



10-Year Treasury Yield
 9:45 – 5.09%
 10:15 – 5.10%

Economics Group Domestic

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Leading Indicators Decline in April

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The Conference Board's Index of Leading Economic Indicators (LEI) fell 0.1 percent in April but was revised up to 0.4 percent in March. The major components leading the decline were building permits, consumer expectations, initial jobless claims and capital goods orders. So what is the LEI telling us?

Leading Indicators Fall in April But Revised Up in March

The LEI declined 0.1 percent in April—the second time over the past three months in which the index has fallen. On a year-over-year basis, the LEI is up 2.5 percent (top graph). Notably, the March index value was revised up 0.5 percent from negative 0.1 to 0.4 percent. Driving March's upward revision were improvements in the average production workweek and manufacturers' new orders of consumer goods and nondefense capital goods.

April's Components

In April, six of the ten components of the LEI declined. Initial claims for unemployment insurance, which averaged 314,700 in April detracted 0.06 percent (middle graph). Manufacturers' new orders of consumer goods and nondefense capital goods negatively contributed 0.01 and 0.08 percent, respectively. Building permits were the largest detractor, subtracting 0.15 percent. April was the third consecutive month in which building permits have declined. The housing market is slowing and should continue to do so throughout 2006, and, thus, we expect housing permits to continue to be a weight on the LEI. The University of Michigan's index of consumer expectations detracted from the LEI for the third time in the last four months.

Vendor performance (supplier delivery times) contributed a whopping 0.32 percent points (bottom graph), while both the S&P 500 and the interest rate spread added 0.2 percent. The average production workweek was unchanged.

Current Conditions

The Coincident Index, the Conference Board's measure of current economic conditions, rose 0.2 percent for the third month in a row. All four components of the index contributed positively with industrial production adding 0.11 percent. According to this measure, the economy remains on solid footing.

What Is the LEI Telling Us?

The LEI has declined in two of the first four months of 2006, so is it signaling a slowdown or, even worse, a recession? No, it is simply picking up a moderation in economic growth. We are expecting real GDP growth to be 3.4 and 3.0 percent in 2006 and 2007, respectively – down from 3.5 percent in 2005 and 4.2 percent in 2004. The LEI is reflecting this expected moderation-- far from predicting a recession.

