



THE CONFERENCE BOARD

FOR RELEASE: 10:00 A.M. JST, FRIDAY, MAY 8, 2009

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 MARCH 2009**

**The Conference Board Leading Economic Index™ (LEI)** for Japan decreased 3.5 percent and **The Conference Board Coincident Economic Index™ (CEI)** decreased 1.1 percent in March.

- The Conference Board LEI for Japan continued its sharp downward trend in March. The newly revised data for operating profits fell at a historic pace in the fourth quarter of 2008, while the six-month growth rate of labor productivity, the Tankan business conditions index, and dwelling units started continued to make large negative contributions to the index this month. With March's decline, the leading economic index has fallen by 26.4 percent (about a -45.9 percent annual rate) from September 2008 to March 2009, the largest six-month decline in its 44-year history. Moreover, the weaknesses among the leading indicators continued to be very widespread.
- The Conference Board CEI for Japan also declined sharply in March. Although industrial production rose sharply in March, its first increase in six months, the number of employees; the retail, wholesale, and manufacturing sales component; and wage and salary income all declined substantially. The six-month growth rate of the index fell to -7.6 percent (a -14.6 percent annual rate), the lowest since the index began in 1965. In addition, the weaknesses among the coincident indicators continued to be very widespread over the past six months. At the same time, real GDP contracted at a 12.1 percent annual rate in the fourth quarter of 2008, the largest drop in 35 years. The growth rate of real GDP averaged -4.2 percent (annual rate) in 2008.
- The widespread declines in The Conference Board LEI and The Conference Board CEI for Japan have been persistent for more than a year now. Although the rate of decline in both composite indexes seems to have stabilized in recent months and industrial production improved in March, it is too early to tell whether Japan's economy is starting to recover. The recent behavior in the leading economic index and coincident economic index for Japan suggests that the current contraction in economic activity is likely to continue in the near term.

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

With the decrease of 3.5 percent in March, The Conference Board LEI for Japan now stands at 68.8 (2004=100). Based on revised data, this index decreased 5.7 percent in February and decreased 6.3 percent in January. During the six-month span through March, the index decreased 26.4 percent, and one of the ten components advanced (diffusion index, six-month span equals 25.0 percent).

The next release is scheduled for Friday, June 12, 2009 at 10:00 A.M. (JST)

*In the U.S* – Thursday, June 11, 2009 at 9:00 P.M (ET)

**COINCIDENT INDICATORS.** One of the four components that make up The Conference Board CEI for Japan increased in March. The positive contributor to the index was industrial production. The retail, wholesale, and manufacturing sales\* component, number of employed persons, and wage and salary income declined in March.

With the decrease of 1.1 percent in March, The Conference Board CEI for Japan now stands at 93.6 (2004=100). Based on revised data, this index decreased 1.8 percent in February and decreased 1.3 percent in January. During the six-month span through March, the index decreased 7.6 percent, and one of the four components advanced (diffusion index, six-month span equals 12.5 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 May 5, 2009. 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.

Professional Contacts at The Conference Board:

Indicator Program: 1-212-339-0330

Website: <http://www.conference-board.org/economics/bci/>

E-mail: [indicators@conference-board.org](mailto:indicators@conference-board.org)

Media Contacts:

Frank Tortorici: 1-212-339-0231

Carol Courter: 1-212-339-0232

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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	0.0751
2 Dwelling Units Started	0.0335
3 Business Failures	0.0594
4 Index of Overtime Worked	0.1056
5 Stock Prices (TOPIX)	0.0379
6 Six Month Growth Rate of Labor Productivity	0.1237
7 Tankan Business Conditions Survey	0.0851
8 Money Supply	0.2700
9 Yield Spread	0.1590
10 New Orders for Machinery and Construction	0.0507
 <u>Coincident Economic Index</u>	
1 Number of Employed Persons	0.5360
2 Industrial Production	0.1170
3 Wage and Salary Income	0.1670
4 Real Retail, Wholesale, and Manufacturing Sales	0.1800

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 2009, 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 2007 period as the sample period for measuring volatility. Separate sets of factors for the September 1974 to December 2007 period, 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 2007 period as the sample period. Separate sets of factors for the August 1978 to December 2007 period, 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 is 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 -0.2687 (calculated over the 1992-2007 period) and -0.2092 (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 2009 schedule for **The Conference Board Leading Economic Index™** (LEI) news releases is:

April 2009 Data ... Thursday, June 11, 2009  
May 2009 Data ... Thursday, July 09, 2009  
June 2009 Data ... Thursday, August 06, 2009  
July 2009 Data ... Thursday, September 10, 2009  
August 2009 Data ... Thursday, October 08, 2009  
September 2009 Data ... Tuesday, November 10, 2009  
October 2009 Data ... Tuesday, December 08, 2009

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

### About The Conference Board

For over 90 years, The Conference Board has created and disseminated knowledge about management and the marketplace to help businesses strengthen their performance and better serve society. The Conference Board operates as a global independent membership organization working in the public interest. It publishes information and analysis, makes economics-based forecasts and assesses trends, and facilitates learning by creating dynamic communities of interest that bring together senior executives from around the world. The Conference Board is a not-for-profit organization and holds 501(c)(3) tax-exempt status in the United States. For additional information about The Conference Board and how it can meet your needs, visit our website at [www.conference-board.org](http://www.conference-board.org).

### 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
Corporate Site License	contact Indicators Program at (212) 339-0330

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

	2008							2009
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
Leading index	93.5	89.9 r	85.7 r	80.7 p	75.6 p	71.3 p	68.8 p	
Percent change	-2.3	-3.9 r	-4.7	-5.8 p	-6.3 p	-5.7 p	-3.5 p	
Diffusion index	25.0	15.0	10.0	30.0	30.0	35.0	35.0	
Coincident index	101.3	100.5	99.1 r	97.6 p	96.3 p	94.6 p	93.6 p	
Percent change	-0.6	-0.8	-1.4 r	-1.5 p	-1.3 p	-1.8 p	-1.1 p	
Diffusion index	50.0	25.0	50.0	25.0	50.0	0.0	25.0	
	Mar to Sep	Apr to Oct	May to Nov	Jun to Dec	Jul to Jan	Aug to Feb	Sep to Mar	
Leading index								
Percent change	-7.1	-10.4 r	-14.1 r	-17.5 p	-22.1 p	-25.5 p	-26.4 p	
Diffusion index	20.0	10.0	20.0	10.0	20.0	25.0	25.0	
Coincident index								
Percent change	-2.3	-3.4	-4.6 r	-5.2 p	-6.2 p	-7.2 p	-7.6 p	
Diffusion index	0.0	0.0	0.0	25.0	50.0	50.0	12.5	

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	2008							2009
	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	
<b>Japan Leading Economic Index Component Data</b>								
Real Operating Profits, (Bill. 1990 Yen, S.A., Q).....	10056.75 r	8110.34 r	6163.93 r	4667.24 **	3522.48 **	2653.03 **	1998.86 **	
Dwelling Units Started, (Tens, S.A.) (3 mo. moving avg.).....	9709.03 r	9540.30 r	9119.20 r	8618.57 r	7903.80 r	7172.20 r	6654.63	
Business Failures, (Number, S.A.)* (3 mo. moving avg.).....	484.06 r	492.58 r	504.51 r	500.73 r	477.18 r	465.00 r	460.87	
Index of Overtime Worked, Mfg. (2000=100, S.A.)	98.0	96.5	86.1	73.4	61.8	52.3	52.2	
Stock Price Index, (Jan. 4, 1968=100).....	1087.41	867.12	834.82	859.24	794.03	756.71	773.66	
Six Month Growth Rate of Labor Productivity Mfg. (3 mo. moving avg., pct.).....	-9.27 r	-12.86 r	-18.29 r	-27.47 r	-38.49 r	-48.28 r	-52.88	
Tankan Business Conditions, All Enterprises, All Industries (Balance +/-, Q).....	-14.3	-16.7	-19.0	-25.3	-31.7	-38.0	-42.7	
Real Money Supply, M2 + CD Money, (10 Bill. 2005 Yen, S.A.).....	71818.83	71883.64	72280.66	72901.75	73456.28	73728.98	73790.03	
Yield Spread, 10 year minus 3 months.....	0.61	0.60	0.53	0.43	0.55	0.56	0.57	
New Orders for Machinery and Construction, (3 mo. moving avg., 100 Mill. 1995 Yen, S.A.).....	20046 r	18997	18282	16239	14896	15389	14835 **	
<b>LEADING INDEX (2004=100).....</b>	<b>93.5</b>	<b>89.9 r</b>	<b>85.7 r</b>	<b>80.7 p</b>	<b>75.6 p</b>	<b>71.3 p</b>	<b>68.8 p</b>	
Percent change from preceding month.....	-2.3	-3.9 r	-4.7	-5.8 p	-6.3 p	-5.7 p	-3.5 p	
<b>Japan Leading Economic Index Net Contributions</b>								
Real Operating Profits, (Bill. 1990 Yen, S.A., Q).....	....	-1.61 r	-2.05 r	-2.08 **	-2.10 **	-2.11 **	-2.11 **	
Dwelling Units Started, (Tens, S.A.) (3 mo. moving avg.).....	....	-0.06 r	-0.15 r	-0.19 r	-0.29 r	-0.33 r	-0.25	
Business Failures, (Number, S.A.)* (3 mo. moving avg.).....	....	-0.10 r	-0.14 r	0.04 r	0.29 r	0.15 r	0.05	
Index of Overtime Worked, Mfg. (2000=100, S.A.)	....	-0.16	-1.20	-1.68	-1.81	-1.76	-0.02	
Stock Price Index, (Jan. 4, 1968=100).....	....	-0.85	-0.14	0.11	-0.30	-0.18	0.08	
Six Month Growth Rate of Labor Productivity Mfg. (3 mo. moving avg., pct.).....	....	-0.44 r	-0.67 r	-1.14 r	-1.36 r	-1.21 r	-0.57	
Tankan Business Conditions, All Enterprises, All Industries (Balance +/-, Q).....	....	-0.20	-0.20	-0.54	-0.54	-0.54	-0.40	
Real Money Supply, M2 + CD Money, (10 Bill. 2005 Yen, S.A.).....	....	0.02	0.15	0.23	0.20 r	0.10 r	0.02	
Yield Spread, 10 year minus 3 months.....	....	0.10	0.08	0.07	0.09	0.09	0.09	
New Orders for Machinery and Construction, (3 mo. moving avg., 100 Mill. 1995 Yen, S.A.).....	....	-0.27 r	-0.19 r	-0.60 r	-0.44 r	0.16 r	-0.19 **	

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	2008						2009
	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
<b>Japan Coincident Economic Index Component Data</b>							
Number of Employed Persons, (Thousands of persons, S.A.).....	63610	63610	63800	63690	63950	63730	63110
Industrial Production, (2005=100, S.A.).....	103.6 r	100.1 r	93.1 r	85.3 r	76.7 r	69.5 r	70.6
Wage and Salary Income, (2005=100, S.A.).....	98.3 r	98.3 r	98.8 r	99.6 r	100.0	99.6 r	98.3
Real Retail, Wholesale, and Manuf. Sales (Billions of 2005 Yen, S.A.).....	147282.1 r	143565.4 r	137231.4 r	133609.5 r	130811.9 r	127913.1 r	124177.9
<b>COINCIDENT INDEX (2004=100).....</b>	<b>101.3</b>	<b>100.5</b>	<b>99.1 r</b>	<b>97.6 p</b>	<b>96.3 p</b>	<b>94.6 p</b>	<b>93.6 p</b>
Percent change from preceding month....	-0.6	-0.8	-1.4 r	-1.5 p	-1.3 p	-1.8 p	-1.1 p
<b>Japan Coincident Economic Index Net Contributions</b>							
Number of Employed Persons, (Thousands of persons, S.A.).....	....	0.00	0.16 r	-0.09 r	0.22 r	-0.18 r	-0.52
Industrial Production, (2005=100, S.A.).....	....	-0.40 r	-0.85 r	-1.02 r	-1.24 r	-1.15	0.18
Wage and Salary Income, (2005=100, S.A.).....	....	0.00 r	0.08	0.13	0.07 r	-0.07 r	-0.22
Real Retail, Wholesale, and Manuf. Sales (Billions of 2005 Yen, S.A.).....	....	-0.46 r	-0.81 r	-0.48	-0.38 r	-0.40 r	-0.53

# 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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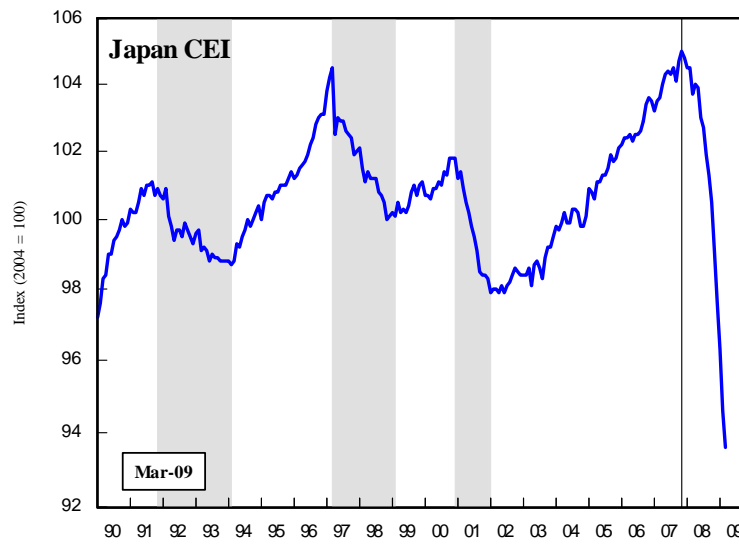
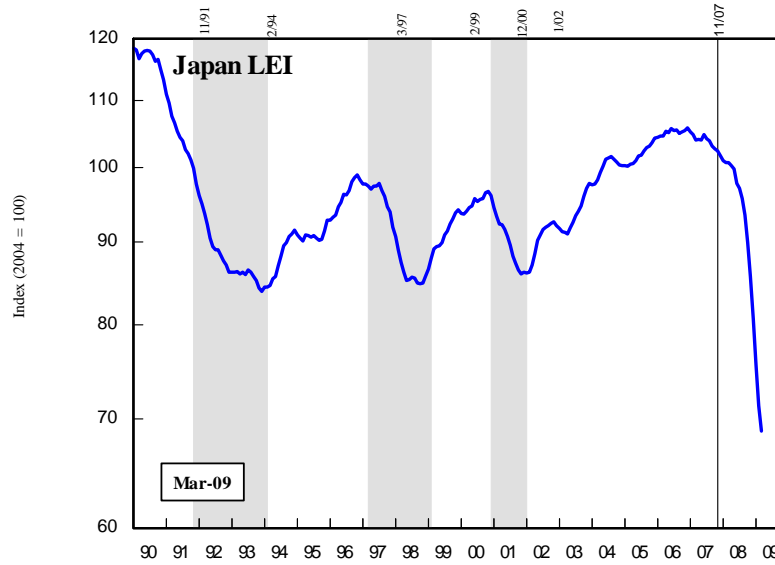
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## Japan



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.