



THE CONFERENCE BOARD

FOR RELEASE: 10:00 A.M. AEDT, WEDNESDAY, OCTOBER 22, 2014

The Conference Board®
Australia Business Cycle IndicatorsSM
THE CONFERENCE BOARD LEADING ECONOMIC INDEX®
(LEI) FOR AUSTRALIA
AND RELATED COMPOSITE ECONOMIC INDEXES FOR AUGUST 2014

The Conference Board Leading Economic Index® (LEI) for Australia declined 0.2 percent and **The Conference Board Coincident Economic Index®** (CEI) increased 0.2 percent in August.

- The Conference Board LEI for Australia decreased in August, with rural goods exports, gross operating surplus*, and building approvals making the largest negative contributions. Between February and August, the six-month growth rate of the leading economic index fell 0.3 percent (about a -0.6 percent annual rate), a reversal from its increase of 3.1 percent (about a 6.3 percent annual rate) over the previous six months. Additionally, the weaknesses among the leading indicators have become more widespread than the strengths in the recent months.
- The Conference Board CEI for Australia, a measure of current economic activity, increased slightly in August. The coincident economic index grew 0.6 percent (about a 1.3 percent annual rate) in the six-month period through August 2014, down from 1.4 percent (about a 2.8 percent annual rate) in the previous six months. Meanwhile, real GDP increased at a 2.0 percent annual rate in the second quarter of 2014, down from 4.3 percent (annual rate) in the first quarter.
- The Conference Board LEI for Australia decreased in August, for the fourth time this year, and as a result, its six-month growth rate has declined slightly into negative territory this month. Meanwhile, the six-month growth rate of the CEI for Australia has moderated in recent months, and is lower compared to six months ago. Taken together, the recent behavior of the composite indexes suggests that economic expansion should continue, but with the risk of slower pace in the near term.

LEADING INDICATORS. Three of the seven components that make up The Conference Board LEI for Australia increased in August. The positive contributors to the index—in order from the largest positive contributor to the smallest—are the yield spread, the sales to inventories ratio*, and money supply*. Rural goods exports, gross operating surplus* and building approvals declined, while share prices remained unchanged in August.

The next release is scheduled for November 18, 2014 at 10:00 A.M. (AEDT)
In the U.S. – November 17, 2014 at 6:00 P.M. (ET)

With the 0.2 percent decrease in August, The Conference Board LEI for Australia now stands at 128.9 (2004=100). Based on revised data, this index increased 0.6 percent in July and increased 0.2 percent in June. During the six-month period through August, the leading economic index decreased 0.3 percent, and four of the seven components increased (diffusion index, six-month span equals 57.1 percent).

COINCIDENT INDICATORS. All four components that make up The Conference Board CEI for Australia increased in August. The positive contributors to the index—in order from the largest positive contributor to the smallest—were employed persons, household gross disposable income*, retail trade and industrial production*.

With the increase of 0.2 percent in August, The Conference Board CEI for Australia now stands at 125.3 (2004=100). Based on revised data, this index increased 0.1 percent in July and 0.1 percent in June. During the six-month period through August, the coincident economic index increased 0.6 percent, with two of the four components in the series making positive contributions (diffusion index, six-month span equals 62.5 percent).

FOR TABLES AND CHARTS, SEE BELOW

DATA AVAILABILITY. The data series used to compute **The Conference Board Leading Economic Index**[®] (LEI) for Australia and **The Conference Board Coincident Economic Index**[®] (CEI) for Australia reported in this release are those available “as of” 10 A.M. ET on October 20, 2014. Some series are estimated as noted below.

Series in The Conference Board LEI for Australia that are based on our estimates are sales to inventory ratio and gross operating surplus for private non-financial corporations, the implicit price index used to deflate rural goods exports and building approvals, and the CPI used to deflate money supply M3. Series in The Conference Board CEI for Australia that are based on our estimates are industrial production and household disposable income. CPI was used to deflate retail trade.

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THE CYCLICAL INDICATOR APPROACH. The composite economic indexes are the key elements in an analytic system designed to signal peaks and troughs in the business cycle. The leading and coincident economic indexes are essentially composite averages of several individual leading or coincident 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 Conference Board LEI for Australia have occurred before those in aggregate economic activity, while the cyclical turning points in The Conference Board CEI for Australia have occurred at about the same time as those in aggregate economic activity.

Further explanations of the cyclical indicator approach and the composite economic index methodology appear in The Conference Board's *Business Cycle Indicators* report and Web site: <http://www.conference-board.org/data/bci.cfm>

Australia Composite Economic Indexes: Components and Standardization Factors

<u>Leading Economic Index</u>	<u>Factor</u>
1. Yield Spread, 10 year minus Policy Rate	.0954
2. Share Prices, All Ordinaries	.0368
3. Money Supply, M3	.2151
4. Rural Goods Exports	.0259
5. Sales to Inventory Ratio	.4751
6. Gross Operating Surplus, Private Non-Financial Corporations	.1077
7. Building Approvals	.0440
 <u>Coincident Economic Index</u>	
1. Retail Trade	.2548
2. Industrial Production	.0702
3. Employed Persons	.4254
4. Household Disposable Income	.2496

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.

These factors were revised effective with the release in January 2014, and all historical values for the two composite economic indexes have been revised at the time to reflect the changes. (Under normal circumstances, updates to the leading and coincident economic indexes only incorporate revisions to data over the past six months.) The factors above were calculated using 1979 to 2012 as the sample period for measuring volatility for The Conference Board LEI for Australia, and 1982 to 2012 as the sample period for The Conference Board CEI for Australia. There are additional sample periods as the result of different starting dates for the component data. When one or more components are missing, the other factors are adjusted proportionately to ensure that the total continues to sum to 1. For additional information on the standardization factors and the index methodology visit our Web site: <http://www.conference-board.org/data/bci.cfm>.

The trend adjustment factor for The Conference Board LEI for Australia is -0.0463 calculated from 1960-1973, and -0.1239 calculated over the sample period 1974-2012.

To address the problem of lags in available data, those leading and coincident indicators that are not available at the time of publication are estimated using statistical imputation. An autoregressive model is used to estimate each component. The resulting indexes are constructed using real and estimated data, and will be revised as the data unavailable at 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 economic index the data, such as stock prices, that are available sooner than other data on “real” aspects of the economy, such as new orders and changes in inventory. Empirical research by The Conference Board suggests there are real gains in adopting this procedure to make all the indicator series as up-to-date as possible.

NOTICES

The schedule for “**The Conference Board Leading Economic Index**[®] (LEI) for Australia” news release for 2014 is:

September 2014 Data Monday, November 17, 2014

October 2014 Data Tuesday, December 23, 2014

All releases are at 10:00 A.M. AET the next day

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Individual Data Series

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**The Conference Board Leading Economic Index® (LEI) and
The Conference Board Coincident Economic Index® (CEI) for Australia**

Table 1.—Summary of Australia Composite Economic Indexes

	2014						
	Feb.	Mar.	Apr.	May.	Jun.	Jul.	Aug.
Leading index	129.3	129.0	128.3	128.0	128.3 p	129.1 p	128.9 p
Percent change	0.4	-0.2	-0.5	-0.2	0.2 p	0.6 p	-0.2 p
Diffusion index	85.7	42.9	57.1	57.1	71.4	85.7	42.9
Coincident index	124.5	124.8	124.8	124.8	124.9 p	125.0 p	125.3 p
Percent change	0.4	0.2	0.0	0.0	0.1 p	0.1 p	0.2 p
Diffusion index	100.0	75.0	50.0	37.5	62.5	75.0	100.0
	Aug to Feb	Sep to Mar	Oct to Apr	Nov to May	Dec to Jun	Jan to Jul	Feb to Aug
Leading index							
Percent change	3.1	2.5	1.4	0.8	0.0 p	0.2 p	-0.3 p
Diffusion index	100.0	100.0	71.4	71.4	57.1	57.1	57.1
Coincident index							
Percent change	1.4	1.5	1.4	1.1	1.1 p	0.8 p	0.6 p
Diffusion index	100.0	100.0	100.0	100.0	100.0	100.0	62.5

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.

For more information, visit our Web site at www.conference-board.org/data/bci.cfm

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**The Conference Board Leading Economic Index® (LEI) and
The Conference Board Coincident Economic Index® (CEI) for Australia**

Table 2.--Data and Net Contributions for Components of The Conference Board Leading Economic Index® (LEI) for Australia

Component	2014						
	Feb.	Mar.	Apr.	May.	Jun.	Jul.	Aug.
Australia Leading Economic Index component data							
Yield Spread (10 Year - Policy Rate, 3 month moving average)	1.62	1.60	1.53	1.28	1.21	0.97	0.91
Share Prices, All Ordinaries S&P/ASX 200 (EOP,Dec-31-79=500).....	5404.8	5394.8	5489.1	5492.6	5395.8	5632.9	5625.9
Money Supply, M3 (Bill. Constant A\$, SA).....	1546 r	1547 r	1557 r	1562 r	1570 ##	1584 ##	1588 ##
Building Approvals, (Mill. '11-'12 A\$, SA, 3 month moving average).....	7919 r	7632 r	6962 r	6814	7052 #	7458 #	7349 #
Rural Goods Exports, (Mill. Constant A\$, SA).....	3426.1 r	3415.8 r	3153.3 r	3077.5	3211.9 #	3260.0 #	3118.7 #
Sales to Inventories Ratio, SA (Q).....	1.590	1.590	1.590	1.600	1.600 **	1.600 **	1.610 **
Gross Operating Surplus, Private Non-Financial Corp. (Mill. '11-'12 A\$, SA, Q).....	78106	76544	74987	73435	72376 **	71662 **	71191 **
LEADING INDEX (2004=100).....	129.3	129.0	128.3	128.0	128.3 p	129.1 p	128.9 p
Percent change from preceding month.....	0.4	-0.2	-0.5	-0.2	0.2 p	0.6 p	-0.2 p
Australia Leading Economic Index net contributions							
Yield Spread (10 Year - Policy Rate, 3 month moving average)	....	0.15	0.15	0.12	0.12	0.09	0.09
Share Prices, All Ordinaries S&P/ASX 200 (EOP,Dec-31-79=500).....	....	-0.01	0.06	0.00	-0.07	0.16	0.00
Money Supply, M3 (Bill. Constant A\$, SA).....	....	0.02	0.14	0.06	0.11 ##	0.19 ##	0.06 ##
Building Approvals, (Mill. '11-'12 A\$, SA, 3 month moving average).....	....	-0.16 r	-0.40 r	-0.09	0.15 #	0.25 #	-0.06 #
Rural Goods Exports, (Mill. Constant A\$, SA).....	....	-0.01 r	-0.21 r	-0.06	0.11 #	0.04 #	-0.11 #
Sales to Inventories Ratio, SA (Q).....	....	0.09	0.09	0.09	0.09 **	0.09 **	0.09 **
Gross Operating Surplus, Private Non-Financial Corp. (Mill. '11-'12 A\$, SA, Q).....	....	-0.22	-0.22	-0.23	-0.16 **	-0.11 **	-0.07 **

p Preliminary. r Revised. -- * Inverted series; a negative change in this component makes a positive contribution.

Estimates of the quarterly deflator (implicit price index) are used to deflate these series

Estimates of the quarterly deflator (CPI) are used to deflate money supply.

Money Supply (M3) level from April 2002 and on are derived from growth rates reported by the Reserve Bank of Australia

** Statistical Imputation (See page 2 for more details) -- Q: Quarterly series; these series are converted to monthly through a linear interpolation

Data Sources: Australian Bureau of Statistics, Reserve Bank of Australia, Haver Analytics

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).

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The Conference Board Coincident Economic Index® (CEI) for Australia

Table 3.--Data and Net Contributions for Components of The Conference Board Coincident Economic Index® (CEI) for Australia

Component	2014						
	Feb.	Mar.	Apr.	May.	Jun.	Jul.	Aug.
Australia Coincident Economic Index component data							
Retail Trade (Mill. Constant A\$, SA, 3-month moving average)	21860.7 r	21913.6 r	21891.0 r	21837.5 r	21823.1 ##	21833.6 ##	21867.9 ##
Industrial Production (Index 2011-12=100, SA, Q).....	111.0	110.9	110.7	110.6	110.6 **	110.6 **	110.7 **
Employed Persons (Thousands of Persons, SA).....	11536.2 r	11558.2 r	11567.6 r	11561.9 r	11578.2 r	11590.1 r	11622.2
Household Gross Disposable Income, (Mill. Constant A\$, SA, Q).....	325118.6	325686.9	326253.0	326817.0	327482.9 **	328203.4 **	328951.7 **
COINCIDENT INDEX (2004=100).....	124.5	124.8	124.8	124.8	124.9 p	125.0 p	125.3 p
Percent change from preceding month.....	0.4	0.2	0.0	0.0	0.1 p	0.1 p	0.2 p
Australia Coincident Economic Index net contributions							
Retail Trade (Mill. Constant A\$, SA, 3-month moving average)	....	0.06 r	-0.03 r	-0.06 r	-0.02 ##	0.01 ##	0.04 ##
Industrial Production (Index 2011-12=100, SA, Q).....	....	-0.01	-0.01	-0.01	0.00 **	0.00 **	0.01 **
Employed Persons (Thousands of Persons, SA).....	....	0.08	0.03 r	-0.02 r	0.06 r	0.04 r	0.12
Household Gross Disposable Income, (Mill. Constant A\$, SA, Q).....	....	0.04	0.04	0.04	0.05 **	0.05 **	0.06 **

* Inverted Series, a negative change in this component makes a positive contribution

** Statistical Imputation (See page 2 for more details)

Estimates of the quarterly deflator (CPI) are used to deflate retail trade

Q Quarterly series; these series are converted to monthly through a linear interpolation.

Data Sources: Australian Bureau of Statistics, Reserve Bank of Australia, Haver Analytics

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).

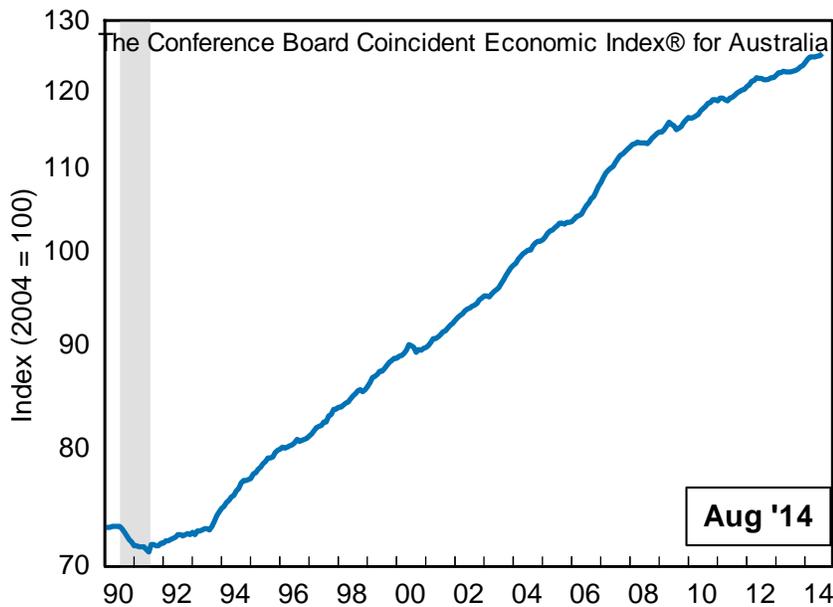
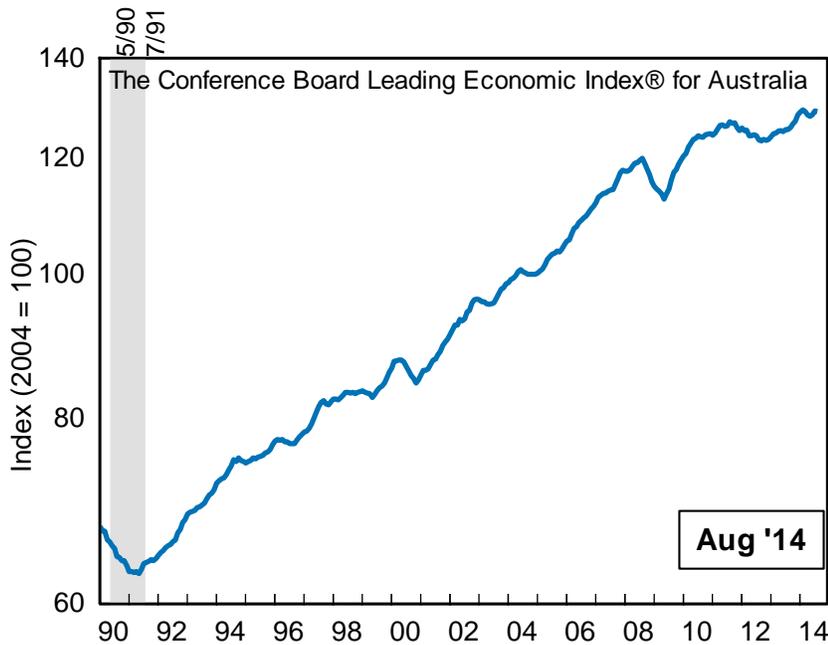
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Australia Composite Economic Indexes



Source: The Conference Board

Note: The shaded areas represent business cycle recessions. The peaks and troughs are designated by The Conference Board based on the coincident index and real GDP.

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