THE CONFERENCE BOARD

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The Conference Board® U.S. Business Cycle Indicators℠

U.S. LEADING ECONOMIC INDICATORS

AND RELATED COMPOSITE INDEXES FOR JUNE 2001

The Conference Board announced today that the U.S. leading index increased 0.3 percent, the coincident index decreased 0.1 percent, and the lagging index decreased 0.8 percent in June. The outlook for the U.S. economy remains fragile despite recent gains in the leading index. However, the composite indexes and their components suggest that economic conditions have improved relative to the end of 2000.

- The relatively robust increase in the leading index in the last three months is a result of the persistent expansionary policy adopted by the Federal Reserve. However, the breadth of the increase is narrow as evidenced by the six-month diffusion index of ten leading indicators remaining below 50 percent for longer than a year.
- The performance of the coincident index reflects the economy's sluggish pace. The prolonged decline in industrial production continues to offset the rise in personal income.
- The slight decrease in the coincident index, coupled with the large decline in the lagging index, resulted in a strong gain in the coincident to lagging ratio. The gain in this ratio underscores the increase in the leading index.

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

The leading index now stands at 109.6 (1996=100). Based on revised data, this index increased 0.4 percent in May and increased 0.2 percent in April. During the six-month span through June, the leading index increased 0.8 percent, with four of the ten components advancing (diffusion index, six-month span equals 40 percent).

COINCIDENT INDICATORS. Two of the four indicators that make up the coincident index increased in June. The positive contributors to the index – from larger to smaller - were personal income less transfer payments* and manufacturing and trade sales*. The negative contributors to the index – from larger to smaller - were industrial production and employees on nonagricultural payrolls.

** See notes under data availability.*

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

With the decrease in June, the coincident index now stands at 116.2 (1996=100). Based on revised data, this index held steady in May and decreased 0.1 percent in April. During the six-month period through June, the coincident index decreased 0.2 percent.

LAGGING INDICATORS. The lagging index decreased 0.8 percent to 105.7 (1996=100) in June. Of the seven components of the lagging index, change in CPI for services, change in labor costs per unit of output*, ratio of manufacturing and trade inventories to sales*, and ratio of consumer installment credit to income* increased. The components that decreased - from the largest negative contributor to the smallest - were commercial and industrial loans outstanding*, average duration of unemployment, and average prime rate charged by banks. Based on revised data, the lagging index decreased 0.1 percent in May and decreased 0.2 percent in April.

DATA AVAILABILITY. 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 July 18, 2001. Some series are estimated as noted below.

NOTES: 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 deflator for 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, and the personal consumption expenditure deflator for commercial and industrial loans outstanding.

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Professional Contacts at The Conference Board:

Mike Fort: 212-339-0402
Indicators Program: 212-339-0312
Email: indicators@conference-board.org
Website: http://www.globalindicators.org

Media Contacts:

Randy Poe: 212-339-0234
Frank Tortorici: 212-339-0231

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.

** See notes under data availability.*

U.S. Composite Indexes: Components and Standardization Factors

Leading Index		Factor
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
Coincident Index		
1.	Employees on nonagricultural payrolls	.4822
2.	Personal income less transfer payments	.2795
3.	Industrial production	.1292
4.	Manufacturing and trade sales	.1091
Lagging Index		
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.

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

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
Wednesday, December 19 for November 2001 data

All releases are at 10:00AM EDT.

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 and the U.K. To subscribe to any of these indexes, please visit www.globalindicators.org or contact the Global Indicators Research Institute at 212-339-0312 or email indicators@conference-board.org.

AVAILABLE FROM THE CONFERENCE BOARD

U.S. Business Cycle Indicators Internet Subscription *(Includes monthly release, data, charts and commentary)*	$ 500 per year (1 user)
Individual Data Series	$ 15 per series downloaded
Monthly BCI Report *(Sample available on request)*	$ 130 per year
Monthly News Release (fax or email)	$ 45 per year
BCI Handbook (published 2001)	$ 20
Corporate Site License	$2,600 per year

Business Cycle Indicators for Australia, France, Germany, Japan, Korea, Mexico and the UK are available at $500 per country per year (1 user). Discounts are available to Associates of The Conference Board and accredited academic institutions.

Table 1.--Summary of Composites Indexes

	2000	2001					
	Dec	Jan	Feb	Mar	Apr	May	Jun
Leading index	108.7	109.0	108.9	108.7	108.9 r	109.3	109.6 p
Percent change	-.4	.3	-.1	-.2	.2 r	.4 r	.3 p
Diffusion index	30.0	60.0	40.0	45.0	45.0	65.0	55.0
Coincident index	116.4	116.2	116.3	116.4	116.3	116.3	116.2 p
Percent change	.1	-.2	.1	.1	-.1	.0	-.1 p
Diffusion index	75.0	12.5	50.0	37.5	37.5	50.0	50.0
Lagging index	107.6	107.5 r	107.3	106.9	106.7 r	106.6	105.7 p
Percent change	-.3	-.1 r	-.2 r	-.4	-.2 r	-.1 r	-.8 p
Diffusion index	28.6	50.0	42.9	50.0	35.7	50.0	50.0
Coincident-lagging ratio	108.2	108.1 r	108.4 r	108.9 r	109.0 r	109.1	109.9 p

	Jun. to Dec	Jul. to Jan	Aug. to Feb	Sep. to Mar	Oct. to Apr	Nov. to May	Dec. to Jun
Leading index							
Percent change	-1.5	-.7	-.7	-1.0	-.5	.2	.8
Diffusion index	20.0	30.0	30.0	30.0	40.0	30.0	40.0
Coincident index							
Percent change	.2	.3	.1	-.2	-.1	.0	-.2
Diffusion index	50.0	50.0	50.0	50.0	50.0	75.0	50.0
Lagging index							
Percent change	1.3	1.0	.6	.1	-.6	-1.2	-1.8
Diffusion index	64.3	71.4	71.4	57.1	57.1	71.4	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 Dec	2001 Jan	Feb	Mar	Apr	May	Jun
	Leading index component data						
Average workweek, production workers, mfg. (hours)	40.6	41.0	40.9	41.0	41.0	40.8	40.7 p
Average weekly initial claims, state unemployment insurance (thousands)*	355.4	325.9	356.4	377.8	405.6	414.8 r	408.4 p
Manufacturers' new orders, consumer goods and materials (mil. 1996 dol.)	174,852	167,820	170,582	170,493	170,588 **	170,657 **	170,730 **
Vendor performance--slower deliveries diffusion index (percent)	52.1	50.3	51.3	48.3	47.4	45.7	48.0
Manufacturers' new orders, nondefense capital goods (mil. 1996 dol.)	71,369	62,709	58,259	60,753	59,598 **	59,994 **	59,731 **
Building permits (thous.)	1,553	1,724	1,663	1,627	1,587	1,621	1,568
Stock prices, 500 common stocks (c) (index: 1941-43=10)	1,330.93	1,335.63	1,305.75	1,185.85	1,189.84	1,270.37	1,238.71
Money supply, M2 (bil. 1996 dol.)	4,567.4 r	4,589.5 r	4,623.6 r	4,678.2 r	4,707.0 r	4,720.8 r	4,749.8 **
Interest rate spread, 10-year Treasury bonds less federal funds	-1.16	-0.82	-0.39	-0.42	0.34	1.18	1.31
Index of consumer expectations (c) (1966:1=100)	90.7	86.4	80.8	83.9	82.2	85.4	86.9
LEADING INDEX (1996=100)	108.7	109.0	108.9	108.7	108.9 r	109.3	109.6 p
Percent change from preceding month	-0.4	0.3	-0.1	-0.2	0.2 r	0.4 r	0.3 p
	Leading index net contributions						
Average workweek, production workers, mfg	....	.19	-.05	.05	.00	-.09	-.05 p
Average weekly initial claims, state unemployment insurance	....	.21	-.21	-.14	-.17	-.05 r	.04
Manufacturers' new orders, consumer goods and materials	....	-.20	.08	.00	.00 **	.00 **	.00 **
Vendor performance--slower deliveries diffusion index	....	-.10	.05	-.16	-.05	-.10	.13
Manufacturers' new orders, nondefense capital goods	....	-.16	-.09	.05	-.02 **	.01 **	-.01 **
Building permits	....	.19	-.07	-.04	-.05	.04	-.06
Stock prices, 500 common stocks (c)	....	.01	-.07	-.29	.01	.20	-.08
Money supply, M2	....	.15 r	.22 r	.36	.19 r	.09 r	.19 **
Interest rate spread, 10-year Treasury bonds less federal funds	....	.11	.14	-.01	.25	.28	.04
Index of consumer expectations (c)	....	-.09	-.12	.07	-.04	.07	.03

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			
	Dec	Jan	Feb	Mar	Apr	May	Jun
	Coincident index component data						
Employees on nonagricultural payrolls (thousands)	132,367	132,428	132,595	132,654	132,489 r	132,497 r	132,383
Personal income less transfer payments (ann. rate, bil. 1996 dol.)	6,807.1	6,800.3	6,825.6 r	6,853.6 r	6,850.6 r	6,852.0 r	6,866.7 **
Industrial production (index: 1992=100)	147.300	146.013	145.443	144.987 r	144.219 r	143.480 r	142.501
Manufacturing and trade sales (mil. 1996 dol.)	906,519	902,882	899,627	898,531	901,714 **	904,255 **	906,902 **
COINCIDENT INDEX (1996=100)	116.4	116.2	116.3	116.4	116.3	116.3	116.2 p
Percent change from preceding month	0.1	-0.2	0.1	0.1	-0.1	0.0	-0.1 p
	Coincident index net contributions						
Employees on nonagricultural payrolls	....	.02	.06	.02	-.06 r	.00 r	-.04
Personal income less transfer payments	....	-.03 r	.10 r	.11 r	-.01	.01 r	.06 **
Industrial production	....	-.11	-.05	-.04 r	-.07 r	-.07 r	-.09
Manufacturing and trade sales	....	-.04	-.04	-.01 r	.04 **	.03 **	.03 **
	Lagging index component data						
Average duration of unemployment (weeks)*	12.6	12.6	12.9	13.0	12.6	12.2	13.0 p
Ratio, manufacturing and trade inventories to sales (chain 1996 dol.)	1.337	1.342	1.341	1.340	1.341 **	1.341 **	1.342 **
Change in index of labor cost per unit of output, mfg. (6-month percent, ann. rate)	3.3	3.7	6.8 r	8.5 r	6.8 r	5.3 r	5.7 **
Average prime rate charged by banks (percent)	9.50	9.05	8.50	8.32	7.80	7.24	6.98
Commercial and industrial loans outstanding (mil. 1996 dol.)	861,488 r	835,949 r	820,883 r	797,423 r	786,500 r	777,137 r	741,776 **
Ratio, consumer installment credit outstanding to personal income (percent)	18.10 r	18.19	18.27	18.27 r	18.39 r	18.43 r	18.44 **
Change in CPI for services (6-month percent, ann. rate)	3.9	5.0	4.7	4.8	4.6	4.8	5.0
LAGGING INDEX (1996=100)	107.6	107.5 r	107.3	106.9	106.7 r	106.6 r	105.7 p
Percent change from preceding month	-.3	-.1 r	-.2 r	-.4	-.2 r	-.1 r	-.8 p
	Lagging index net contributions						
Average duration of unemployment	....	.00	-.09	-.03	.12	.12	-.24 p
Ratio, manufacturing and trade inventories to sales	....	.05	-.01	-.01	.01 **	.00 **	.00 **
Change in index of labor cost per unit of output, mfg	....	.02	.19 r	.10 r	-.10 r	-.09 r	.02 **
Average prime rate charged by banks	....	-.11	-.13	-.04	-.13	-.14	-.06 p
Commercial and industrial loans outstanding	....	-.38 r	-.23	-.37 r	-.18 r	-.15 r	-.59 **
Ratio, consumer installment credit outstanding to personal income	....	.11	.10	.00 r	.14 r	.05 r	.01 **
Change in CPI for services	....	.21	-.06	.02	-.04	.04	.04 p

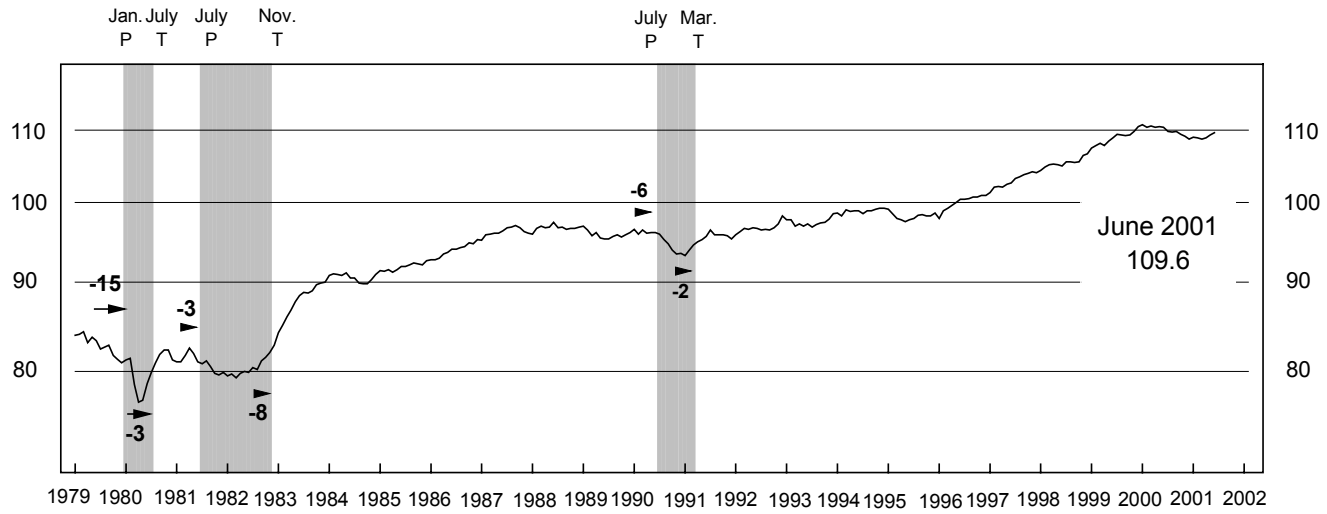
CPI Consumer Price Index. For additional notes see table 2.

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

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

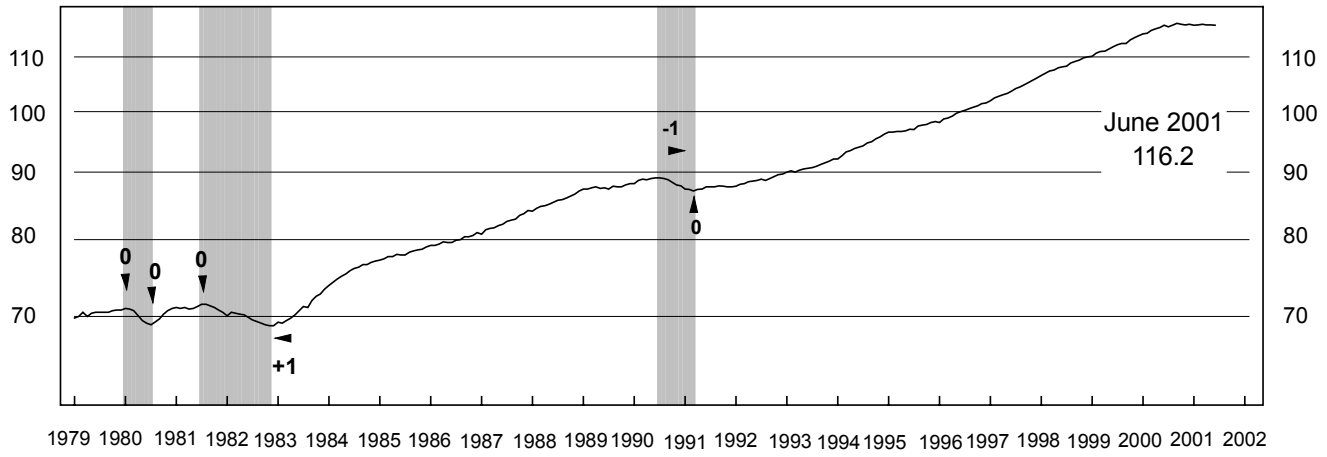
U.S. LEADING INDEX

(1996=100)



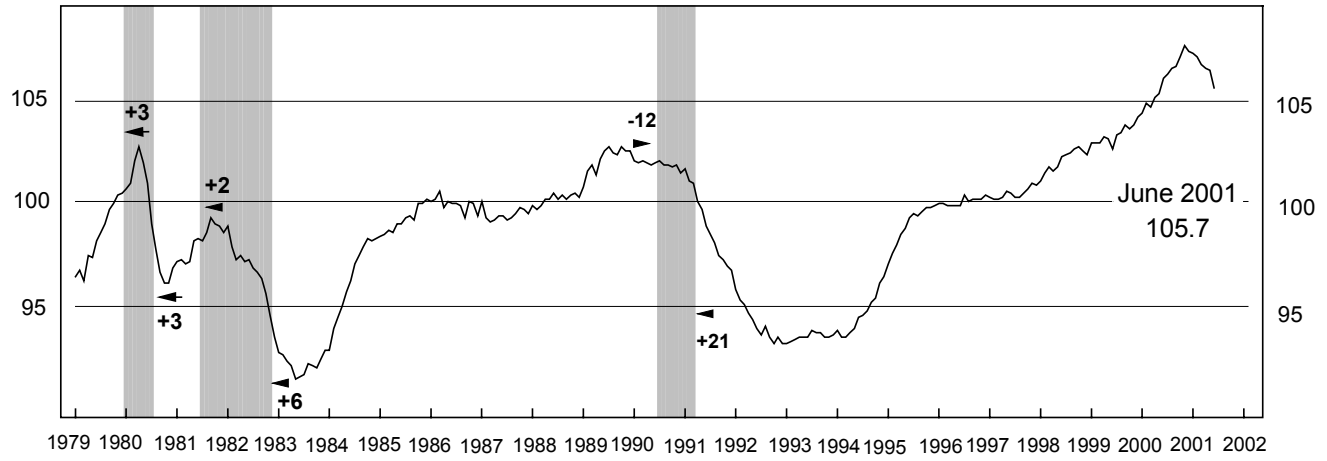
Source: The Conference Board

U.S. COINCIDENT INDEX



Source: The Conference Board

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.