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

U.S. LEADING ECONOMIC INDICATORS

AND RELATED COMPOSITE INDEXES FOR JANUARY 2002

The Conference Board announced today that the U.S. leading index increased by 0.6 percent, the coincident index held steady, and the lagging index decreased by 0.2 percent in January.

- The leading index posted a robust 2.2 percent increase from July 2001 to January 2002. This is the fourth consecutive month that the six-month growth rate of the leading index has improved. Meanwhile, the six-month diffusion index, which measures the number of components that are rising, has increased above 50 percent for the first time in 21 months.
- With a robust leading index, the coincident index appears to be bottoming out in the past two months. The rate of decline of nonagricultural payrolls and industrial production has slowed in the last three and four months respectively while personal income and manufacturing sales have essentially held their ground throughout the recession.
- The coincident-to-lagging ratio, which has historically led business cycles, is up for the fourth consecutive month in January. This underscores the strength of the leading index and indicates a likely economic recovery, barring any unexpected negative events.

LEADING INDICATORS. Six of the ten indicators that make up the leading index increased in January. The positive contributors to the leading index - from the largest positive contributor to the smallest – were vendor performance, index of consumer expectations, average weekly initial claims for unemployment insurance (inverted), building permits, money supply*, and interest rate spread. The four negative contributors to the index, beginning with the largest negative contributor, were average weekly manufacturing hours, stock prices, manufacturers' new orders for nondefense capital goods* and manufacturers' new orders for consumer goods and materials*.

The leading index now stands at 112.2 (1996=100). Based on revised data, this index increased 1.3 percent in December and increased 0.8 percent in November. During the six-month span through January, the leading index increased 2.2 percent, with six of the ten components advancing (diffusion index, six-month span equals 60 percent).

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

- *See notes under data availability*

The next release is scheduled for March 21, 2002 at 10:00 A.M. ET

Holding steady in January, the coincident index now stands at 115.4 (1996=100). Based on revised data, this index increased 0.1 percent in December and decreased 0.3 percent in November. During the six-month period through January, the coincident index decreased 0.7 percent.

LAGGING INDICATORS. The lagging index decreased 0.2 percent to 102.6 (1996=100) in January. Four of the seven components of the lagging index decreased in January. The negative contributors to the index - from the largest negative contributor to the smallest – were commercial and industrial loans outstanding*, ratio of consumer installment credit to income*, average duration of unemployment, and average prime rate charged by banks. The positive contributors to the index - beginning with the larger positive contributor - were change in CPI for services and change in labor cost per unit of output*. Ratio of manufacturing and trade inventories to sales* held steady in January. Based on revised data, the lagging index decreased 0.3 percent in December and decreased 0.5 percent in November.

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 February 20, 2002. 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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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	.1812
2.	Average weekly initial claims for unemployment insurance	.0241
3.	Manufacturers' new orders, consumer goods and materials	.0456
4.	Vendor performance, slower deliveries diffusion index	.0277
5.	Manufacturers' new orders, nondefense capital goods	.0131
6.	Building permits, new private housing units	.0191
7.	Stock prices, 500 common stocks	.0310
8.	Money supply, M2	.3069
9.	Interest rate spread, 10-year Treasury bonds less federal funds	.3330
10.	Index of consumer expectations	.0185
Coincident Index		
1.	Employees on nonagricultural payrolls	.4805
2.	Personal income less transfer payments	.2814
3.	Industrial production	.1292
4.	Manufacturing and trade sales	.1090
Lagging Index		
1.	Average duration of unemployment	.0367
2.	Inventories to sales ratio, manufacturing and trade	.1225
3.	Labor cost per unit of output, manufacturing	.0611
4.	Average prime rate	.2454
5.	Commercial and industrial loans	.1265
6.	Consumer installment credit to personal income ratio	.2209
7.	Consumer price index for services	.1869

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 revised effective on the release for December 2001, and all historical values for the three composite indexes were revised at this 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 1984-2000 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 1959-2000. 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 2002:

March 21, Thursday for February 2002 data
April 18, Thursday for March 2002 data
May 20, Monday for April 2002 data
June 20, Thursday for May 2002 data
July 18, Thursday for June 2002 data
August 19, Monday for July 2002 data
September 23, Monday for August 2002 data
October 21, Monday for September 2002 data
November 21, Thursday for October 2002 data
December 19, Thursday for November 2002 data

All releases are at 10:00AM ET.

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, Spain 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)
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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	contact Mike Fort at (212) 339-0402

Business Cycle Indicators for Australia, France, Germany, Japan, Korea, Mexico, Spain 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

	2001						2002
	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Leading index	109.8	109.8 r	109.1	109.2	110.1	111.5 r	112.2 p
Percent change	.3	.0 r	-.6 r	.1	.8	1.3 r	.6 p
Diffusion index	55.0	25.0	30.0	60.0	80.0	100.0	55.0
Coincident index	116.2	116.1	115.6	115.6 r	115.3 r	115.4 r	115.4 p
Percent change	.3	-.1	-.4	.0 r	-.3	.1	.0 p
Diffusion index	87.5	62.5	25.0	25.0	12.5	50.0	50.0
Lagging index	104.8	104.5 r	104.7	103.6	103.1 r	102.8 r	102.6 p
Percent change	-1.1	-.3 r	.2 r	-1.1	-.5 r	-.3 r	-.2 p
Diffusion index	14.3	28.6	42.9	28.6	21.4	21.4	35.7
Coincident-lagging ratio	110.9	111.1 r	110.4	111.6 r	111.8 r	112.3 r	112.5 p

	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	.8	.7	.4	.6	.7	1.8	2.2
Diffusion index	40.0	30.0	20.0	30.0	30.0	40.0	60.0
Coincident index							
Percent change	.0	-.2	-.7	-.4	-.8	-.4	-.7
Diffusion index	37.5	25.0	25.0	37.5	25.0	50.0	50.0
Lagging index							
Percent change	-3.1	-3.1	-2.6	-3.4	-3.5	-3.0	-2.1
Diffusion index	14.3	14.3	28.6	14.3	14.3	14.3	14.3

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 by subscription on our web site at www.globalindicators.org

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

Component	2001 Jul	Aug	Sep	Oct	Nov	Dec	2002 Jan
	Leading index component data						
Average workweek, production workers, mfg. (hours)	40.8	40.7	40.6	40.5	40.3	40.6 r	40.5 p
Average weekly initial claims, state unemployment insurance (thousands)*	395.6	399.5	455.0	496.2	461.9	410.9 r	381.5 p
Manufacturers' new orders, consumer goods and materials (mil. 1996 dol.)	166,370	167,287	156,397	162,144	162,623 r	164,137 r	163,867 **
Vendor performance--slower deliveries diffusion index (percent)	47.1	46.6	46.8 r	48.7 r	47.8 r	48.0	51.7
Manufacturers' new orders, nondefense capital goods (mil. 1996 dol.)	51,805	51,393	44,784	47,455	49,415 r	49,909 r	49,588 **
Building permits (thous.)	1,571	1,571	1,528	1,485	1,595	1,654 r	1,706 p
Stock prices, 500 common stocks (c) (index: 1941-43=10)	1,204.45	1,178.50	1,044.64	1,076.59	1,129.68	1,144.93	1,140.21
Money supply, M2 (bil. 1996 dol.)	4,761.7 r	4,799.4 r	4,931.7 r	4,890.3 r	4,931.7 r	4,976.1 r	4,983.9 **
Interest rate spread, 10-year Treasury bonds less federal funds	1.47	1.32	1.66	2.08	2.56	3.27	3.31
Index of consumer expectations (c) (1966:1=100)	88.4	85.2	73.5	75.5	76.6	82.3	91.3
LEADING INDEX (1996=100)	109.8 r	109.8 r	109.1	109.2	110.1	111.5 r	112.2 p
Percent change from preceding month	0.3	0.0 r	-0.6 r	0.1	0.8	1.3 r	0.6 p
	Leading index net contributions						
Average workweek, production workers, mfg.	....	-.04	-.04	-.04	-.09	.13 r	-.04 p
Average weekly initial claims, state unemployment insurance	....	-.02	-.31	-.21	.17	.28	.18
Manufacturers' new orders, consumer goods and materials	....	.03	-.31	.16	.01 r	.04 r	-.01 **
Vendor performance--slower deliveries diffusion index	....	-.03 r	.01 r	.11 r	-.05 r	.01 r	.21
Manufacturers' new orders, nondefense capital goods	....	-.01	-.18	.08	.05 r	.01 r	-.01 **
Building permits	....	.00	-.05	-.05	.14	.07	.06
Stock prices, 500 common stocks (c)	....	-.07	-.37	.09	.15	.04	-.01
Money supply, M2	....	.24 r	.83	-.26 r	.26 r	.28 r	.05 **
Interest rate spread, 10-year Treasury bonds less federal funds	....	-.05	.11	.14	.16	.24	.01
Index of consumer expectations (c)	....	-.07	-.27	.05	.03	.13	.19

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	2001						2002
	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Coincident index component data							
Employees on nonagricultural payrolls (thousands)	132,449	132,395	132,230	131,782	131,427 r	131,297 r	131,208
Personal income less transfer payments (ann. rate, bil. 1996 dol.)	6,936.2	6,944.3	6,970.9	6,911.1 r	6,910.7 r	6,944.0 r	6,963.8 **
Industrial production (index: 1992=100)	140.402	139.954	138.461 r	137.670 r	137.097 r	136.665 r	136.518
Manufacturing and trade sales (mil. 1996 dol.)	850,447	851,886	824,986	858,000 r	851,362 r	855,259 **	856,753 **
COINCIDENT INDEX (1996=100)	116.2	116.1	115.6	115.6 r	115.3 r	115.4 r	115.4 p
Percent change from preceding month	0.3	-0.1	-0.4	0.0 r	-0.3	0.1	0.0
Coincident index net contributions							
Employees on nonagricultural payrolls	....	-.02	-.06	-.16	-.13 r	-.05	-.03
Personal income less transfer payments	....	.03	.11	-.24 r	.00	.14 r	.08 **
Industrial production	....	-.04	-.14 r	-.07 r	-.05 r	-.04 r	-.01
Manufacturing and trade sales	....	.02	-.35	.43 r	-.08 r	.05 **	.02 **
Lagging index component data							
Average duration of unemployment (weeks)*	12.7	13.2	13.3	13.0	14.4	14.5	14.6 p
Ratio, manufacturing and trade inventories to sales (chain 1996 dol.)	1.386	1.382	1.421	1.351 r	1.349 r	1.350 **	1.350 **
Change in index of labor cost per unit of output, mfg. (6-month percent, ann. rate)	3.7	2.8	3.0	.2 r	.2 r	-.6 r	-.3 **
Average prime rate charged by banks (percent)	6.75	6.67	6.28	5.53	5.10	4.84	4.75
Commercial and industrial loans outstanding (mil. 1996 dol.)	721,297 r	715,225 r	713,325 r	695,750 r	682,935 r	682,947 r	672,000 **
Ratio, consumer installment credit outstanding to personal income (percent)	18.39 r	18.41 r	18.46 r	18.60 r	18.84 r	18.71 r	18.67 **
Change in CPI for services (6-month percent, ann. rate)	3.2 r	3.5 r	3.1 r	2.9 r	2.8	2.5 r	3.0
LAGGING INDEX (1996=100)	104.8	104.5 r	104.7	103.6	103.1 r	102.8 r	102.6 p
Percent change from preceding month	-1.1	-.3 r	.2 r	-1.1	-.5 r	-.3 r	-.2 p
Lagging index net contributions							
Average duration of unemployment	....	-.14	-.03	.08	-.38	-.03	-.03 p
Ratio, manufacturing and trade inventories to sales	....	-.04	.34	-.62 r	-.02 r	.01 **	.00 **
Change in index of labor cost per unit of output, mfg	....	-.05	.01	-.17 r	.00	-.05 r	.02 **
Average prime rate charged by banks	....	-.02	-.10	-.18	-.11	-.06	-.02 p
Commercial and industrial loans outstanding	....	-.11	-.03	-.32 r	-.24 r	.00 r	-.20 **
Ratio, consumer installment credit outstanding to personal income	....	.02 r	.06	.17 r	.28 r	-.15 r	-.05 **
Change in CPI for services	....	.06	-.07 r	-.04	-.02	-.06	.09 p

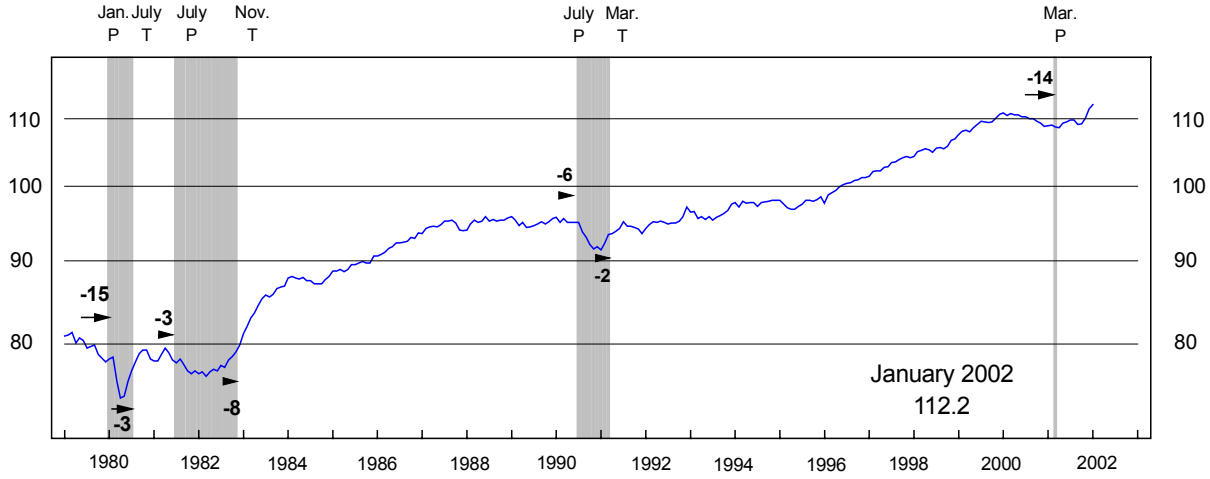
CPI Consumer Price Index. For additional notes see table 2.

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

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

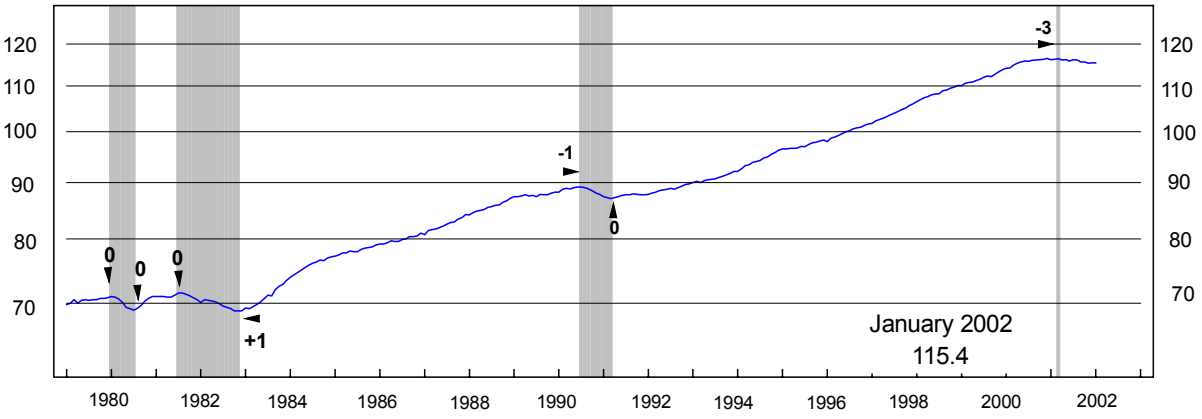
U.S. LEADING INDEX

(1996=100)



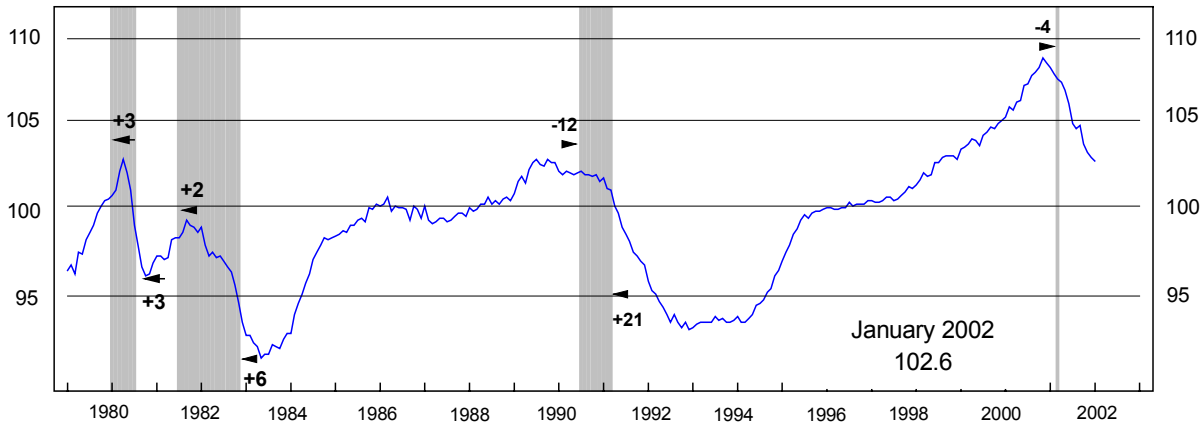
Source: The Conference Board

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.