Indicators Suggest Recession Will Continue Through 2009, But Intensity Will Ease

Index(TM) (LEI) for the U.S. increased 0.4 percent in January, following a 0.2 percent increase in December and a 0.7 percent decline in November.

Says Ken Goldstein, Economist at The Conference Board: "The economy has been in recession for over a year, but the level of intensity may begin to ease over the next few months. The second half of 2009 may see a period of anemic growth. In fact, a return to robust growth may not occur until well into 2010, even if the long climb starts a few months from now."

The Conference Board Coincident Economic Index(TM) (CEI) for the U.S. declined 0.5 percent in January, following a 0.5 percent decline in December, and a 0.5 percent decline in November. The Conference Board Lagging Economic Index™ (LAG) for the U.S. declined 0.1 percent in January, following a 0.2 percent decline in December, and a 0.6 percent increase in November.

-- The LEI increased for the second consecutive month in January, but November and December values were revised down as new data for manufacturers' new orders became available. Between July 2008 and January 2009, the LEI decreased 1.9 percent (a -3.7 percent annual rate), faster than the decline of 1.1 percent (a -2.1 percent annual rate) during the previous six months. In addition, the weaknesses among the leading indicators have remained widespread in recent months.

-- The CEI fell sharply again in January, driven by continued large declines in industrial production and employment. The decline in the CEI has continued to accelerate - to 2.7 percent (a -5.4 percent annual rate) in the six-month period through January, from the decrease of 0.7 percent (a -1.5 percent annual rate) for the previous six months (January to July 2008), and the weaknesses among its components have remained widespread in recent months. The lagging economic index (LAG) fell for two consecutive months but the CEI fell more, and as a result, the coincident-to-lagging ratio (a leading indicator) continued to decrease. Meanwhile, real GDP contracted at a 3.8 percent annual rate in the fourth quarter of 2008, following a decline of 0.5 percent (annual rate) in the third quarter.

-- Although the LEI has risen during the past two months, it is too soon to say the contraction in the LEI that began in July 2007 is coming to an end. The LEI has continued to decline over a six-month period in the second half of 2008, with continued widespread weakness among its components. The primary sources of strength in the LEI in recent months have been the consistent and large contributions from inflation-adjusted money supply and the interest rate spread, and consumer expectations have only provided a weak positive contribution. At the same time, the CEI remains on a downtrend that began in November 2007, and the decline in the index has accelerated in recent months. All in all, the recent behavior of the composite economic indexes suggests that the economy will continue to be in recession in the near term.

Leading Indicators

Five of the ten indicators that make up the leading economic index increased in January. The positive contributors - beginning with the largest positive contributor - were real money supply…, the interest rate spread, index of consumer expectations, manufacturers' new orders for nondefense capital goods…, and manufacturers' new orders for consumer goods and materials…. The negative contributors - beginning with the largest negative contributor - were average weekly initial claims for unemployment insurance (inverted), building permits, average weekly manufacturing hours, stock prices, and the index of supplier deliveries (vendor performance).

The leading economic index now stands at 99.5 (2004100). Based on revised data, this index increased 0.2 percent in December and decreased 0.7 percent in November. During the six-month span through January, the leading economic index decreased 1.9 percent, with three out of ten components advancing (diffusion index, six-month span equals 30 percent).

Coincident Indicators

Two of the four indicators that make up the coincident economic 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 - beginning with the larger negative contributor - were industrial production and employees on nonagricultural payrolls. The coincident economic index now stands at 103.3 (2004100). This index decreased 0.5 percent in December and decreased 0.5 percent in November.

During the six-month period through January, the coincident economic index decreased 2.7 percent, with one out of four components advancing (diffusion index, six-month span equals 25 percent).

Lagging Indicators

The lagging economic index stands at 113.9 (2004100) in January, with one of the seven components advancing. The positive contributor to the index was the ratio of consumer installment credit to personal income…. The negative contributors - beginning with the largest negative contributor - were average prime rate charged by banks, change in labor cost per unit of output…, commercial and industrial loans outstanding…, and average duration of unemployment (inverted). The ratio of manufacturing and trade inventories to sales… and change in CPI for services… held steady in January. Based on revised data, the lagging economic index decreased 0.2 percent in December and increased 0.6 percent in November.

Data Availability Notes

The data series used by The Conference Board to compute The Conference Board Leading Economic Index(TM) (LEI) for the U.S., The Conference Board Coincident

Economic Index(TM) (CEI) for the U.S., and The Conference Board Lagging Economic Index(TM) (LAG) for the U.S., and reported in the tables in this release are those available "as of" 12 Noon on February 18, 2009. Some series are estimated as noted below.

... Series in the leading economic 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 used to deflate the money supply. Series in the coincident economic index that are based on The Conference Board estimates are personal income less transfer payments and manufacturing and trade sales.

Series in the lagging economic 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, the consumer price index, 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

U.S. Leading Economic Index.
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