

January 2015 Annual Benchmark Revisions

The January 30, 2015 release of *The Conference Board Leading Economic Index*® (LEI) for the Euro Area incorporates annual benchmark revisions to the composite indexes. **Also, effective with the January 2015 release, the history of the composite indexes has been updated to reflect the inclusion of Lithuania into the Euro Area,** and the base year of the composite indexes was changed to 2010 = 100 from 2004 = 100. These regular benchmark revisions bring the indexes up-to-date with revisions in the source data. The revisions do not change the cyclical properties of the indexes. The indexes are updated throughout the year, but only for the previous six months. Data revisions that fall outside of the moving six-month window are incorporated when the benchmark revision is made and the entire histories of the indexes are recomputed. As a result, the revised indexes and their month-over-month changes will no longer be directly comparable to those issued prior to the benchmark revision. The entire history of the indexes from 1987 to present has been revised.

January 2015 Comprehensive Benchmark Revisions

In addition to these regular annual revisions, The Conference Board implemented a comprehensive revision of *The Conference Board Leading Economic Index*® (LEI) for the Euro Area, effective with the January 30, 2015 release.

These comprehensive revisions are the result of an extensive reevaluation of existing components of *The Conference Board Leading Economic Index*® for the Euro Area. The Conference Board has decided to add one component, replace three components and make a minor adjustment to another component. The composition changes reflected in the new LEI address structural changes that have occurred in the Euro Area economy in the last three decades. The changes in the LEI composition include:

- 1) incorporating the capital goods new orders index, from the European Central Bank experimental statistics based on national data;
- 2) incorporating the Systemic Stress Composite Indicator from the European Central Bank starting in 1999, and omitting real money supply (M2) starting in 1987;
- 3) replacing the Markit Purchasing Managers' Index (Manufacturing) with the Markit Manufacturing New Orders Index;
- 4) replacing the Economic Sentiment Indicator with Consumer Expectations of General Economic Situation over Next 12 months, from the European Commission.

In addition to these major changes to the composition, The Conference Board has implemented changes in the methodology and procedures used in the calculation process. These modifications are:

- 1) normalized levels of the indicator rather than its monthly changes will be used to calculate the component contributions of components based on diffusion indexes such as the Markit Manufacturing New Orders Index, and the Markit Business Expectations Index (Services);
- 2) when component data are missing, autoregressions in log differences instead of levels will be used to calculate the statistical imputation of the missing months;
- 3) trend adjustment will be done in two periods: 1987-1999 and 2000-2013; and
- 4) Systemic Stress Composite Indicator contributions to the LEI are calculated from its normalized levels (not monthly changes) and it is inverted.

As a result of these changes, the history of the revised indexes and their month-over-month changes will no longer be directly comparable to those issued prior to the comprehensive benchmark revision.

The composition changes in the new LEI address partly structural changes that have occurred in the Euro Area economy in the last three decades as well as advances in the available statistics for the Euro Area economy. The Conference Board research shows that the new LEI is a more consistent measure of the Euro Area business cycle and shows better performance in predicting cyclical downturns.

For more information, please visit our website at <http://www.conference-board.org/data/bci.cfm> or contact indicators@conference-board.org.