



THE CONFERENCE BOARD

FOR RELEASE: 10:00 A.M. ET, Thursday, January 26, 2012

The Conference Board®  
U.S. Business Cycle Indicators<sup>SM</sup>  
**THE CONFERENCE BOARD LEADING ECONOMIC INDEX®**  
**(LEI) FOR THE UNITED STATES**  
**AND RELATED COMPOSITE ECONOMIC INDEXES FOR DECEMBER 2011**

**The Conference Board Leading Economic Index®** (LEI) for the U.S. increased 0.4 percent, **The Conference Board Coincident Economic Index®** (CEI) increased 0.3 percent and **The Conference Board Lagging Economic Index®** (LAG) increased 0.3 percent in December.

- The Conference Board LEI for the U.S., after its first major comprehensive revision since 1996 [*see box below*], increased in December. The largest contributors to the increase were the interest rate spread and improving employment indicators. In the six-month period ending December 2011, the leading economic index increased 0.1 percent (about a 0.2 percent annual rate), much slower than the growth of 2.7 percent (about a 5.5 percent annual rate) during the previous six months. But, the strengths among the leading indicators been somewhat more widespread than the weaknesses through December.
- The Conference Board CEI for the U.S., a measure of current economic activity, also increased in December. The index rose 1.7 percent (about a 3.4 percent annual rate) between June and December 2011, faster than the growth of 0.9 percent (about a 1.8 percent annual rate) for the previous six months. The strengths among the coincident indicators have remained very widespread, with all components advancing over the past six months. The lagging economic index also increased at the same pace as the CEI, and the coincident-to-lagging ratio remained unchanged. Real GDP expanded at a 1.8 percent annual rate in the third quarter of the year, after increasing at a 1.3 percent annual rate in the second quarter.
- The Conference Board LEI for the U.S. increased in December for the third consecutive month after sharp declines in August and September. Meanwhile, The Conference Board CEI for the U.S. also continued rising through December, with its six-month growth rate remaining roughly stable over the past three months. Taken together, the current behavior of the composite indexes and their components suggests that the expansion in economic activity should continue in the near term.

LEADING INDICATORS. Seven of the ten indicators that make up The Conference Board LEI for the U.S. contributed positively in December. The positive contributors – beginning with the largest positive contributor – were interest rate spread, average weekly initial claims for unemployment insurance (inverted), average weekly manufacturing hours, stock prices, ISM new orders index, manufacturers’ new orders for nondefense capital goods excl. aircraft\*, and manufacturers’ new orders for consumer goods and materials\*. The negative contributors – beginning with the largest negative contributor – were average consumer expectations for business and economic conditions and *Leading Credit Index™*(inverted). Building permits held steady in December.

The next release is scheduled for February 17, 2012 Friday at 10 A.M. ET.

LEI for the United States now stands at 94.3 (2004=100). Based on revised data, this index increased 0.2 percent in November and increased 0.6 percent in October. During the six-month span through December, the leading economic index increased 0.1 percent, with six out of ten components advancing (diffusion index, six-month span equals 60 percent).

COINCIDENT INDICATORS. All four indicators that make up the CEI for the United States increased in December. The positive contributors to the index – beginning with the largest positive contributor – were manufacturing and trade sales\*, employees on nonagricultural payrolls, personal income less transfer payments\*, and industrial production.

CEI for the United States now stands at 103.4 (2004=100). Based on revised data, this index increased 0.1 percent in November and increased 0.8 percent in October. During the six-month period through December, the coincident economic index increased 1.7 percent, with all four components advancing (diffusion index, six-month span equals 100 percent).

LAGGING INDICATORS. The lagging economic index stands at 113.4 (2004=100) in December, with four of the seven components advancing. The positive contributors to the index – beginning with the largest positive contributor – were change in CPI for services, ratio of consumer installment credit to personal income\*, change in index of labor cost per unit of output, manufacturing\*, and average duration of unemployment (inverted). The negative contributor was commercial and industrial loans outstanding\*. The ratio of manufacturing and trade inventories to sales\* and average prime rate charged by banks held steady in December. Based on revised data, the lagging economic index increased 0.4 percent in November and increased 0.5 percent in October.

#### DATA AVAILABILITY AND NOTES.

The data series used to compute **The Conference Board Leading Economic Index**<sup>®</sup> (LEI) for the U.S., **The Conference Board Coincident Economic Index**<sup>®</sup> (CEI) for the U.S. and **The Conference Board Lagging Economic Index**<sup>®</sup> (LAG) for the U.S. and reported in the tables in this release are those available “as of” 12 Noon on January 25, 2011. Some series are estimated as noted below.

\* Series in The Conference Board LEI for the U.S. based on our estimates are manufacturers’ new orders for consumer goods and materials, manufacturers’ new orders for nondefense capital goods excl. aircraft. Series in The Conference Board CEI for the U.S. that are based on our estimates are personal income less transfer payments and manufacturing and trade sales. Series in The Conference Board LAG for the U.S. that are based on our estimates are manufacturing and trade inventories to sales ratio, consumer installment credit to income ratio, change in labor cost per unit of output, 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 Conference Board LEI for the U.S.

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U.S. Composite Economic Indexes: Components and Standardization Factors

<u>Leading Economic Index</u>	<u>Factor</u>
1 Average weekly hours, manufacturing	0.2781
2 Average weekly initial claims for unemployment insurance	0.0334
3 Manufacturers' new orders, consumer goods and materials	0.0811
4 ISM new orders index	0.1651
5 Manufacturers' new orders, nondefense capital goods excl. aircraft	0.0356
6 Building permits, new private housing units	0.0272
7 Stock prices, 500 common stocks	0.0381
8 Leading Credit Index™	0.0794
9 Interest rate spread, 10-year Treasury bonds less federal funds	0.1069
10 Avg. consumer expectations for business and economic conditions	0.1551
<u>Coincident Economic Index</u>	
1 Employees on nonagricultural payrolls	0.2597
2 Personal income less transfer payments	0.1357
3 Industrial production	0.0728
4 Manufacturing and trade sales	0.5318
<u>Lagging Economic Index</u>	
1 Average duration of unemployment	0.0361
2 Inventories to sales ratio, manufacturing and trade	0.1211
3 Labor cost per unit of output, manufacturing	0.0587
4 Average prime rate	0.2815
5 Commercial and industrial loans	0.0970
6 Consumer installment credit to personal income ratio	0.2101
7 Consumer price index for services	0.1955

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 January 2012, and all historical values for the three composite economic indexes were revised at this time to reflect the changes. (Under normal circumstances, updates to the leading, coincident, and lagging economic indexes only incorporate revisions to data over the past six months.) The factors for The Conference Board LEI for the U.S. were calculated using 1984-2010 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 economic indexes was 1959-2010. 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: <http://www.conference-board.org/data/bci.cfm> The trend adjustment factor for The Conference Board LEI for the U.S is -0.0321 (over the 1984 – present) and 0.1145 (over the 1959-1983 period), and the trend adjustment factor for The Conference Board LAG for the U.S is 0.1786.

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 economic 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.

## January 2012 Annual Benchmark Revisions

January 26, 2012 release *The Conference Board Leading Economic Index*® (LEI) for The United States incorporates 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. The entire history of the indexes from 1959 to present has been revised.

## January 2012 Comprehensive Benchmark Revisions

**In addition to these regular annual revisions**, The Conference Board implemented a comprehensive revision of *The Conference Board Leading Economic Index*® (LEI) for the United States effective with the January 26, 2012 release. The last time the LEI had comprehensive revisions was in 1996 after The Conference Board received the responsibility for the LEI and the Business Cycle Indicators program from the Bureau of Economic Analysis at the U.S. Department of Commerce.

These comprehensive revisions are the result of an extensive reevaluation of existing components of *The Conference Board Leading Economic Index*® for the United States. Following discussions with the Business Cycle Indicators Advisory Panel and other experts, The Conference Board has decided to replace three of the ten components and make a minor adjustment to another component. The composition changes reflected in the new LEI address structural changes that have occurred in the U.S. economy in the last several decades. The upcoming changes in the LEI composition include:

- 1) incorporating the new *Leading Credit Index*™ (LCI) and omitting the real money supply (M2) component starting in 1990 (real M2 remains in the index before 1990);
- 2) replacing the ISM Supplier Delivery Index with the ISM New Orders Index;
- 3) replacing the Reuters/University of Michigan Consumer Expectations Index with an equally weighted average of consumer expectations of business and economic conditions using questions from Surveys of Consumers conducted by Reuters/University of Michigan and Consumer Confidence Survey by The Conference Board (after 1978, Reuters/University of Michigan Consumer Expectations Index remains in the index before 1978 ); and
- 4) replacing “New Orders for (nondefense) Capital Goods” with “New Orders for (nondefense) Capital Goods excluding Aircraft.”

In addition to these major changes to the composition, The Conference Board has implemented changes in the methodology and procedures used in the calculation process. These modifications are:

- 1) normalized levels of the indicator rather than its monthly changes will be used to calculate the component contributions of components based on diffusion indexes such as the ISM New Orders Index;
- 2) when component data are missing, autoregressions in log differences instead of levels will be used to calculate the statistical imputation of the missing months;
- 3) trend adjustment will be done in two periods: 1959-1983 and 1984-2010 (same as the volatility adjustment); and
- 4) LCI contributions to the LEI are calculated from its levels (not monthly changes) and it is inverted

As a result of these changes, the history of the revised indexes and their month-over-month changes will no longer be directly comparable to those issued prior to the comprehensive benchmark revision. Based on its performance since 1990, and especially before and during the 2008-2009 recession, the new LEI should provide more accurate predictions of business cycle peaks and troughs.

### ***Leading Credit Index*™**

Financial indicators such as yield curves and stock prices have been extensively used as leading indicators of economic activity due to their forward looking content. The coverage of financial and credit market activity can be improved to account for some of the structural changes in the U.S. economy (especially in financial markets). Over the past three decades, many new financial indicators, such as interest rate swaps, credit default swaps, certain corporate-treasury spreads, the Federal Reserve’s senior loan officer survey, etc. have become available, but, since most of these new indicators have not been available for a long enough period, very little research has been conducted to evaluate their

usefulness as leading indicators. The Conference Board research indicates that several of these financial indicators rank highly according to their ability to predict recessions (i.e. peaks and troughs in the business cycle). These financial indicators have been aggregated into a single composite index, named the *Leading Credit Index*<sup>™</sup>, and incorporated as a component in the revised LEI, replacing real money supply (M2).

*The new Leading Credit Index*<sup>™</sup> differs from others in the literature in that it consists of a small, carefully selected set of component indicators that specifically target business cycle turning points rather than financial stress or instability.

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, coincident, and lagging economic indexes are essentially composite averages of several 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 Conference Board LEI for the U.S. have occurred before those in aggregate economic activity, while the cyclical turning points in The Conference Board CEI for the U.S. have occurred at about the same time as those in aggregate economic activity. The cyclical turning points in The Conference Board LAG for the U.S. generally have occurred after those in aggregate economic activity.

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

## NOTICES

**The Conference Board Leading Economic Index<sup>®</sup>** (LEI) for the U.S. news release schedule for 2012:

Friday, February 17, 2012	For January 2012 data
Thursday, March 22, 2012	For February 2012 data
Thursday, April 19, 2012	For March 2012 data
Thursday, May 17, 2012	For April 2012 data
Thursday, June 21, 2012	For May 2012 data
Thursday, July 19, 2012	For June 2012 data
Friday, August 17, 2012	For July 2012 data
Thursday, September 20, 2012	For August 2012 data
Thursday, October 18, 2012	For September 2012 data
Wednesday, November 21, 2012	For October 2012 data
Thursday, December 20, 2012	For November 2012 data

All releases are at 10:00 AM ET.

### **About The Conference Board**

The Conference Board is a global, independent business membership and research association working in the public interest. Our mission is unique: To provide the world's leading organizations with the practical knowledge they need to improve their performance *and* better serve society. The Conference Board is a non-advocacy, not-for-profit entity holding 501 (c) (3) tax-exempt status in the United States.

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**Table 1. Summary of U.S. Composite Economic Indexes**

	2011							
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Leading index	94.2	94.4	93.7	93.1	93.7	93.9	94.3	p
Percent change	.0	.2	-.7	-.6	.6	.2	.4	p
Diffusion index	50	55	30	25	70	60	70	
Coincident index	101.7	101.9	102.2	102.2	103.0	103.1	103.4	p
Percent change	.5	.2	.3	.0	.8	.1	.3	p
Diffusion index	87.5	75	75	62.5	100	75	100	
Lagging index	111.5	111.8	111.9	112.1	112.7	113.1	113.4	p
Percent change	.4	.3	.1	.2	.5	.4	.3	p
Diffusion index	50	64.3	21.4	50	57.1	64.3	71.4	
Coincident-lagging ratio	91.2	91.1	91.3	91.2	91.4	91.2	91.2	
	Dec to	Jan to	Feb to	Mar to	Apr to	May to	Jun to	
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Leading index								
Percent change	2.7	2.8	1.1	-0.6	0	-0.3	0.1	
Diffusion index	60	90	55	40	60	45	60	
Coincident index								
Percent change	0.9	0.4	1.2	0.5	1.8	1.9	1.7	
Diffusion index	100	100	75	75	100	100	100	
Lagging index								
Percent change	1.5	2.1	1.8	1.8	1.7	1.8	1.7	
Diffusion index	64.3	64.3	50	64.3	50	42.9	50	

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 contributing positively. 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 <https://www.conference-board.org/data/bcicountry.cfm?cid=1>

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**Table 2. Data and Net Contributions for Components of the U.S. Leading Economic Index**

Component	2011						
	Jun	Jul	Aug	Sep	Oct	Nov	Dec
U.S. Leading Economic Index component data							
Average workweek, production workers, mfg. (hours).....	41.4	41.4	41.3	41.3	41.5	41.4	41.5
Average weekly initial claims, state unemployment insurance (thousands)*.....	426.9	408.4	410.8	415.2	405.1	394.2	373.9
Manufacturers' new orders, consumer goods and materials (mil. 1982 dol.).....	117,085	118,854	117,371	116,834	119,511	120,889	121,018 **
ISM New Orders Index (percent).....	51.6	49.2	49.6	49.6	52.4	56.7	57.6
Manufacturers' new orders, nondefense capital goods excl. aircraft (mil. 1982 dol.).....	41909	41629	42001	42543	42198	41667	42135 **
Building permits (thous.).....	617	601	625	589	644	680	679
Stock prices, 500 common stocks (c) (index: 1941-43=10).....	1,287.29	1,325.18	1,185.31	1,173.88	1,207.22	1,226.41	1,243.32
Leading Credit Index™*.....	-0.3	-0.5	1.3	0.9	-0.3	0.5	0.2
Interest rate spread, 10-year Treasury bonds less federal funds.....	2.91	2.93	2.20	1.90	2.08	1.93	1.91
Avg. Consumer Expectations for Business and Economic Conditions.....	-0.8	-1.1	-2.1	-2.0	-2.0	-1.4	-0.8
LEADING INDEX (2004=100).....	94.2	94.4	93.7	93.1	93.7	93.9	94.3 p
Percent change from preceding month.....	0.0	0.2	-0.7	-0.6	0.6	0.2	0.4 p
U.S. Leading Economic Index net contributions							
Average workweek, production workers, mfg.....	....	.00	-.07	.00	.13	-.07	.07
Average weekly initial claims, state unemployment insurance.....	....	.15	-.02	-.04	.08	.09	.18
Manufacturers' new orders, consumer goods and materials.....	....	.12	-.10	-.04	.18	.09	.01 **
ISM New Orders Index.....	....	-.13	-.12	-.12	-.06	.03	.04
Manufacturers' new orders, nondefense capital goods excl. aircraft.....	....	-.02	.03	.05	-.03	-.05	.04 **
Building permits.....	....	-.07	.11	-.16	.24	.15	.00
Stock prices, 500 common stocks (c).....	....	.11	-.42	-.04	.11	.06	.05
Leading Credit Index™.....	....	.04	-.10	-.07	.02	-.04	-.02
Interest rate spread, 10-year Treasury bonds less federal funds.....	....	.31	.24	.20	.22	.21	.20
Avg. Consumer Expectations for Business and Economic Conditions.....	....	-.17	-.33	-.32	-.32	-.22	-.12

p Preliminary. r Revised. c Corrected.

\* Inverted series; a negative change or value 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 U.S. Coincident Economic Index and U.S. Lagging Economic Index**

Component	2011						
	Jun	Jul	Aug	Sep	Oct	Nov	Dec
U.S. Coincident Economic Index component data							
Employees on nonagricultural payrolls (thousands).....	131,047 r	131,174 r	131,278 r	131,488 r	131,600 r	131,700 r	131,900
Personal income less transfer payments (ann. rate, bil. chn. 2005 dol.).....	9,343.3 r	9,327.9 r	9,299.3 r	9,301.4 r	9,352.0 r	9,361.6 r	9,387.3 **
Industrial production (index: 2007=100).....	93.114	94.148 r	94.374 r	94.606 r	95.146 r	94.877 r	95.292
Manufacturing and trade sales (mil. chn. 2005 dol.).....	987,578 r	989,793 r	995,439 r	993,912 r	1,006,253 r	1,007,494 **	1,010,661 **
COINCIDENT INDEX (2004=100).....	101.7	101.9	102.2	102.2 r	103.0 r	103.1 r	103.4 p
Percent change from preceding month.....	0.5	0.2	0.3 r	0.0	0.8 r	0.1	0.3 p
U.S. Coincident Economic Index net contributions							
Employees on nonagricultural payrolls.....	....	.03	.02	.04	.02 r	.02 r	.04
Personal income less transfer payments.....	....	-.02 r	-.04	.00	.07	.01 r	.04 **
Industrial production.....	....	.08 r	.02	.02 r	.04 r	-.02	.03
Manufacturing and trade sales.....	....	.12	.30	-.08 r	.66 r	.07 **	.17 **
U.S. Lagging Economic Index component data							
Average duration of unemployment (weeks)*.....	39.8 r	40.2 r	40.3 r	40.4 r	39.2 r	40.9 r	40.8
Ratio, manufacturing and trade inventories to sales (chain 2005 dol.).....	1.355 r	1.356 r	1.349 r	1.346 r	1.339 r	1.340 **	1.340 **
Change in index of labor cost per unit of output, mfg. (6-month percent, ann. rate).....	1.1 r	-0.6 r	-1.7 r	-3 r	-2.7 r	-2.3 **	-1.9 **
Average prime rate charged by banks (percent).....	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Commercial and industrial loans outstanding (mil. chn. 2005 dol.).....	720,971 r	729,986 r	740,767 r	742,002 r	768,804 r	776,812 r	775,802 **
Ratio, consumer installment credit outstanding to personal income (percent).....	18.83 r	18.91 r	18.84	18.87 r	18.85 r	18.99 r	19.02 **
Change in CPI for services (6-month percent, ann. rate).....	1.9 r	2.2 r	2.1 r	2.2 r	2.2	2.1 r	2.4
LAGGING INDEX (2004=100).....	111.5	111.8 r	111.9	112.1 r	112.7 r	113.1 r	113.4 p
Percent change from preceding month.....	.4	.3 r	.1 r	.2 r	.5	.4	.3 p
U.S. Lagging Economic Index net contributions							
Average duration of unemployment.....	....	-.04	-.01	-.01	.11	-.15	.01
Ratio, manufacturing and trade inventories to sales.....	....	.01	-.06	-.03 r	-.06 r	.01 **	.00 **
Change in index of labor cost per unit of output, mfg.....	....	-.10 r	-.06 r	-.08 r	.02 r	.02 **	.02 **
Average prime rate charged by banks.....	....	.00	.00	.00	.00	.00	.00
Commercial and industrial loans outstanding.....	....	.12	.14 r	.02	.34 r	.10 r	-.01 **
Ratio, consumer installment credit outstanding to personal income.....	....	.09 r	-.08	.03 r	-.02	.16 r	.03 **
Change in CPI for services.....	....	.06	-.02	.02	.00	-.02	.06

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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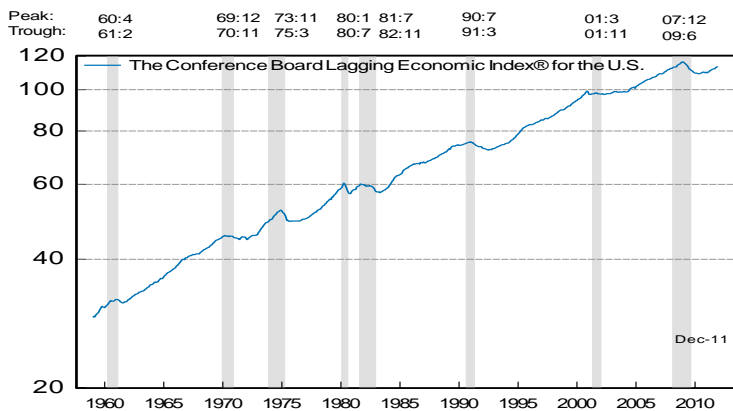
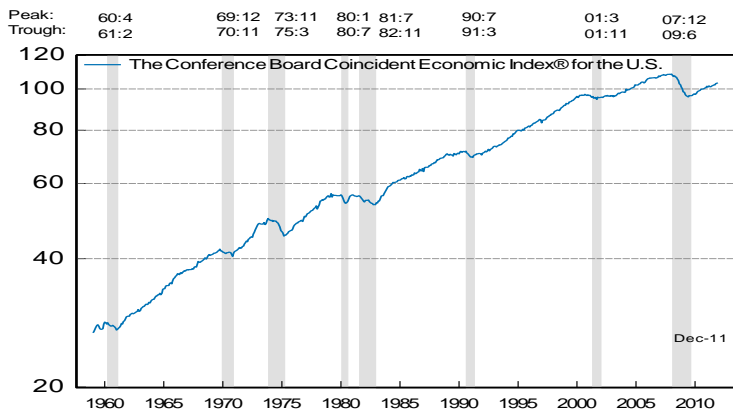
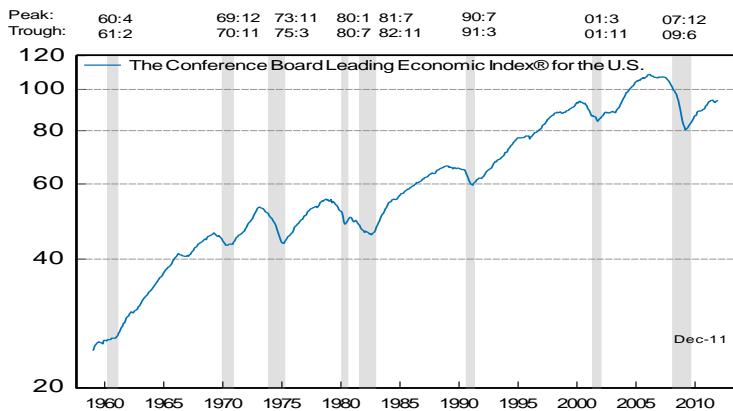
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# U.S. Composite Economic Indexes (2004=100)



Shaded areas represent recessions as determined by the National Bureau of Economic Research.

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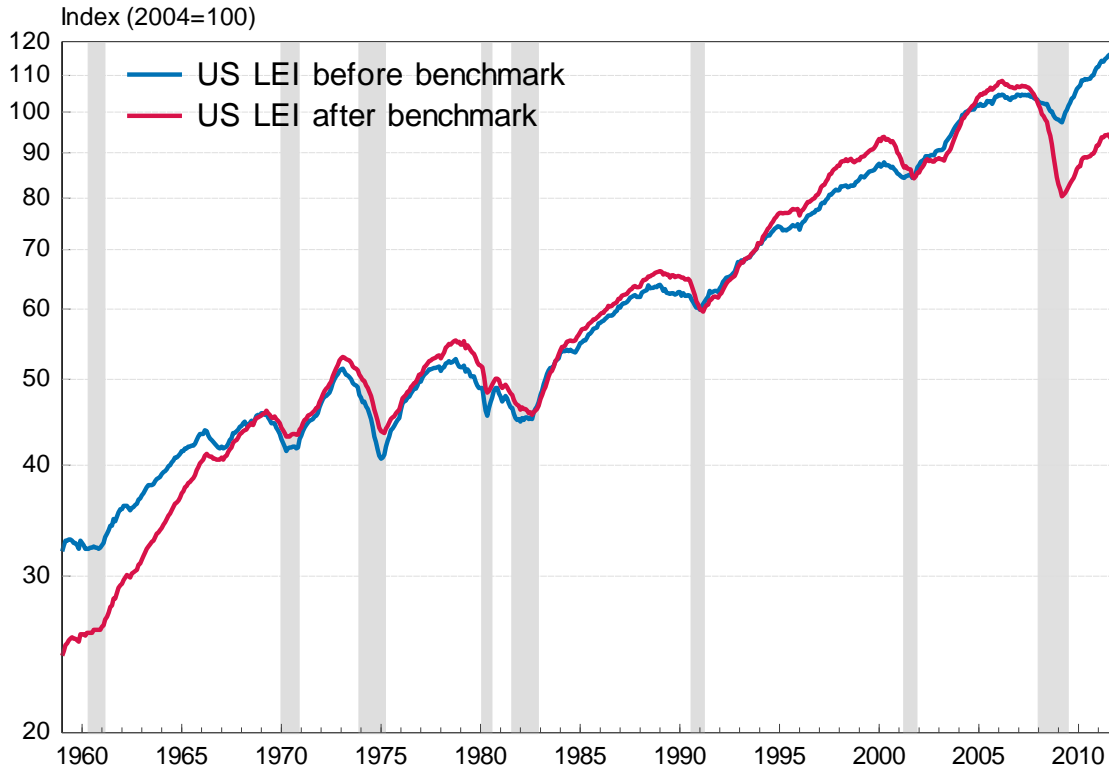
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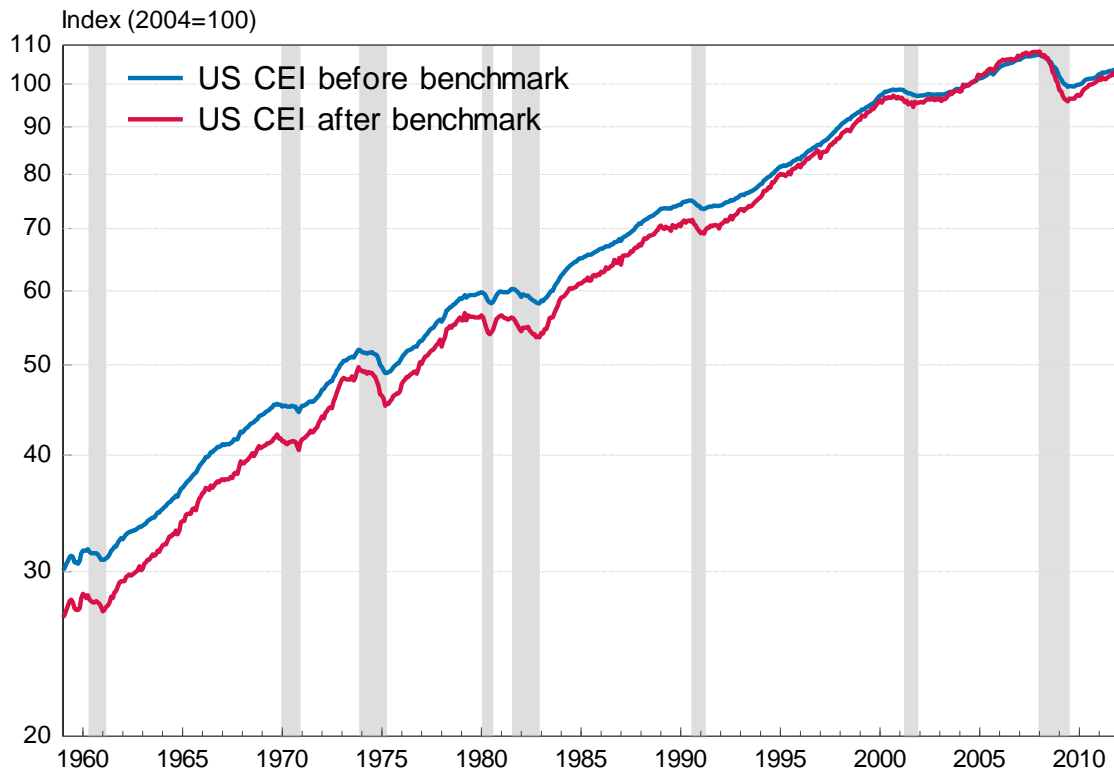
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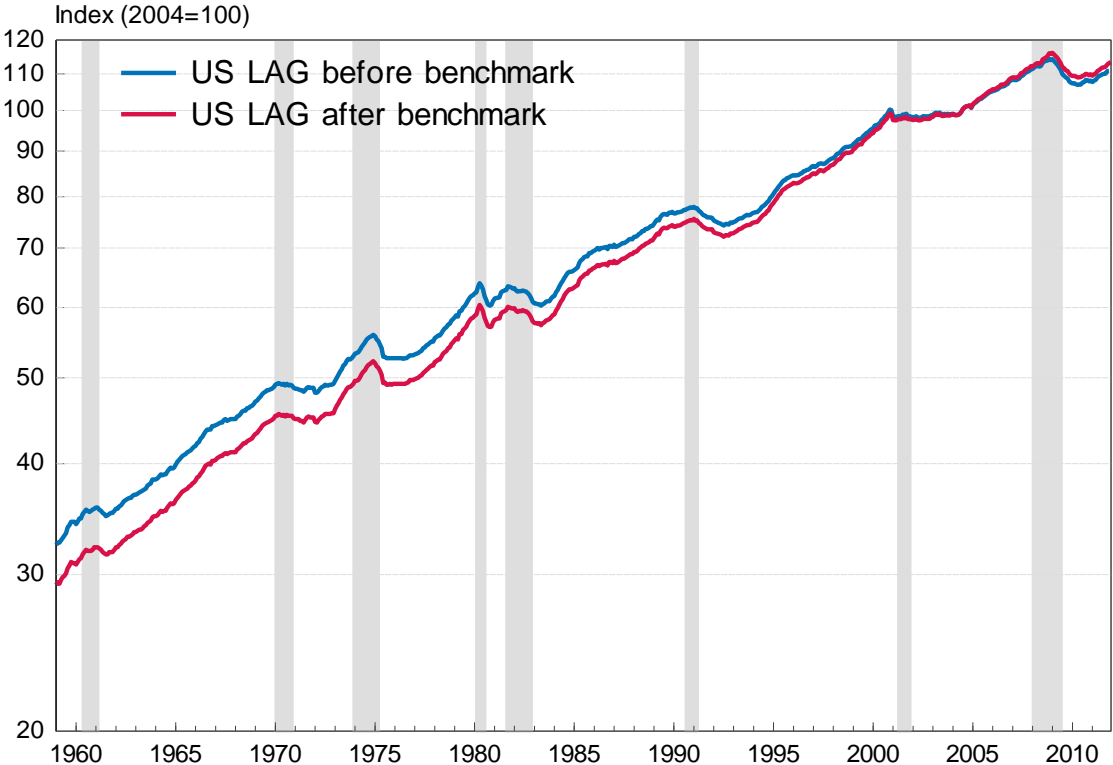


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