



THE CONFERENCE BOARD

FOR RELEASE: 10:00 A.M. JST, WEDNESDAY, JANUARY 13, 2010

The Conference Board®  
Japan Business Cycle Indicators<sup>SM</sup>  
**THE CONFERENCE BOARD LEADING ECONOMIC INDEX™ (LEI)**  
**FOR JAPAN**  
**AND RELATED COMPOSITE ECONOMIC INDEXES FOR NOVEMBER 2009**

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. 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 will not be comparable to those issued prior to the benchmark revision.

For more information, please visit our website at <http://www.conference-board.org/economics/bci/> or contact us at [indicators@conference-board.org](mailto:indicators@conference-board.org).

**The Conference Board Leading Economic Index™ (LEI)** for Japan increased 1.7 percent  
**The Conference Board Coincident Economic Index™ (CEI)** increased 0.2 percent in November.

- The Conference Board LEI for Japan increased again in November, and the strengths among the leading indicators continued to be more widespread than weaknesses. With November's increase, the six-month growth in the leading economic index continued to pick up, to 15.9 percent (a 34.4 percent annual rate) in the six months ending in November 2009, a large improvement from the 9.5 percent decline (about a -18.1 percent annual rate) during the previous six months. Moreover, the strengths among the leading indicators have remained widespread during the last six months.
- The Conference Board CEI for Japan also continued to increase in November. With this month's gain, the coincident economic index increased by 2.1 percent (a 4.3 percent annual rate) from May to November 2009, well above the 4.6 percent decline (about a -8.9 percent annual rate) during the previous six months. Additionally, in the last six months, the strengths among the coincident indicators remained more widespread than the weaknesses. At the same time, real GDP grew at a 1.3 percent annual rate in the third quarter of 2009, slightly below the 2.7 percent annual rate of growth for the second quarter, but still a large improvement from the 11.9 percent annual rate contraction in the first quarter of the year.
- Although its six-month growth rate has moderated somewhat in the last three months, The Conference Board LEI for Japan has improved substantially since March 2009 from the deep declines in the second half of 2008. At the same time, The Conference Board CEI for Japan also began to increase in the second quarter, and its six-month growth rate continues to pick up. Taken together, the behavior of the composite indexes suggests that economic activity will continue to improve, but likely at a modest pace in the near term.

The next release is scheduled for Wednesday, February 10, 2010 at 10:00 A.M. (JST)

*In the U.S* – Tuesday, February 9, 2010 at 8:00 P.M (ET)

**LEADING INDICATORS.** Seven 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 – include the six month growth rate of labor productivity, the (inverted) business failures, the Tankan business conditions survey, real operating profits\*, dwelling units started, interest rate spread, and the index of overtime worked. The negative contributors – in order from the largest negative contributor to the smallest – include stock prices and real money supply. The new orders for machinery and construction component\* remained unchanged in November.

With the increase of 1.7 percent in November, The Conference Board LEI for Japan now stands at 93.9 (2004=100). Based on revised data, this index increased 2.0 percent in October and increased 2.7 percent in September. During the six-month span through November, the index increased 15.9 percent, and eight of the ten components advanced (diffusion index, six-month span equals 85.0 percent).

**COINCIDENT INDICATORS.** Three of the four components that make up The Conference Board CEI for Japan increased in November. The positive contributors to the index – in order from the largest positive contributor to the smallest – include industrial production, number of employed persons, and the retail, wholesale, and manufacturing sales\* component. Wage and salary income\* declined in November.

With the increase of 0.2 percent in November, The Conference Board CEI for Japan now stands at 96.2 (2004=100). Based on revised data, this index increased 0.2 percent in October and increased 0.3 percent in September. During the six-month span through November, the index increased 2.1 percent, and three of the four components advanced (diffusion index, six-month span equals 75.0 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 January 11, 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: <http://www.conference-board.org/economics/bci>.

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 2010 schedule for **The Conference Board Leading Economic Index™** (LEI) news releases is:

December 2009 Data ... Tuesday, February 09, 2010  
January 2010 Data ... Tuesday, March 09, 2010  
February 2010 Data ... Tuesday, April 06, 2010  
March 2010 Data ... Thursday, May 06, 2010  
April 2010 Data ... Thursday, June 10, 2010  
May 2010 Data ... Thursday, July 08, 2010  
June 2010 Data ... Thursday, August 05, 2010  
July 2010 Data ... Thursday, September 09, 2010  
August 2010 Data ... Thursday, October 07, 2010  
September 2010 Data ... Tuesday, November 09, 2010  
October 2010 Data ... Tuesday, December 07, 2010

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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### **AVAILABLE FROM THE CONFERENCE BOARD:**

Japan Business Cycle Indicators Internet Subscription <i>(Includes monthly release, data, charts and commentary)</i>	\$ 635 per year (1 user)
Individual Data Series	\$ 35 per series downloaded
Monthly BCI Report <i>(Sample available at <a href="http://www.conference-board.org/publications/describeBCI.cfm">http://www.conference-board.org/publications/describeBCI.cfm</a>)</i>	\$ 275 per year
BCI Handbook (published 2001)	\$ 20
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Business Cycle Indicators for the U.S., France, Germany, Spain, Japan, Korea, Mexico, and the U.K., are available at \$635 per country per year (1 user). Discounts are available to Associates of The Conference Board and accredited academic institutions.

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The Conference Board Japan Business Cycle Indicators

Table 1.--Summary of Japan Composite Economic Indexes

	2009						
	May	Jun	Jul	Aug	Sep	Oct	Nov
Leading index	81.0	82.8	85.6	88.1	90.5 p	92.3 p	93.9 p
Percent change	3.2	2.2	3.4	2.9	2.7 p	2.0 p	1.7 p
Diffusion index	80.0	80.0	90.0	80.0	75.0	80.0	70.0
Coincident index	94.2	94.4	95.0	95.5	95.8 p	96.0 p	96.2 p
Percent change	0.4	0.2	0.6	0.5	0.3 p	0.2 p	0.2 p
Diffusion index	75.0	75.0	87.5	75.0	87.5	75.0	50.0
	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	-9.5	-2.7	6.6	16.2	17.7 p	17.6 p	15.9 p
Diffusion index	40.0	50.0	70.0	70.0	80.0	75.0	85.0
Coincident index							
Percent change	-4.6	-2.8	-0.6	2.1	3.2 p	2.3 p	2.1 p
Diffusion index	25.0	0.0	50.0	75.0	75.0	75.0	75.0

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	2009						
	May.	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
<b>Japan Leading Economic Index Component Data</b>							
Real Operating Profits, (Bill. 1990 Yen, S.A., Q)....	5868.18	6425.23	6982.27	7539.32	7945.55 **	8240.16 **	8452.20 **
Dwelling Units Started, (Tens, S.A.) (3 mo. moving avg.).....	6521.03	6575.70	6568.23	6466.37	6230.13	6268.33	6549.97
Business Failures, (Number, S.A.)* (3 mo. moving avg.).....	436.76	406.02	386.21	369.21	350.38	341.94	315.26
Index of Overtime Worked, Mfg. (2000=100, S.A.)	59.3	60.4	66.1	70.4	74.2	77.5	78.3
Stock Price Index, (Jan. 4, 1968=100).....	897.91	929.76	950.26	965.73	909.84	894.67	839.94
Six Month Growth Rate of Labor Productivity Mfg. (3 mo. moving avg., pct.).....	-41.53	-31.23	-21.52	-13.45	-5.20	1.97	10.09
Tankan Business Conditions, All Enterprises, All Industries (Balance +/-, Q).....	-52.0	-48.3	-44.7	-41.0	-38.7	-36.3	-34.0
Real Money Supply, M2 + CD Money, (10 Bill. 2005 Yen, S.A.).....	74796.73	74985.93	75240.40	75693.97	75871.83	76503.66	76332.03
Yield Spread, 10 year minus 3 months.....	0.91	0.79	0.87	0.77	0.76	0.88	0.89
New Orders for Machinery and Construction, (3 mo. moving avg., 100 Mill. 1995 Yen, S.A.).....	16143	13690	13961	14343	16481	16445	16441 **
<b>LEADING INDEX (2004=100).....</b>	<b>81.0</b>	<b>82.8</b>	<b>85.6</b>	<b>88.1</b>	<b>90.5 p</b>	<b>92.3 p</b>	<b>93.9 p</b>
Percent change from preceding month.....	3.2	2.2	3.4	2.9	2.7 p	2.0 p	1.7 p
<b>Japan Leading Economic Index Net Contributions</b>							
Real Operating Profits, (Bill. 1990 Yen, S.A., Q)....	....	0.55	0.51	0.47	0.32 **	0.22 **	0.15 **
Dwelling Units Started, (Tens, S.A.) (3 mo. moving avg.).....	....	0.03	0.00	-0.05	-0.13	0.02	0.15
Business Failures, (Number, S.A.)* (3 mo. moving avg.).....	....	0.45	0.31	0.28	0.32	0.15	0.50
Index of Overtime Worked, Mfg. (2000=100, S.A.)	....	0.18	0.89	0.62	0.52	0.43	0.10
Stock Price Index, (Jan. 4, 1968=100).....	....	0.13	0.08	0.06	-0.23	-0.06	-0.24
Six Month Growth Rate of Labor Productivity Mfg. (3 mo. moving avg., pct.).....	....	1.25	1.17	0.98	1.00	0.87	0.98
Tankan Business Conditions, All Enterprises, All Industries (Balance +/-, Q).....	....	0.32	0.32	0.32	0.20	0.21	0.20
Real Money Supply, M2 + CD Money, (10 Bill. 2005 Yen, S.A.).....	....	0.07	0.10	0.17	0.07	0.23	-0.06
Yield Spread, 10 year minus 3 months.....	....	0.13	0.15	0.13	0.13	0.15	0.15
New Orders for Machinery and Construction, (3 mo. moving avg., 100 Mill. 1995 Yen, S.A.).....	....	-0.82	0.10	0.13	0.69	-0.01	0.00 **

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	2009						
	May.	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
<b>Japan Coincident Economic Index Component Data</b>							
Number of Employed Persons, (Thousands of persons, S.A.).....	62610	62330	62310	62600	62640	62440	62470
Industrial Production, (2005=100, S.A.).....	79.1	80.9	82.6	83.9	85.7	86.1	88.3
Wage and Salary Income, (2005=100, S.A.	99.2	99.3	99.6	100.4	100.4	101.2 r	100.7
Real Retail, Wholesale, and Manuf. Sales (Billions of 2005 Yen, S.A.).....	121750.6	123477.7	125821.6	125541.5	126138.3 **	127405.9 **	127455.2 **
<b>COINCIDENT INDEX (2004=100).....</b>	<b>94.2</b>	<b>94.4</b>	<b>95.0</b>	<b>95.5</b>	<b>95.8 p</b>	<b>96.0 p</b>	<b>96.2 p</b>
Percent change from preceding month....	0.4	0.2	0.6	0.5	0.3 p	0.2 p	0.2 p
<b>Japan Coincident Economic Index Net Contributions</b>							
Number of Employed Persons, (Thousands of persons, S.A.).....	....	-0.25	-0.02	0.26	0.04	-0.18	0.03
Industrial Production, (2005=100, S.A.).....	....	0.25	0.23	0.17	0.24	0.05	0.28
Wage and Salary Income, (2005=100, S.A.	....	0.02	0.05	0.14	0.00	0.14	-0.09
Real Retail, Wholesale, and Manuf. Sales (Billions of 2005 Yen, S.A.).....	....	0.23	0.31	-0.04	0.08 **	0.16 **	0.01 **

# 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

**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).

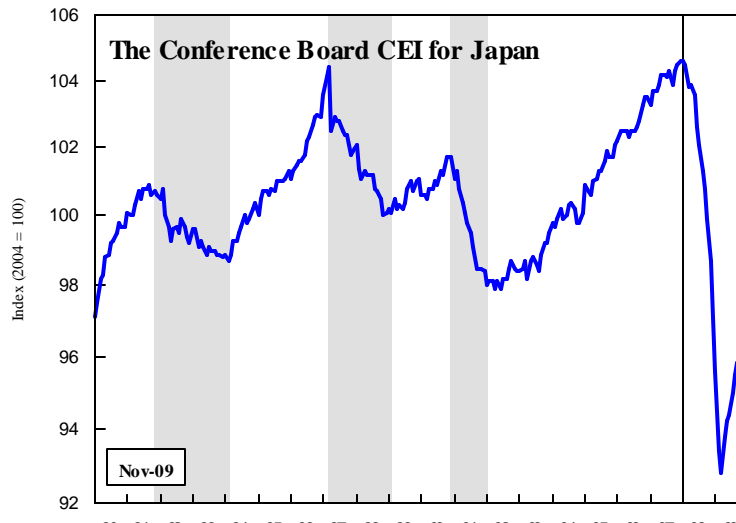
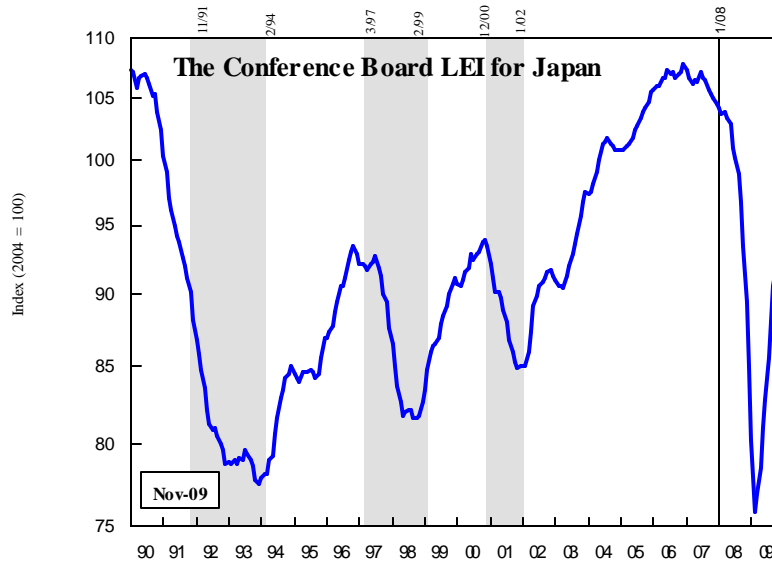
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## Japan



Note: The shaded areas represent business cycle recessions.

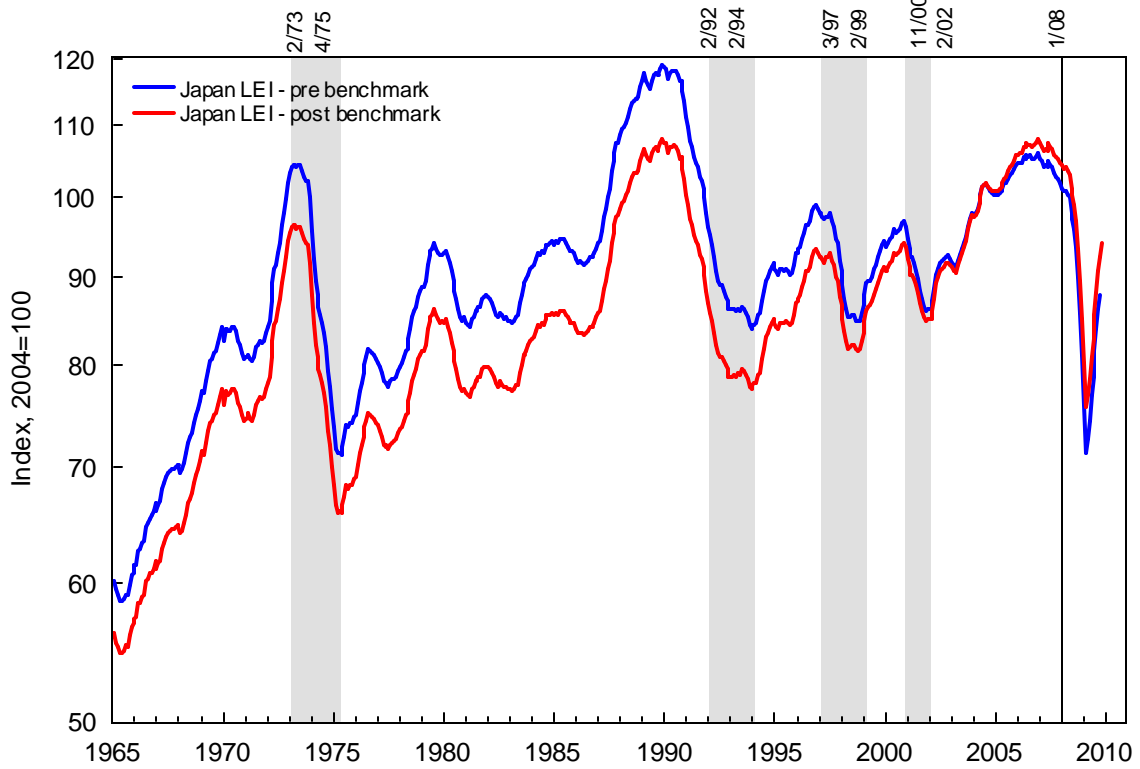
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The peaks and troughs are designated by The Conference Board based on the coincident index and real GDP.



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Leading Economic Indexes before and after benchmark



Coincident Economic Indexes before and after benchmark

