2012 Annual Benchmark Revisions to The Conference Board Leading Economic Index® (LEI) for the United States

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 have been revised.

2012 Comprehensive Benchmark Revisions to The Conference Board Leading Economic Index® (LEI) for the United States

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


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™*, and incorporated as a component in the revised LEI, replacing real money supply (M2).

*The new Leading Credit Index™* 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.

For more information, please visit our website at http://www.conference-board.org/data/bci.cfm or contact indicators@conference-board.org.