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Index of Leading Indicators Signals Improving Economic Conditions

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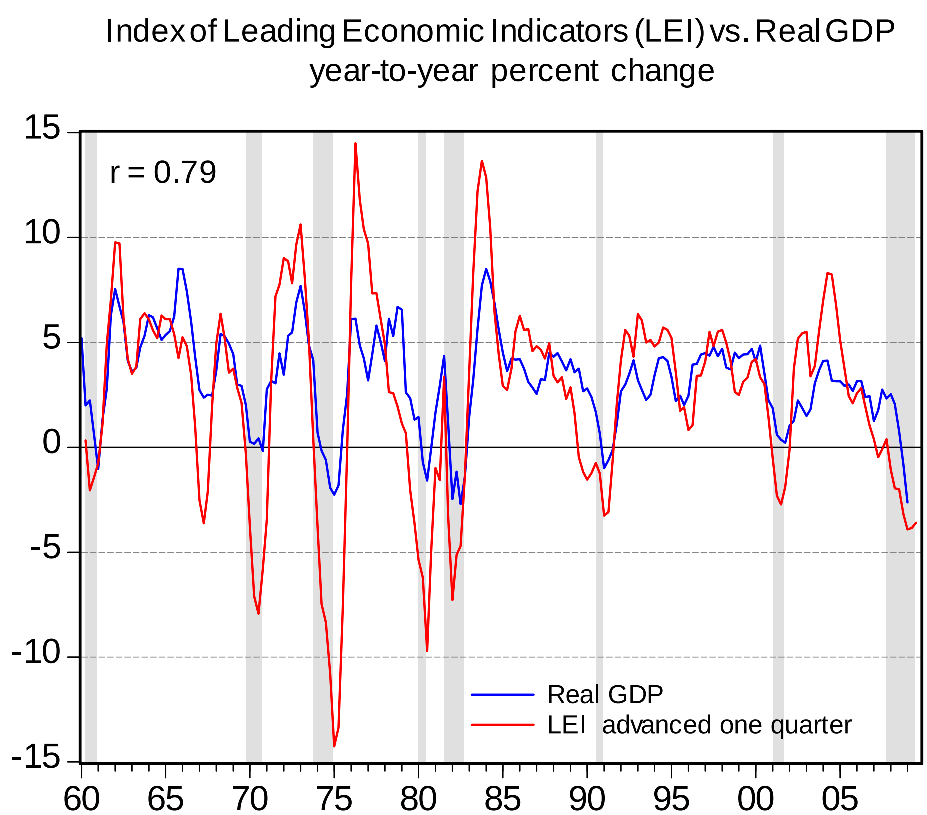
The Conference Board's Index of Leading Economic Indicators (LEI) moved up 1.0% after a string of monthly declines between October 2008 and March 2009. The increase of the index in April reflects a widespread improvement as seen in the 70% diffusion index for April. On a year-to-year basis, the LEI fell 3.0% in April, after a 4.0% drop in the November-December months of 2008. The year-to-year change in LEI on a quarterly basis dropped 3.6% in the second quarter (based on April data). It is the second consecutive decline which is smaller than the 3.9% drop of the fourth quarter of 2008. Chart 1 illustrates that the year-to-year change in LEI bottoms out well ahead of the end of a recession. Table 1 lists the details related to this observation. Based on the history of the LEI, the 3.9% drop in the fourth quarter could be the bottom for the current cycle; we will need additional monthly data to confirm this assessment. At the present time, we can temporarily conclude that the worst of the decline in economic activity is part of history. The number of quarters, deduced from the history of the LEI, before recovery commences after the year-to-year change of the LEI has recorded a bottom for the cycle varies between one and four quarters (see table 1).

Chart 1



Index of Leading Indicators* – What is the lead time?

Business Cycle Peak to Trough	LEI (yoy change) Turning point
1960:Q2 - 1961:Q1	1960:Q2 (3 quarters)
1969:Q4 - 1970:Q4	1970:Q2 (2 quarters)
1973:Q4 - 1975:Q1	1974:Q4 (1 quarter)
1980:Q1 - 1980:Q3	1980:Q2 (1 quarter)
1981:Q3 - 1982:Q4	1981:Q4 (4 quarters)
1990:Q3 - 1991:Q1	1990:Q4 (1 quarter)
2001:Q1 - 2001:Q4	2001:Q2 (2 quarters)
2007:Q4 - ?	2008:Q4 ?

* Number of quarters between bottom of LEI yoy change and recovery is in parentheses

In April, stock prices, the interest rate spread, consumer expectations, initial unemployment claims, the average workweek, and supplier deliveries all contributed positively to the index, more than offsetting the negative contributions from real money supply and building permits.

Auto Industry Events Will Continue to Distort Jobless Claims Data

Initial jobless claims fell 12,000 to 631,000 during the week ended May 16. The prior week's reading of initial jobless claims was raised to 643,000 from the earlier estimate of 631,000. The large movements of initial jobless claims in the past two weeks from 605,000 in the week ended May 2 is largely due to auto industry events. The four-week moving average of initial jobless claims is 628,500 and it appears to have peaked in the first week of April at 658,750 (see chart 2). The Chrysler and GM plant shutdowns and reopening in the next few months are most likely to distort jobless claims data. The tentative conclusion is that initial jobless claims are trending down, albeit holding at a high level. Continuing claims, which lag initial claims by one week, advanced 75,000 to 6.662 million, a new record. The insured unemployment rate rose to 5.0% from 4.9% in the prior week.

Chart 2

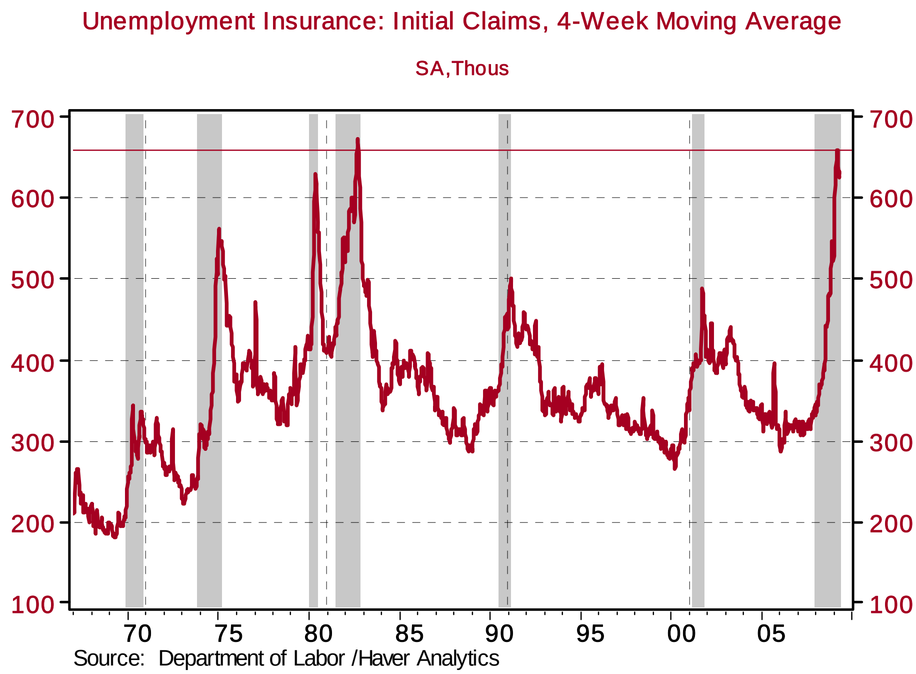
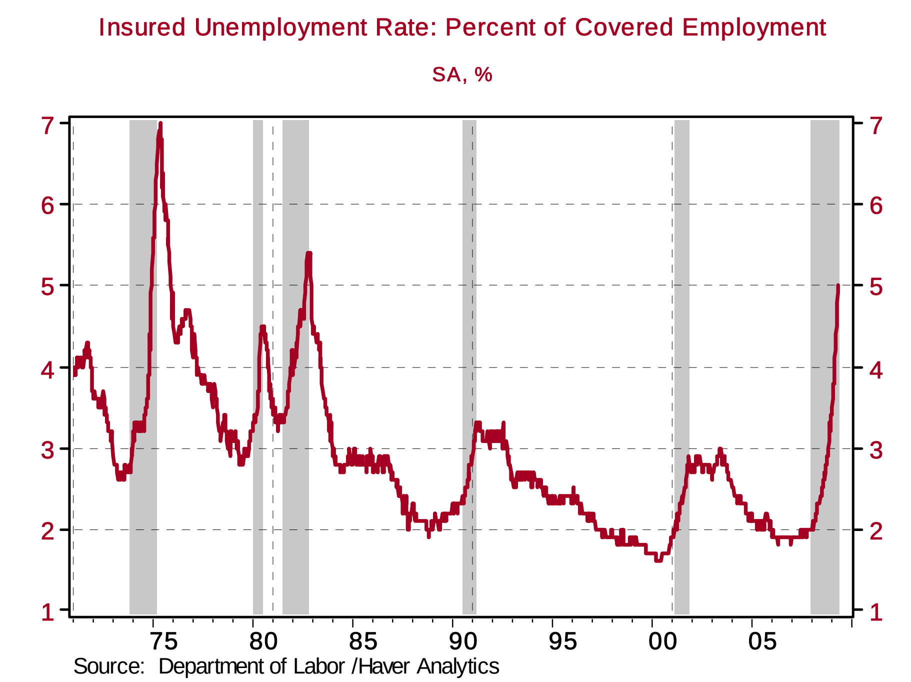
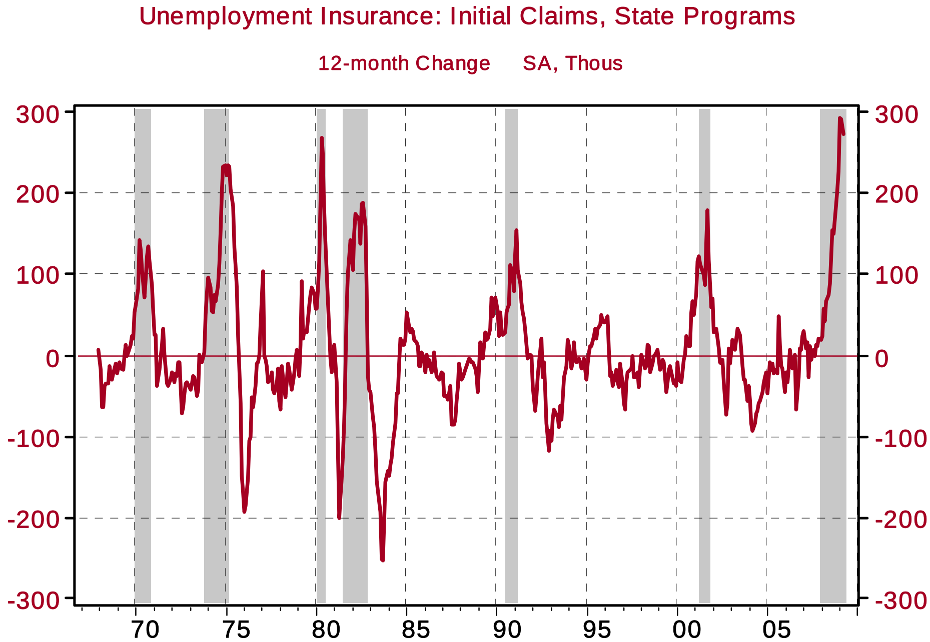


Chart 3



The 1990-91 and 2001 recessions were both jobless recoveries with jobless claims posting significant declines only well after the recovery was underway. There is a strong likelihood the current recession may also be followed by a jobless recovery. As chart 4 shows, the 12-month decline in initial jobless claims was milder following the 1990-91 and 2001 recessions compared with prior recessions. We will need to see significant and consecutive weekly declines in jobless claims to declare that the worst is behind us.

Chart 4



Source: Department of Labor /Haver Analytics

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