



THE CONFERENCE BOARD

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

The Conference Board<sup>®</sup>  
Japan Business Cycle Indicators<sup>SM</sup>  
**THE CONFERENCE BOARD LEADING ECONOMIC INDEX<sup>®</sup> (LEI)**  
**FOR JAPAN**  
**AND RELATED COMPOSITE ECONOMIC INDEXES FOR JANUARY 2010**

**The Conference Board Leading Economic Index<sup>®</sup> (LEI)** for Japan increased 1.8 percent and **The Conference Board Coincident Economic Index<sup>®</sup> (CEI)** increased 1.1 percent in January.

- The Conference Board LEI for Japan increased again in January, and it has been on an upward trend for the past eleven months. The six-month growth rate in the leading economic index has continued to moderate -- to 12.9 percent (a 27.4 percent annual rate) for the period through January 2010, down from 17.2 percent (about 37.3 percent annual rate) at the end of the third quarter. However, it is still a large improvement from the 6.6 percent growth (about a 13.6 percent annual rate) from January to July 2009. Moreover, the strengths among the leading indicators have remained widespread in recent months.
- The Conference Board CEI for Japan also continued to increase in January, and the strengths among the coincident indicators were very widespread. With this month's gain, the coincident economic index increased by 3.2 percent (a 6.4 percent annual rate) from July 2009 to January 2010, a reversal from the 0.6 percent decline (about a -1.3 percent annual rate) during the previous six months. At the same time, real GDP grew at a 4.6 percent annual rate in the fourth quarter of 2009, following flat growth in the third quarter and a gain of 5.2 percent annual rate during the second quarter.
- The Conference Board LEI for Japan has been on an upward trend for almost a year now, and is back to its September 2008 level. However, its six-month growth rate has continued to moderate. At the same time, The Conference Board CEI for Japan has also been rising since the second quarter of 2009, and its six-month growth rate has picked up in recent months. Taken together, the behavior of the composite indexes suggests that the economic recovery will continue, but the pace of growth is likely to be modest in the near term.

**LEADING INDICATORS.** Seven of the ten components that make up The Conference Board LEI for Japan increased in January. 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, business failures (inverted), the index of overtime worked, the interest rate spread, real money supply, new orders for machinery and construction\*, and real operating profits\*. The negative contributors include dwelling units started and stock prices. The Tankan business conditions survey remained unchanged in January.

With the increase of 1.8 percent in January, The Conference Board LEI for Japan now stands at 96.6 (2004=100). Based on revised data, this index increased 1.6 percent in December and increased 1.7 percent in November. During the six-month span through January, the index increased 12.9 percent, and eight of the ten components advanced (diffusion index, six-month span equals 85.0 percent).

The next release is scheduled for Wednesday, April 7, 2010 at 10:00 A.M. (JST)

*In the U.S* – Tuesday, April 6, 2010 at 9:00 P.M (DST)

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

With the increase of 1.1 percent in January, The Conference Board CEI for Japan now stands at 98.0 (2004=100). Based on revised data, this index increased 0.5 percent in December and increased 0.2 percent in November. During the six-month span through January, the index increased 3.2 percent, and all four components advanced (diffusion index, six-month span equals 100.0 percent).

FOR TABLES AND CHARTS, SEE BELOW

**DATA AVAILABILITY AND NOTES.** The data series used to compute **The Conference Board Leading Economic Index**<sup>®</sup> (LEI) for Japan and **The Conference Board Coincident Economic Index**<sup>®</sup> (CEI) for Japan reported in this release are those available “as of” 5:00 P.M. ET March 8, 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.

Professional Contacts at The Conference Board:

Indicator Program: 1-212-339-0330

Media Contacts:

Frank Tortorici: 908-875-8908

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

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

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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 GlobalIndicators 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**<sup>®</sup> (LEI) news releases is:

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. DST) 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
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

	2009							2010
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	
Leading index	85.6	88.0 r	90.1 r	91.8 r	93.4 r	94.9 p	96.6 p	
Percent change	3.4	2.8 r	2.4 r	1.9 r	1.7	1.6 p	1.8 p	
Diffusion index	90.0	80.0	75.0	80.0	60.0	75.0	70.0	
Coincident index	95.0	95.4 r	95.9 r	96.2 r	96.4 r	96.9 p	98.0 p	
Percent change	0.6	0.4 r	0.5 r	0.3 r	0.2 r	0.5 p	1.1 p	
Diffusion index	87.5	75.0	75.0	75.0	50.0	100.0	100.0	
	Jan to Jul	Feb to Aug	Mar to Sep	Apr to Oct	May to Nov	Jun to Dec	Jul to Jan	
Leading index								
Percent change	6.6	16.1 r	17.2 r	16.9 r	15.3 r	14.6 p	12.9 p	
Diffusion index	70.0	70.0	80.0	75.0	70.0	85.0	85.0	
Coincident index								
Percent change	-0.6	2.0 r	3.3 r	2.6 r	2.3 r	2.6 p	3.2 p	
Diffusion index	50.0	75.0	75.0	75.0	75.0	100.0	100.0	

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							2010
	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	
<b>Japan Leading Economic Index Component Data</b>								
Real Operating Profits, (Bill. 2005 Yen, S.A., Q)....	6967.47	7508.18	7617.34	7726.50	7835.66	7913.76	7969.02	**
Dwelling Units Started, (Tens, S.A.) (3 mo. moving avg.).....	6568.23	6466.37	6230.13	6268.33	6549.97	6820.53	6748.23	
Business Failures, (Number, S.A.)* (3 mo. moving avg.).....	387.05	369.15	349.94	340.92	313.71	304.88	283.50	
Index of Overtime Worked, Mfg. (2005=100, S.A.)	65.1	68.6	71.4	74.7	77.3	82.1	84.1	
Stock Price Index, (Jan. 4, 1968=100).....	950.26	965.73	909.84	894.67	839.94	907.59	901.12	
Six Month Growth Rate of Labor Productivity Mfg. (3 mo. moving avg., pct.).....	-21.59	-13.60	-5.28	1.89	9.70	17.26	25.63	
Tankan Business Conditions, All Enterprises, All Industries (Balance +/-, Q).....	-44.7	-41.0	-38.7	-36.3	-34.0	-34.0	-34.0	
Real Money Supply, M2 + CD Money, (10 Bill. 2005 Yen, S.A.).....	75315.41	75769.66	75947.70	76581.13	76475.48	76411.64	76666.91	
Yield Spread, 10 year minus 3 months.....	0.87	0.77	0.76	0.88	0.75	0.83	0.84	
New Orders for Machinery and Construction, (3 mo. moving avg., 100 Mill. 2005 Yen, S.A.).....	13966	14352	16492	16461	16086	14479	14629	**
<b>LEADING INDEX (2004=100).....</b>	<b>85.6</b>	<b>88.0</b>	<b>90.1</b>	<b>91.8</b>	<b>93.4</b>	<b>94.9</b>	<b>96.6</b>	<b>p</b>
Percent change from preceding month.....	3.4	2.8	2.4	1.9	1.7	1.6	1.8	p
<b>Japan Leading Economic Index Net Contributions</b>								
Real Operating Profits, (Bill. 2005 Yen, S.A., Q)....	....	0.45	0.09	0.09	0.09	0.06	0.04	**
Dwelling Units Started, (Tens, S.A.) (3 mo. moving avg.).....	....	-0.05	-0.13	0.02	0.15	0.14	-0.04	
Business Failures, (Number, S.A.)* (3 mo. moving avg.).....	....	0.29	0.33	0.16	0.51	0.18	0.45	
Index of Overtime Worked, Mfg. (2005=100, S.A.)	....	0.52	0.39	0.45	0.34	0.59	0.24	
Stock Price Index, (Jan. 4, 1968=100).....	....	0.06	-0.23	-0.06	-0.24	0.29	-0.03	
Six Month Growth Rate of Labor Productivity Mfg. (3 mo. moving avg., pct.).....	....	0.97	1.01	0.87	0.94	0.91	1.01	
Tankan Business Conditions, All Enterprises, All Industries (Balance +/-, Q).....	....	0.32	0.20	0.21	0.20	0.00	0.00	
Real Money Supply, M2 + CD Money, (10 Bill. 2005 Yen, S.A.).....	....	0.17	0.07	0.23	-0.04	-0.02	0.09	
Yield Spread, 10 year minus 3 months.....	....	0.13	0.13	0.15	0.13	0.14	0.14	
New Orders for Machinery and Construction, (3 mo. moving avg., 100 Mill. 2005 Yen, S.A.).....	....	0.14	0.69	-0.01	-0.11	-0.52	0.05	**

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						2010
	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.
<b>Japan Coincident Economic Index Component Data</b>							
Number of Employed Persons, (Thousands of persons, S.A.).....	62440 r	62630 r	62700 r	62520 r	62430 r	62490 r	63030
Industrial Production, (2005=100, S.A.).....	82.6	83.9	85.7	86.1	88.0	89.7 r	91.9
Wage and Salary Income, (2005=100, S.A.).....	99.7	100.6 r	100.5	101.3	100.9	101.1 r	102.2
Real Retail, Wholesale, and Manuf. Sales (Billions of 2005 Yen, S.A.).....	126144.1 r	126015.0 r	127200.7 r	129637.4 r	130749.4 r	132279.6 **	134378.3 **
<b>COINCIDENT INDEX (2004=100).....</b>	<b>95.0</b>	<b>95.4 r</b>	<b>95.9 r</b>	<b>96.2 r</b>	<b>96.4 r</b>	<b>96.9 p</b>	<b>98.0 p</b>
Percent change from preceding month....	0.6	0.4 r	0.5 r	0.3 r	0.2	0.5 p	1.1 p
<b>Japan Coincident Economic Index Net Contributions</b>							
Number of Employed Persons, (Thousands of persons, S.A.).....	....	0.17 r	0.06 r	-0.16 r	-0.08 r	0.05 r	0.48
Industrial Production, (2005=100, S.A.).....	....	0.17	0.24	0.05	0.24	0.21 r	0.27
Wage and Salary Income, (2005=100, S.A.).....	....	0.15 r	-0.02 r	0.14	-0.07	0.03 r	0.19
Real Retail, Wholesale, and Manuf. Sales (Billions of 2005 Yen, S.A.).....	....	-0.02 r	0.15 r	0.31 r	0.14 r	0.19 **	0.26 **

# 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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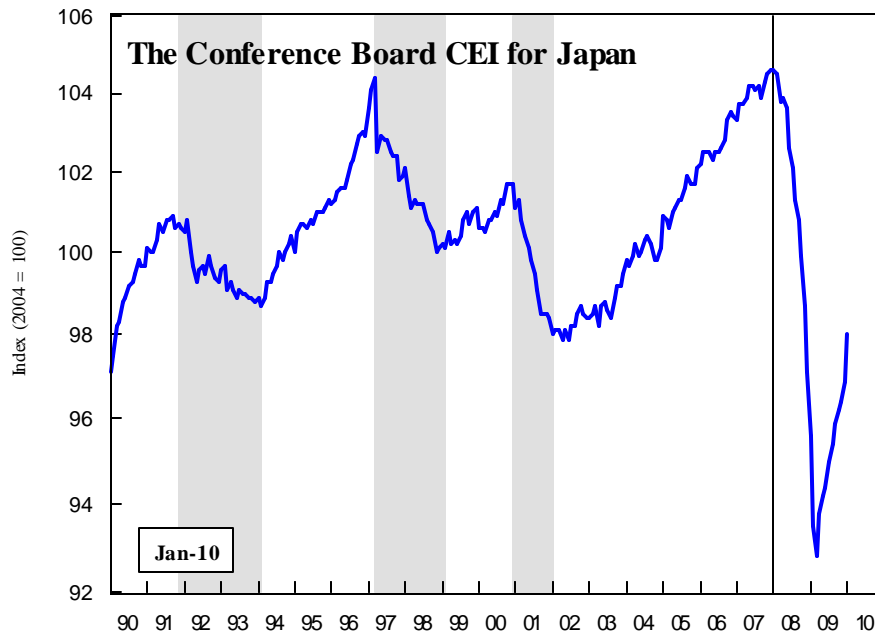
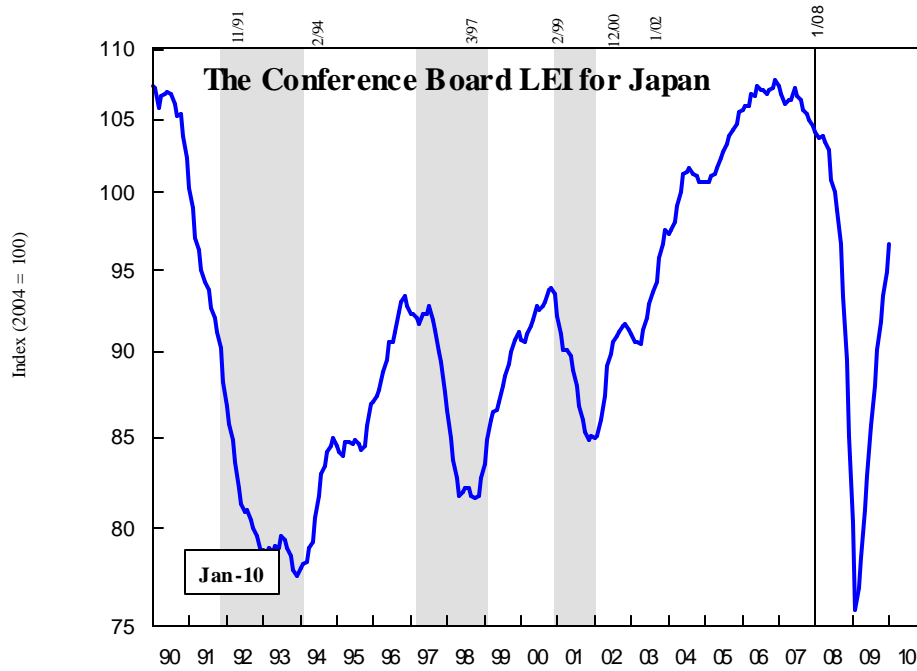
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# Japan



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

Source: The Conference Board