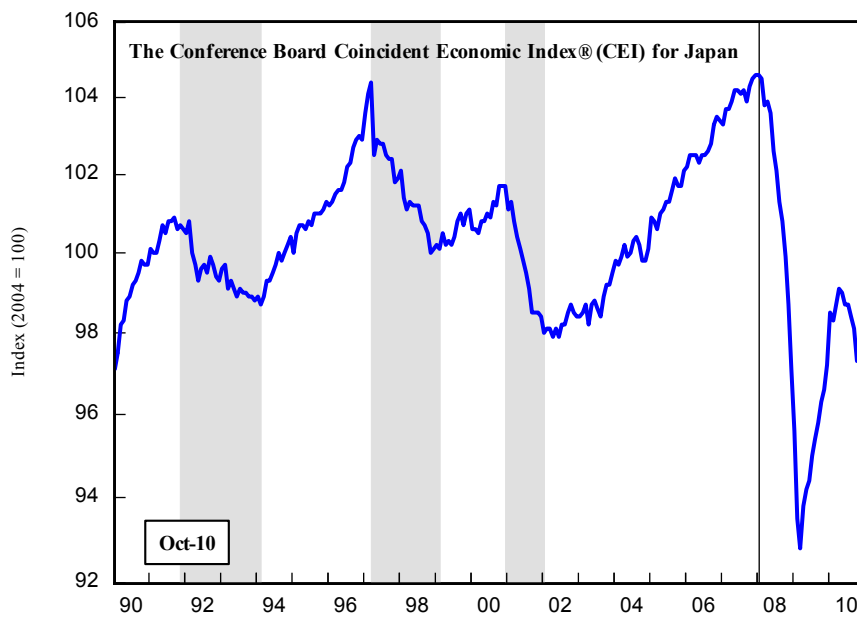
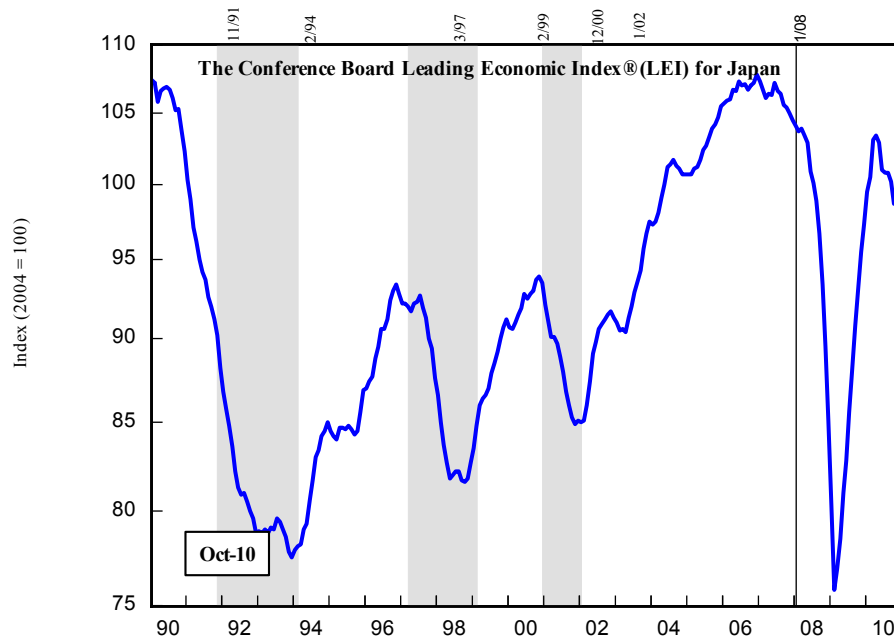
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Japan



Note: The shaded areas represent business cycle recessions.
The peaks and troughs are designated by The Conference Board based on the coincident index and real GDP.

Source: The Conference Board