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**FOR RELEASE: 10:00 A.M. ET, THURSDAY, OCTOBER 20, 2005**

The Conference Board® U.S. Business Cycle Indicators<sup>SM</sup>  
**U.S. LEADING ECONOMIC INDICATORS**  
**AND RELATED COMPOSITE INDEXES FOR SEPTEMBER 2005**

Data for September are the first release of the U.S. Leading Economic Indicators and Related Composite Indexes to reflect the impact of the hurricanes, which hit the Gulf Coast region of the United States at the end of August and in September. As actual data for all components become available for September and October, the immediate impact of the hurricanes will be more fully reflected in the coming months.

The Conference Board announced today that the U.S. leading index decreased 0.7 percent, the coincident index decreased 0.1 percent and the lagging index increased 0.2 percent in September.

- The leading index decreased sharply in September as the economic impact of the hurricanes in the Gulf region began to be reflected in the component data. September's decline in the leading index is its third consecutive fall. In September, the largest negative contributors to the leading index were the index of consumer expectations and initial claims for unemployment insurance. The growth rate of the leading index has been slowing down steadily from a peak growth of about 10.0 percent at the end of 2003, and it is now fluctuating in the 0.5 to 1.5 percent annual rate range in recent months.
- The coincident index, a measure of current economic activity, decreased in September, and the slight increase in August was revised down to a slight decrease as actual data for personal income, which partially reflects the impact of Hurricane Katrina, became available. September's decline in the coincident index is also partly due to the effect of the hurricanes as employment and industrial production registered decreases. The coincident index has been increasing at a relatively steady 2.5 percent annual rate since April 2003, but its growth rate has moderated in recent months.
- The leading index has slowed down steadily since mid-2004. The impact of the hurricanes reinforced an already existing moderation in the leading index. Excluding the large positive contributions from the interest rate spread, the leading index has been fluctuating around a relatively flat trend throughout 2005. At the same time, the growth rate of real GDP has slowed to a 3.3 percent annual rate in the second quarter of 2005, down from a 4.3 percent rate in the first quarter of 2004. Although it is too soon to tell if the negative impact of the hurricanes on the leading index will be lasting, the recent behavior of the leading index is still consistent with the economy continuing to expand more moderately in the near term.

The next release is scheduled for November 21, Monday at 10 A.M. ET. The release calendar for 2006 will be available at the end of October. For more information, please visit our web site [www.conference-board.org/economics/bci](http://www.conference-board.org/economics/bci).

LEADING INDICATORS. Four of the ten indicators that make up the leading index increased in September. The positive contributors – beginning with the largest positive contributor – were vendor performance, building permits, interest rate spread, and stock prices. The negative contributors – beginning with the largest negative contributor – were average weekly initial claims for unemployment insurance (inverted), index of consumer expectations, real money supply\*, manufacturers’ new orders for nondefense capital goods\*, and manufacturers’ new orders for consumer goods and materials\*. The average weekly manufacturing hours held steady in September.

The leading index now stands at 136.8 (1996=100). Based on revised data, this index decreased 0.1 percent in August and decreased 0.1 percent in July. During the six-month span through September, the leading index increased 0.4 percent, with seven out of ten components advancing (diffusion index, six-month span equals seventy percent).

COINCIDENT INDICATORS. Two of the four indicators that make up the coincident index increased in September. The positive contributors to the index – beginning with the largest positive contributor – were personal income less transfer payments\*, and manufacturing and trade sales\*. The negative contributors to the index – beginning with the largest negative contributor – were industrial production and employees on nonagricultural payrolls.

The coincident index now stands at 120.7 (1996=100). Based on revised data, this index decreased 0.1 percent in August and increased 0.2 percent in July. During the six-month period through September, the coincident index increased 0.8 percent.

LAGGING INDICATORS. The lagging index stands at 120.3 (1996=100) in September, with four of the seven components advancing. The positive contributors to the index – beginning with the largest positive contributor – were average duration of unemployment (inverted), average prime rate charged by banks, ratio of consumer installment credit to personal income\*, and ratio of manufacturing and trade inventories to sales\*. The negative contributors – beginning with the largest negative contributor – were commercial and industrial loans outstanding\*, change in CPI for services, and change in labor cost per unit of output\*. Based on revised data, the lagging index remained unchanged in August and increased 0.2 percent in July.

#### DATA AVAILABILITY AND NOTES.

The data series used by The Conference Board to compute the three composite indexes and reported in the tables in this release are those available “as of” 12 Noon on October 19, 2005. Some series are estimated as noted below.

\* Series in the leading index that are based on The Conference Board estimates are manufacturers’ new orders for consumer goods and materials, manufacturers’ new orders for nondefense capital goods, and the personal consumption expenditure used to deflate the money supply. Series in the coincident index that are based on The Conference Board estimates are personal income less transfer payments and manufacturing and trade sales. Series in the lagging index that are based on The Conference Board estimates are inventories to sales ratio, consumer installment credit to income ratio, change in labor cost per unit of output, the consumer price index, and the personal consumption expenditure used to deflate commercial and industrial loans outstanding.

The procedure used to estimate the current month’s personal consumption expenditure deflator (used in the calculation of real money supply and commercial and industrial loans outstanding) now incorporates the current month’s consumer price index when it is available before the release of the U.S. Leading Economic Indicators.

Effective with the September 18, 2003 release, the method for calculating manufacturers’ new orders for consumer goods and materials (A0M008) and manufacturers’ new orders for nondefense capital goods (A0M027) has been revised. Both series are now constructed by deflating nominal aggregate new orders data instead of aggregating deflated industry level new orders data. Both the new and the old methods utilize appropriate producer price indices. This simplification remedies several issues raised by the recent conversion of industry data to the North American Classification System (NAICS), as well as several other issues, e.g. the treatment of semiconductor orders. While this simplification caused a

slight shift in the levels of both new orders series, the growth rates were essentially the same. As a result, this simplification had no significant effect on the leading index.

Effective with the January 22, 2004 release a programming error in the calculation of the leading index -- in place since January 2002 -- has been corrected. The cyclical behavior of the leading index was not affected by either the calculation error or its correction, but the level of the index in the 1959-1996 period is slightly higher.

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THE CYCLICAL INDICATOR APPROACH. The composite indexes are the key elements in an analytic system designed to signal peaks and troughs in the business cycle. The leading, coincident, and lagging indexes are essentially composite averages of between four and ten individual leading, coincident, or lagging 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 index have occurred before those in aggregate economic activity, while the cyclical turning points in the coincident index have occurred at about the same time as those in aggregate economic activity. The cyclical turning points in the lagging index generally have occurred after those in aggregate economic activity.

U.S. Composite Indexes: Components and Standardization Factors

<u>Leading Index</u>	<u>Factor</u>
1 Average weekly hours, manufacturing	0.2533
2 Average weekly initial claims for unemployment insurance	0.0328
3 Manufacturers' new orders, consumer goods and materials	0.0755
4 Vendor performance, slower deliveries diffusion index	0.0702
5 Manufacturers' new orders, nondefense capital goods	0.0191
6 Building permits, new private housing units	0.0263
7 Stock prices, 500 common stocks	0.0375
8 Money supply, M2	0.3521
9 Interest rate spread, 10-year Treasury bonds less federal funds	0.1034
10 Index of consumer expectations	0.0298
<u>Coincident Index</u>	
1 Employees on nonagricultural payrolls	0.5236
2 Personal income less transfer payments	0.2149
3 Industrial production	0.1459
4 Manufacturing and trade sales	0.1156
<u>Lagging Index</u>	
1 Average duration of unemployment	0.0372
2 Inventories to sales ratio, manufacturing and trade	0.1218
3 Labor cost per unit of output, manufacturing	0.0623
4 Average prime rate	0.2751
5 Commercial and industrial loans	0.1144
6 Consumer installment credit to personal income ratio	0.1972
7 Consumer price index for services	0.1920

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. When one or more components are missing, the other factors are adjusted proportionately to ensure that the total continues to sum to 1.

These factors were revised effective on the release for July 2005, and all historical values for the three composite indexes were revised at this time to reflect the changes. (Under normal circumstances, updates to the leading, coincident, and lagging indexes only incorporate revisions to data over the past six months.) The factors for the leading index were calculated using 1984-2003 as the sample period for measuring volatility. A separate set of factors for the 1959-1983 period is available upon request. The primary sample period for the coincident and lagging indexes was 1959-2003. For additional information on the standardization factors and the index methodology see: “Benchmark Revisions in the Composite Indexes,” *Business Cycle Indicators* December 1997 and “Technical Appendix: Calculating the Composite Indexes” *Business Cycle Indicators* December 1996, or the Web site: [www.conference-board.org/economics/bci](http://www.conference-board.org/economics/bci).

The trend adjustment factor for the leading index is -0.0139, and the trend adjustment factor for the lagging index is 0.1706.

To address the problem of lags in available data, those leading, coincident and lagging indicators that are not available at the time of publication are estimated using statistical imputation. An autoregressive model is used to estimate each unavailable component. The resulting indexes are therefore constructed using real and estimated data, and will be revised as the unavailable data during the time of publication become available. Such revisions are part of the monthly data revisions, now a regular part of the U.S. Business Cycle Indicators program. The main advantage of this procedure is to utilize in the leading index data such as stock prices, interest rate spread, and manufacturing hours that are available sooner than other data on real aspects of the economy such as manufacturers’ new orders. Empirical research by The Conference Board suggests that there are real gains in adopting this procedure to make all the indicator series as up-to-date as possible.

**U.S. Leading Economic Indicators news release schedule for 2005:**

November 21, Monday.....for October 2005 data  
December 22, Thursday.....for November 2005 data

All releases are at 10:00 AM ET.

ABOUT THE CONFERENCE BOARD. The Conference Board is the premier business membership and research network founded in 1916. It has become a global leader in helping executives build strong professional relationships, expand their business knowledge and find solutions to a wide range of business challenges. Its Economics Program, under the direction of Chief Economist Gail Fosler, is a recognized source of forecasts, analysis and objective indicators such as Leading Economic Indicators and Consumer Confidence.

This role is part of a long tradition of research and education that stretches back to the compilation of the first continuous measure of the cost of living in the United States in 1919. In 1995, The Conference Board assumed responsibility for computing the composite indexes from the U.S. Department of Commerce. The Conference Board now produces business cycle indexes for the U.S., Australia, France, Germany, Korea, Japan, Mexico, Spain and the U.K. To subscribe to any of these indexes, please visit [www.conference-board.org/economics/bci](http://www.conference-board.org/economics/bci) or contact the customer service department at 212-339-0345 or email [indicators@conference-board.org](mailto:indicators@conference-board.org).

AVAILABLE FROM THE CONFERENCE BOARD

U.S. Business Cycle Indicators Internet Subscription (Includes monthly release, data, charts and commentary)	\$ 535 per year (1 user)
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Business Cycle Indicators for Australia, France, Germany, Japan, Korea, Mexico, Spain and the UK are available at \$535 per country per year (1 user). Discounts are available to Associates of The Conference Board and accredited academic institutions.

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**Table 1.--Summary of Composites Indexes**

	2005									
	Mar	Apr	May	Jun	Jul	Aug	Sep			
Leading index	136.2	136.3	136.5	138.0	137.8	r	137.7	r	136.8	p
Percent change	-.7	.1	.1	1.1	-.1		-.1	r	-.7	p
Diffusion index	10.0	50.0	45.0	85.0	60.0		50.0		45.0	
Coincident index	119.8	120.0	r	120.3	120.7	r	120.9		120.8	p
Percent change	.1	.2	r	.2	.3	r	.2	r	-.1	p
Diffusion index	87.5	75.0		100.0	100.0		87.5		75.0	
Lagging index	118.6	119.2		119.6	119.8		120.0	p	120.0	p
Percent change	.0	.5		.3	.2		.2	p	.0	p
Diffusion index	42.9	57.1		42.9	35.7		50.0		57.1	
Coincident-lagging ratio	101.0	100.7	r	100.6	100.8		100.8	r	100.7	p
	Sep to	Oct to	Nov to	Dec to	Jan to	Feb to	Mar to			
	Mar	Apr	May	Jun	Jul	Aug	Sep			
Leading index										
Percent change	.7	.8	.4	.8	.7	.4	.4			
Diffusion index	40.0	60.0	30.0	55.0	50.0	50.0	70.0			
Coincident index										
Percent change	1.6	1.4	1.3	.3	1.2	.9	.8			
Diffusion index	100.0	100.0	100.0	75.0	100.0	75.0	75.0			
Lagging index										
Percent change	1.2	1.5	2.0	2.9	1.7	1.2	1.4			
Diffusion index	71.4	57.1	71.4	71.4	64.3	71.4	64.3			

p Preliminary. r Revised (noted only for index levels and one-month percent changes). c Corrected.

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.

The full history of composite and diffusion indexes is available by subscription on our web site at [www.conference-board.org/economics/bci](http://www.conference-board.org/economics/bci)

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**Table 2.--Data and Net Contributions for Components of the Leading Index**

Component	2005						
	Mar	Apr	May	Jun	Jul	Aug	Sep
Leading index component data							
Average work week, production workers, mfg. (hours).....	40.4	40.5	40.4	40.4	40.5	40.5	40.5 p
Average weekly initial claims, state unemployment insurance (thousands)*.	337.8	321.9	334.7	320.7	316.7	317.0	404.7
Manufacturers' new orders, consumer goods and materials (mil. 1982 dol.).....	145,116	144,423 r	146,236 r	148,515	145,714 r	148,980 r	148,587 **
Vendor performance--slower deliveries diffusion index (percent).....	52.5	51.5	50.5	53.1	51.8	50.5	59.3
Manufacturers' new orders, nondefense capital goods (mil. 1982 dol.).....	43,926	45,683	54,090 r	53,145	48,887 r	50,792 r	49,918 **
Building permits (thous.).....	2,021	2,148	2,062	2,132	2,171	2,138 r	2,189
Stock prices, 500 common stocks (c) (index: 1941-43=10).....	1,194.90	1,164.62	1,178.28	1,202.26	1,222.24	1,224.27	1,225.91
Money supply, M2 (bil. chn. 2000 dol.)....	5,877.4	5,850.2 r	5,848.4 r	5,877.3 r	5,866.8 r	5,864.4 r	5,846.6 **
Interest rate spread, 10-year Treasury bonds less federal funds.....	1.87	1.55	1.14	0.96	0.92	0.76	0.58
Index of consumer expectations (c) (1966:1=100).....	82.8	77.0	75.3	85.0	85.5	76.9	63.3
LEADING INDEX (1996=100).....	136.2	136.3	136.5	138.0	137.8 r	137.7 r	136.8 p
Percent change from preceding month..	-0.7	0.1	0.1	1.1	-0.1	-0.1 r	-0.7 p
Leading index net contributions							
Average work week, production workers, mfg.....	....	.06	-.06	.00	.06	.00	.00
Average weekly initial claims, state unemployment insurance.....	....	.16	-.13	.14	.04	.00	-.80
Manufacturers' new orders, consumer goods and materials.....	....	-.04	.09	.12	-.14	.17	-.02 **
Vendor performance--slower deliveries diffusion index.....	....	-.07	-.07	.18	-.09	-.09	.62
Manufacturers' new orders, nondefense capital goods.....	....	.07	.32	-.03	-.16	.07	-.03 **
Building permits.....	....	.16	-.11	.09	.05	-.04	.06
Stock prices, 500 common stocks (c)	....	-.10	.04	.08	.06	.01	.01
Money supply, M2.....	....	-.16	-.01	.17	-.06	-.01	-.11 **
Interest rate spread, 10-year Treasury bonds less federal funds.....	....	.16	.12	.10	.10	.08	.06
Index of consumer expectations (c)	....	-.17	-.05	.29	.01	-.26	-.41

p Preliminary. r Revised. c Corrected.

\* Inverted series; a negative change in this component makes a positive contribution to the index.

\*\* Statistical Imputation (See page 3 for more details)

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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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**Table 3.--Data and Net Contributions for Components of the Coincident and Lagging Indexes**

Component	2005						
	Mar	Apr	May	Jun	Jul	Aug	Sep
Coincident index component data							
Employees on nonagricultural payrolls (thousands).....	132,995	133,287	133,413	133,588	133,865 r	134,076 r	134,041
Personal income less transfer payments (ann. rate, bil. chn. 2000 dol.).....	7,820.2	7,839.6 r	7,853.2 r	7,887.6 r	7,905.1 r	7,800.5 r	7,846.6 **
Industrial production (index: 1997=100).....	118.595	118.067	118.466	119.384 r	119.429 r	119.611 r	118.016
Manufacturing and trade sales (mil. chn. 2000 dol.).....	932,857	937,767 r	944,271 r	948,369 r	952,455 r	954,337 **	956,705 **
COINCIDENT INDEX (1996=100).....	119.8	120.0 r	120.3	120.7 r	120.9	120.8 p	120.7 p
Percent change from preceding month....	0.1	0.2 r	0.2	0.3 r	0.2 r	-0.1 p	-0.1 p
Coincident index net contributions							
Employees on nonagricultural payrolls.....	....	.11	.05	.07	.11	.08	-.01
Personal income less transfer payments...	....	.05	.04	.09	.05	-.29	.13 **
Industrial production.....	....	-.07	.05	.11	.01	.02	-.20
Manufacturing and trade sales.....	....	.06	.08	.05	.05	.02 **	.03 **
Lagging index component data							
Average duration of unemployment (w eeks)*.....	19.5	19.6	18.8	17.1	17.6	18.9	18.3
Ratio, manufacturing and trade inventories to sales (chain 2000 dol.).....	1.323	1.315	1.304	1.300 r	1.287 r	1.289 **	1.290 **
Change in index of labor cost per unit of output, mfg. (6-month percent, ann. rate)	1.8	4.2	4.0	3.10	2.9 **	2.8 **	2.7 **
Average prime rate charged by banks (percent).....	5.58	5.75	5.98	6.01	6.25	6.44	6.59
Commercial and industrial loans outstanding (mil. chn. 2000 dol.).....	557,841 r	569,574 r	576,987 r	563,751 r	567,305 r	568,065 r	566,493 **
Ratio, consumer installment credit out- standing to personal income (percent).....	20.95 r	20.86 r	20.81 r	20.87 r	20.86 r	20.92 **	20.94 **
Change in CPI for services (6-month percent, ann. rate).....	3.3	3.7	3.2	3.1	3.5	3.2	3.1
LAGGING INDEX (1996=100).....	118.6	119.2	119.6	119.8	120.0 p	120.0 p	120.3 p
Percent change from preceding month....	.0	.5	.3	.2	.2 p	.0 p	.2 p
Lagging index net contributions							
Average duration of unemployment.....	....	-.02	.16	.35	-.11	-.26	.12
Ratio, manufacturing and trade inventories to sales.....	....	-.07	-.10	-.04	-.12 **	.02 **	.01 **
Change in index of labor cost per unit of output, mfg.....	....	.15	-.01	-.06	-.01	-.01	-.01 **
Average prime rate charged by banks.....	....	.05	.06	.01	.07	.05	.04
Commercial and industrial loans outstanding.....	....	.24	.15	-.27	.07	.02	-.03 **
Ratio, consumer installment credit out- standing to personal income.....	....	-.08	-.05	.06	-.01	.06 **	.02 **
Change in CPI for services.....	....	.08	-.10	-.02	.08	-.06	-.02

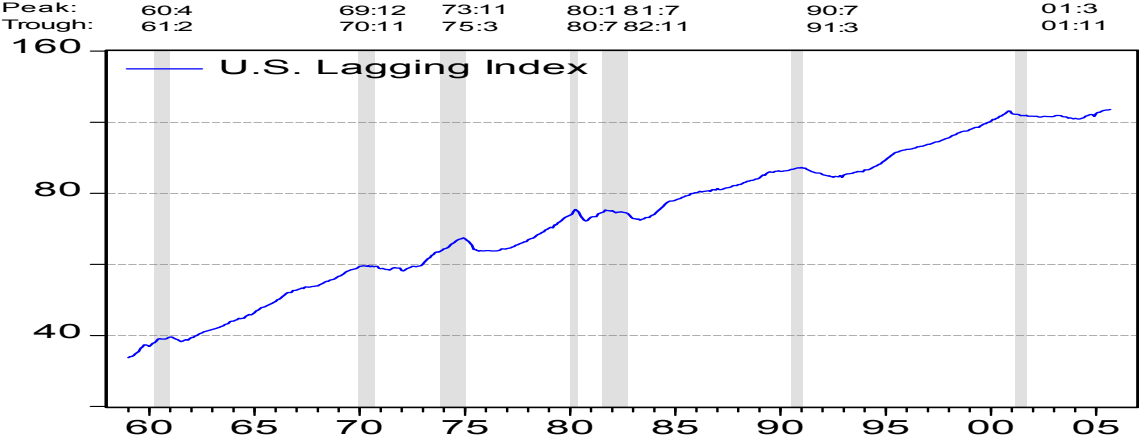
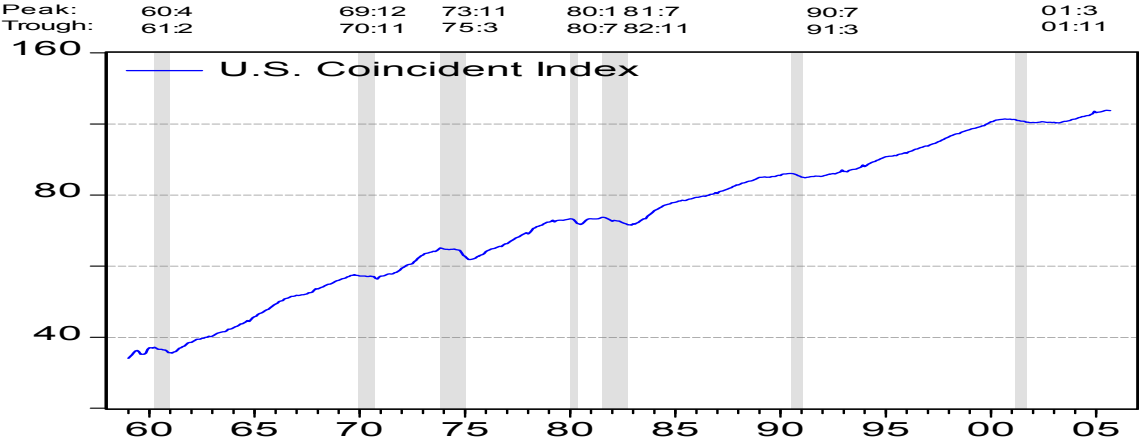
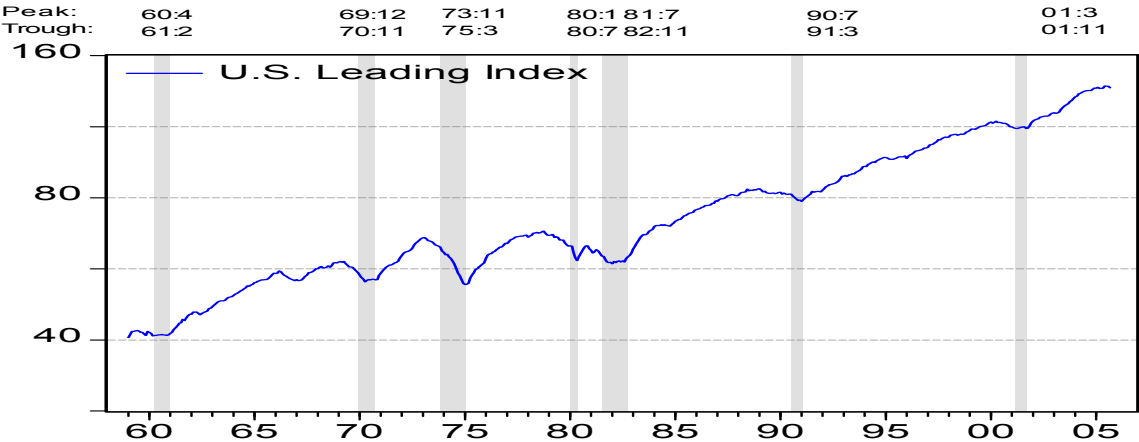
CPI Consumer Price Index. For additional notes see table 2.

\* Inverted series; a negative change in this component makes a positive contribution to the index.

\*\* Statistical Imputation (See page 3 for more details)

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### U.S. Composite Indexes (1996=100)



Shaded areas represent recessions.

Source: The Conference Board