

DAILY GLOBAL COMMENTARY

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Index of Leading Indicators – Premature to Rule out Recession

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The Index of Leading Economic Indicators (LEI) moved up 0.1% in April, matching the increase seen in March. The two consecutive monthly gains of the index follow five consecutive monthly declines. The spokesperson from the Conference Board indicated that the index is indicative of weak economic conditions but ruled out the possibility of a recession.

From Chart 1, we know that strongly negative readings of the year-to-year change in the LEI are associated with recessions, with the exception of 1966-67. On a year-to-year basis, assuming the April reading is the second quarter reading for the LEI, it was down 1.86% from a year ago. On a quarterly basis, the year-to-year change in the LEI is negative in four out of the five quarters ended first quarter of 2008. We need information about May and June to confirm the reading for the second quarter. The drop in consumer expectations in May and current readings of jobless claims point to negative contributions of these two indexes. It is premature to rule out the occurrence of a recession based on these monthly readings. Moreover, assumptions of real money supply, orders of non-defense capital goods, and durable consumer goods for April could be incorrect.

Chart 1

Index of Leading Economic Indicators (LEI) vs. Real GDP
year-to-year percent change

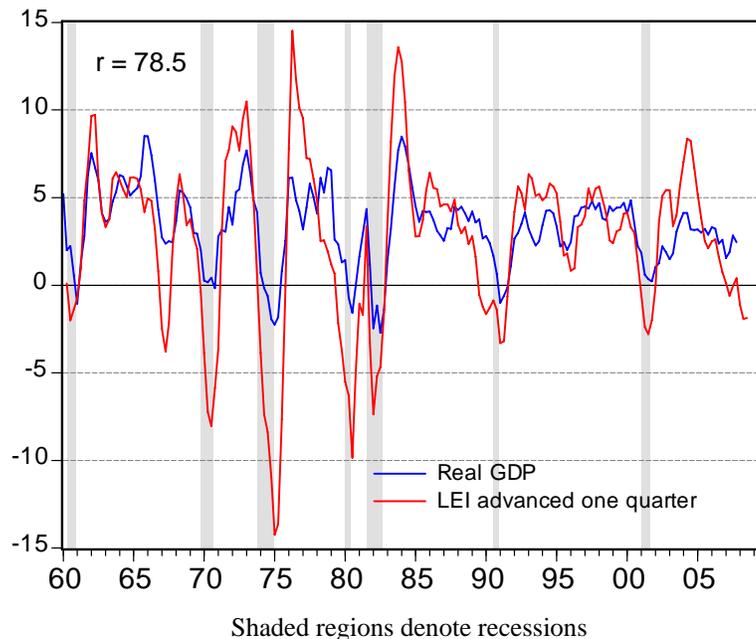


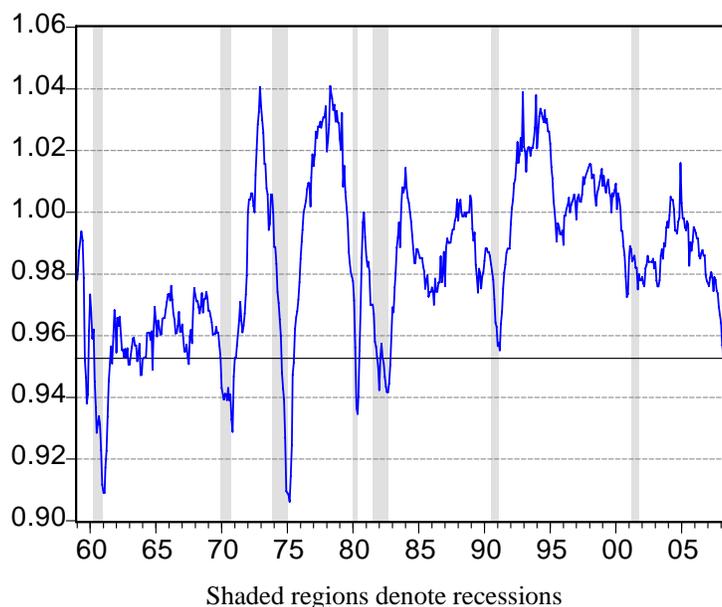
Table 1 Recessions and LEI

| Recession Peak to Trough | Quarters when y-o-y change in LEI was negative |
|-----------------------------|---|
| 1960:Q2 - 1961:Q1 | 1960:Q2 - 1960:Q4 |
| 1969:Q4 - 1970:Q4 | 1969:Q3 - 1970:Q4 |
| 1973:Q4 - 1975:Q1 | 1973:Q4 - 1975:Q3 |
| 1980:Q1 - 1980:Q3 | 1979:Q2 - 1981:Q1 |
| 1981:Q3 - 1982:Q4 | 1981:Q3 - 1982:Q3 |
| 1990:Q3 - 1991:Q1 | 1989:Q2 - 1991:Q2 |
| 2001:Q1 - 2001:Q4 | 2000:Q4 - 2001:Q4 |
| Current cycle | 2007:Q1-2007:Q2 2007:Q4-2008:Q1 |

In April, stock prices, interest rate spread, jobless claims, supplier deliveries, orders of durable consumer goods and housing permits made positive contributions that more than offset declines of consumer expectations, manufacturing man-hours, new orders for non-defense capital goods. Real money supply held steady in April. The ratio of the coincident index to the lagging index (0.9527) in April dropped to the lowest level in the current cycle and it is consistent with levels seen during prior recessions, excluding the 2001 recession (see chart 2).

Chart 2

Ratio of Coincident Index to Lagging Index



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