



THE CONFERENCE BOARD

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U.S. LEADING ECONOMIC INDICATORS AND RELATED COMPOSITE INDEXES

FOR WIRE TRANSMISSION: 10:00 A.M. ET, THURSDAY, MAY 17, 2001

U.S. COMPOSITE INDEXES FOR APRIL 2001

The leading index increased 0.1 percent, the coincident index held steady, and the lagging index decreased 0.3 percent in April. Taken together, the three composite indexes and their components continue to suggest slow growth through the summer of 2001.

- The increase in the leading index this month, only the second gain in the last seven months, is a direct result of money supply growth and the widening of the yield spread into positive territory. These two components are increasing due to the aggressive expansionary policy of the Federal Reserve this year.
- Despite gains in the service sector, growth in the coincident index has been hampered by the prolonged contraction of industrial production which has declined for the past seven consecutive months.
- The six-month diffusion of the leading index is 40 percent in April, and has been below 50 percent for a year now. This is an indication of the breadth of the weakness in the leading index and mirrors the widespread sluggishness of economic activity.

LEADING INDICATORS. Three of the ten indicators that make up the leading index increased in April. The positive contributors to the leading index in April - from largest to smallest - were interest rate spread, money supply, and stock prices. The negative contributors to the index - from largest to smallest - were average weekly initial claims for unemployment insurance, vendor performance, building permits, index of consumer expectations, and manufacturers' new orders for nondefense capital goods and materials. Average weekly manufacturing hours and manufacturers' new orders for consumer goods held steady for the month of April.

The leading index now stands at 108.7 (1996=100). Based on revised data, this index decreased 0.2 percent in March and decreased 0.2 percent in February. During the six-month span through April, the leading index decreased 0.6 percent with four of the ten components advancing (diffusion index, six-month span equals 40 percent).

COINCIDENT INDICATORS. Of the four indicators that make up the coincident index, personal income less transfer payments and manufacturing and trade sales increased in April with the former having a larger contribution to the coincident index. Employees on nonagricultural payrolls and industrial production decreased in April.

The next release is scheduled for June 20, 2001 at 10:00 A.M.

With the coincident index holding steady in April, the index now stands at 116.5 (1996=100). Based on revised data, this index increased 0.1 percent in March and increased another 0.1 percent in February. During the six-month period through April, the coincident index increased 0.1 percent.

LAGGING INDICATORS. The lagging index decreased 0.3 percent to 106.7 (1996=100) in April. Of the seven components of the lagging index, only average duration of unemployment increased in April. The components that decreased - from largest negative contributor to smallest - were commercial and industrial loans outstanding, average prime rate charged by banks, change in CPI for services, change in labor costs per unit of output, and ratio of consumer installment credit to income. Ratio of manufacturing and trade inventories to sales held steady in April. Based on revised data, the lagging index decreased by 0.3 percent in March and decreased another 0.3 percent in February.

DATA AVAILABILITY. The data series used to compute the three composite indexes and reported in the tables in this release are those available "as of" 12 Noon on May 16, 2001. At the time of the release, recent data for manufacturers' new orders for consumer goods and materials, manufacturers' new orders for nondefense capital goods, personal income less transfer payments, manufacturing and trade sales, inventories to sales ratio, consumer installment credit to income ratio, and change of labor cost per unit of output were based on estimates. In addition, the personal consumption expenditure deflator for money supply and commercial and industrial loans outstanding were also based on an estimate.

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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.

A change in direction in a composite index does not signal a cyclical turning point unless the movement is of significant size, duration, and scope. Historical analysis shows recession warnings are best determined by looking for the annualized rate of change in the leading index to fall below 3.5 percent at the same time the diffusion index is below 50 percent over a six-month span. Further explanations of the cyclical indicator approach and the composite index methodology appear in The Conference Board's *Business Cycle Indicators* report and website: www.globalindicators.org.

U.S. Composite Indexes: Components and Standardization Factors

<u>Leading Index</u>	<u>Factor</u>
1. Average weekly hours, manufacturing	.1899
2. Average weekly initial claims for unemployment insurance	.0240
3. Manufacturers' new orders, consumer goods and materials	.0489
4. Vendor performance, slower deliveries diffusion index	.0271
5. Manufacturers' new orders, nondefense capital goods	.0125
6. Building permits, new private housing units	.0184
7. Stock prices, 500 common stocks	.0304
8. Money supply, M2	.3034
9. Interest rate spread, 10-year Treasury bonds less federal funds	.3274
10. Index of consumer expectations	.0180
 <u>Coincident Index</u>	
1. Employees on nonagricultural payrolls	.4822
2. Personal income less transfer payments	.2795
3. Industrial production	.1292
4. Manufacturing and trade sales	.1091
 <u>Lagging Index</u>	
1. Average duration of unemployment	.0371
2. Inventories to sales ratio, manufacturing and trade	.1224
3. Labor cost per unit of output, manufacturing	.0615
4. Average prime rate	.2445
5. Commercial and industrial loans	.1275
6. Consumer installment credit to personal income ratio	.2204
7. Consumer price index for services	.1866

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. The index standardization factors are used to make volatility of the percent changes comparable for the three indexes.

These factors were last revised effective with the January 22, 2001 release, and all historical values for the three composite indexes were revised at that 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 1984-1999 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 1959-1999. 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.globalindicators.org.

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.

NOTICES

U.S. Leading Economic Indicators news release schedule for 2001:

Wednesday, June 20 for May 2001 data,
Thursday, July 19 for June 2001 data,
Monday, August 20 for July 2001 data,
Monday, September 24 for August 2001 data,
Monday, October 22 for September 2001 data,
Tuesday, November 20 for October 2001 data, and
Wednesday, December 19 for November 2001 data.

All releases are at 10:00AM ET.

ABOUT THE CONFERENCE BOARD

The Conference Board is a worldwide research and business membership group, with more than 2,700 corporate and other members in 60 nations. One of the leading private sources of economic and business intelligence, The Conference Board is a not-for-profit, non-advocacy organization.

For more information about The Conference Board—especially to learn about networking opportunities through our conferences, councils, and meetings or to order a wide range of reports on best business practices and economic and public policy issues—visit our website at <http://www.conference-board.org> (or write to the address below).

THE CONFERENCE BOARD'S BUSINESS CYCLE INDICATORS PROGRAM

In December 1995, the Conference Board assumed responsibility for computing the composite indexes in the "Leading Economic Indicators" news release from the U.S. Department of Commerce, which is in keeping with its mission to improve the business enterprise system and to enhance the contribution of business to society.

The Conference Board produces a monthly report called *Business Cycle Indicators* and corresponding electronic datafiles that highlight the composite indexes and offer a wealth of additional statistical information gathered together in a common format. More than 250 economic series are in the *BCI* dataset, covering the most important aspects and sectors of the U.S. economy. In addition to the U.S. Business Cycle Indicators, The Conference Board also produces monthly indicators for United Kingdom, Germany, France, Japan, and Korea.

The following products and services are available:

"Leading Economic Indicators and Related Composite Indexes" news release (annual subscription)

Mail: \$24, Fax: \$40.

Business Cycle Indicators report (annual subscription)

First class mail: \$120, International mail: \$125.

Business Cycle Indicators database (www.globalindicators.org)

U.S. BCI Internet Subscription: \$500 per user per year

Global Business Cycle Indicators

United Kingdom	\$500 per user per year
Germany	\$500 per user per year
France	\$500 per user per year
Japan	\$500 per user per year
Korea	\$500 per user per year

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Table 1.--Summary of Composites Indexes

	2000				2001			
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	
Leading index	109.4	109.1	108.6 r	109.0	108.8	108.6 r	108.7 p	
Percent change	-.4	-.3	-.5	.4 r	-.2	-.2 r	.1 p	
Diffusion index	40.0	45.0	30.0	60.0	40.0	40.0	45.0	
Coincident index	116.4	116.3	116.4	116.3 r	116.4 r	116.5 r	116.5 p	
Percent change	-.2	-.1	.1	-.1 r	.1	.1	.0 p	
Diffusion index	25.0	37.5	62.5	25.0	50.0	62.5	50.0	
Lagging index	107.3	107.9	107.7 r	107.6	107.3	107.0 r	106.7 p	
Percent change	.5	.6	-.2 r	-.1 r	-.3	-.3 r	-.3 p	
Diffusion index	64.3	64.3	35.7	50.0	42.9	28.6	21.4	
Coincident-lagging ratio	108.5	107.8	108.1 r	108.1 r	108.5 r	108.9 r	109.2 p	
	Apr. to	May to	Jun. to	Jul. to	Aug. to	Sep. to	Oct. to	
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	
Leading index								
Percent change	-1.0	-1.1	-1.5	-.7	-.8	-1.1	-.6	
Diffusion index	10.0 r	30.0	20.0	30.0	30.0	30.0	40.0	
Coincident index								
Percent change	.9	.5	.3	.3	.2	-.1	.1	
Diffusion index	100.0 r	75.0 r	50.0	50.0	50.0	50.0	62.5	
Lagging index								
Percent change	2.0	2.4	1.4	1.1	.6	.2	-.6	
Diffusion index	100.0	100.0	64.3	71.4	71.4	57.1	57.1	

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.

The full history of composite and diffusion indexes is available on our web site at www.globalindicators.org.

Source: The Conference Board

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

Component	2000			2001			
	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Leading index component data							
Average workweek, production workers, mfg. (hours).....	41.4	41.2	40.4	40.9	40.7	40.7	40.7 p
Average weekly initial claims, state unemployment insurance (thousands)*.....	310.0	345.9	355.4	325.9	356.4	377.8 r	405.5 p
Manufacturers' new orders, consumer goods and materials (mil. 1996 dol.).....	177,395	177,156	174,852	167,820 r	170,582 r	170,493 r	170,588 **
Vendor performance--slower deliveries diffusion index (percent).....	51.1	49.3	52.1	50.3	51.3	48.3	47.4
Manufacturers' new orders, nondefense capital goods (mil. 1996 dol.).....	58,828	63,964	71,369	62,709 r	58,259 r	60,753 r	59,598 **
Building permits (thous.).....	1,562 r	1,614 r	1,553 r	1,724	1,663 r	1,627 r	1,587
Stock prices, 500 common stocks (c) (index: 1941-43=10).....	1,390.14	1,375.04	1,330.93	1,335.63	1,305.75	1,185.85	1,189.84
Money supply, M2 (bil. 1996 dol.).....	4,525.8 r	4,535.8	4,565.8 r	4,591.2	4,620.3 r	4,674.2 r	4,708.5 **
Interest rate spread, 10-year Treasury bonds less federal funds.....	-0.77	-0.79	-1.16	-0.82	-0.39	-0.42	0.34
Index of consumer expectations (c) (1966:1=100).....	100.7	101.6	90.7	86.4	80.8	83.9	82.2
LEADING INDEX (1996=100).....	109.4	109.1	108.6 r	109.0	108.8	108.6 r	108.7 p
Percent change from preceding month.....	-0.4	-0.3	-0.5	0.4 r	-0.2	-0.2 r	0.1 p
Leading index net contributions							
Average workweek, production workers, mfg.....	....	-.09	-.37	.23	-.09	.00	.00 p
Average weekly initial claims, state unemployment insurance.....	....	-.26	-.07	.21	-.21	-.14	-.17
Manufacturers' new orders, consumer goods and materials.....	....	-.01	-.06	-.20 r	.08 r	.00 r	.00 **
Vendor performance--slower deliveries diffusion index.....	....	-.10	.15	-.10	.05	-.16	-.05
Manufacturers' new orders, nondefense capital goods.....	....	.10	.14	-.16	-.09 r	.05 r	-.02 **
Building permits.....	....	.06 r	-.07 r	.19 r	-.07 r	-.04 r	-.05
Stock prices, 500 common stocks (c).....	....	-.03	-.10	.01	-.07	-.29	.01
Money supply, M2.....	....	.07	.20	.17	.19 r	.35 r	.22 **
Interest rate spread, 10-year Treasury bonds less federal funds.....	....	-.01	-.12	.11	.14	-.01	.25
Index of consumer expectations (c).....	....	.02	-.20	-.09	-.12	.07	-.04

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).

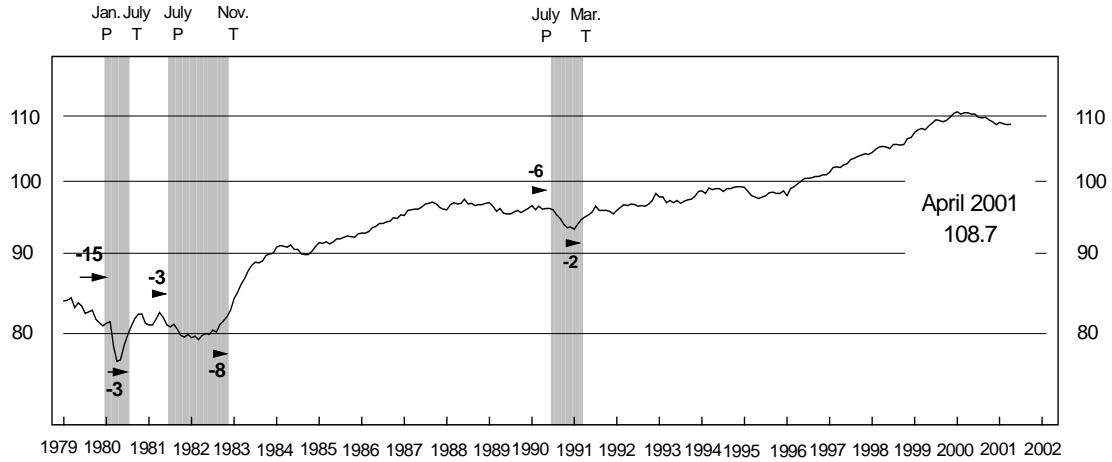
Table 3.--Data and Net Contributions for Components of the Coincident and Lagging Indexes

Component	2000			2001			
	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Coincident index component data							
Employees on nonagricultural payrolls (thousands).....	131,789	131,842	131,878	132,167	132,303 r	132,250 r	132,027
Personal income less transfer payments (ann. rate, bil. 1996 dol.).....	6,782.6	6,791.7	6,807.1	6,803.1 r	6,818.4 r	6,845.4 r	6,863.7 **
Industrial production (index: 1992=100).....	148.660	148.206	147.300	146.013 r	145.480 r	145.328 r	144.866
Manufacturing and trade sales (mil. 1996 dol.).....	906,519	903,207 r	906,519	902,957 r	900,779 r	904,227 **	906,809 **
COINCIDENT INDEX (1996=100).....	116.4	116.3	116.4	116.3 r	116.4 r	116.5 r	116.5 p
Percent change from preceding month.....	-0.2	-0.1	0.1	-0.1 r	0.1	0.1	0.0
Coincident index net contributions							
Employees on nonagricultural payrolls.....	....	.02	.01	.11	.05	-.02	-.08
Personal income less transfer payments.....	....	.04	.06	-.02 r	.06 r	.11 r	.07 **
Industrial production.....	....	-.04	-.08	-.11 r	-.05	-.01 r	-.04
Manufacturing and trade sales.....	....	-.04	.04	-.04 r	-.03 r	.04 **	.03 **
Lagging index component data							
Average duration of unemployment (weeks)*.....	12.4	12.4	12.6	12.6	12.9	13.0	12.6 p
Ratio, manufacturing and trade inventories to sales (chain 1996 dol.).....	1.331	1.340	1.337	1.343	1.340 r	1.341 **	1.341 **
Change in index of labor cost per unit of output, mfg. (6-month percent, ann. rate)....	-2	3.3	3.3 r	3.7 r	6.1 r	7.1 r	6.6 **
Average prime rate charged by banks (percent).....	9.50	9.50	9.50	9.05	8.50	8.32	7.80
Commercial and industrial loans outstanding (mil. 1996 dol.).....	868,960 r	871,330 r	866,383 r	844,224 r	830,775 r	809,394 r	799,197 **
Ratio, consumer installment credit out- standing to personal income (percent).....	17.96 r	18.12 r	18.12 r	18.20 r	18.27 r	18.26 r	18.25 **
Change in CPI for services (6-month percent, ann. rate).....	4.2	4.2	3.9	5.0	4.7	4.8	4.6
LAGGING INDEX (1996=100).....	107.3	107.9	107.7 r	107.6	107.3	107.0 r	106.7 p
Percent change from preceding month.....	.5	.6	-.2 r	-.1 r	-.3	-.3 r	-.3 p
Lagging index net contributions							
Average duration of unemployment.....	....	.00	-.06	.00	-.09	-.03	.12 p
Ratio, manufacturing and trade inventories to sales.....	....	.08	-.03	.05	-.03 p	.01 **	.00 **
Change in index of labor cost per unit of output, mfg.....	....	.22	.00 r	.02	.15 r	.06 r	-.03 **
Average prime rate charged by banks.....	....	.00	.00	-.11	-.13	-.04	-.13 p
Commercial and industrial loans outstanding.....	....	.03 r	-.07	-.33	-.20	-.33 r	-.16 **
Ratio, consumer installment credit out- standing to personal income.....	....	.20	.00	.10 r	.08 r	-.01 r	-.01 **
Change in CPI for services.....	....	.00	-.06	.21	-.06	.02	-.04 p

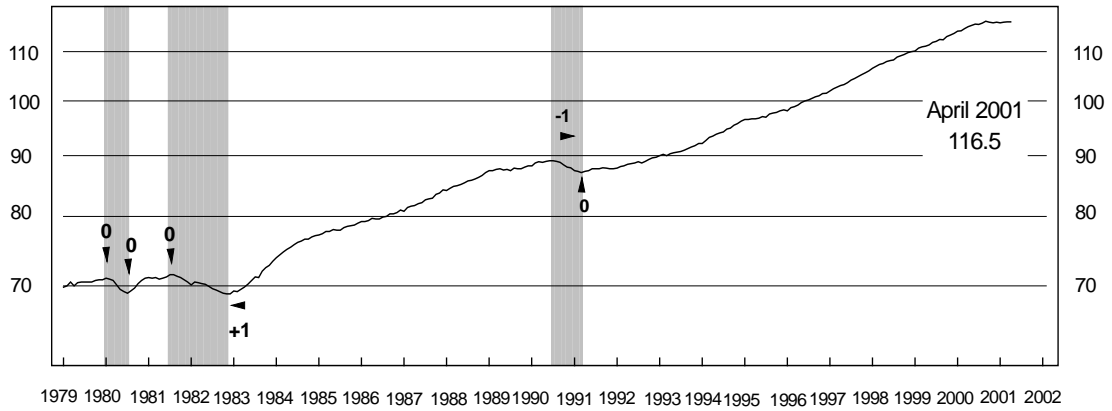
CPI Consumer Price Index. For additional notes see table 2.

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

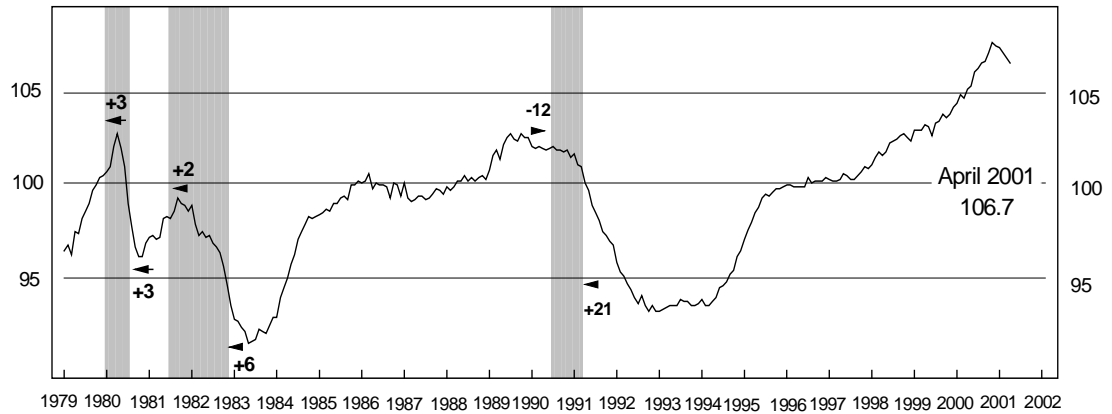
U.S. LEADING INDEX (1996=100)



U.S. COINCIDENT INDEX



U.S. LAGGING INDEX



Source: The Conference Board

NOTE: - P (peak) indicates the end of general business expansion and the beginning of recession; T (trough) indicates the end of general business recession and the beginning of expansion (as designated by the NBER). Thus, shaded areas represent recessions. Arrows indicate leads (-) and lags (+) in months from business cycle turning dates.