e-forecasting.com

company-tailored solutions for what's next

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eLEI

E-FORECASTING.COM LEADING ECONOMIC INDEX

A Message from the Editor

We would like to wish a very happy New Year to all of you! Today's report shows how the year closed out. **Here's a note on the current recession:** On December 11, the Business Cycle Dating Committee of the National Bureau of Economic Research (NBER), which maintains a chronology of the beginning and ending of U.S. recessions, determined that a peak in economic activity occurred in December 2007. The peak marks the end of the expansion that began in November 2001 and the beginning of the current recession. To evaluate the length of lead time, measured in months, of e-forecasting's Leading Economic Indicator (eLEI), we applied the Bry-Boschan turning-point detection algorithm to our real time index. The routine, which duplicates the NBER's peak-and-trough analysis, detected June 2007 as the cyclical "peak" of eLEI. Thus, **our leading indicator on Monday, July 2nd, 2007 provided the first signal of the current recession that began in December 2007**, when it reached its cyclical high reading of 114.6.

December: eLEI Continues Freefall in December

The e-forecasting Leading Economic Index, a forward-looking composite indicator that forecasts five to six months ahead, on the average, business activity in the United States, declined in December.

Following a decrease of 2.8 percent in November, the Real Time U.S. Leading Economic Indicator fell 2.2 in December to 96.6. The index is set to average 100 in 2000.

On a year-over-year basis, eLEI in December declined by an annual rate of 13.0 percent compared to the same month of last year.

Looking at the six-month growth rate of the leading indicator, which historically has signaled impeding turning points in business activity, eLEI went down 18.9 percent in December, following a drop of 17.0 percent in November. Consecutive negative values in the six-month growth rate predict an end to an economic expansion and the beginning of an upcoming recession. The latest growth rates compare to a long-term annual average growth rate of 3.3 percent during 1959-2006, which is equal to the growth rate in real GDP.

The probability of an impeding recession in the next five to six months in the United States, which is detected with the help of sophisticated statistical techniques from the historical behavior of e-forecasting Leading Economic Index, registered 99 percent in December. As a result, the odds of business expansion in the near future were at the 1 percent mark in December, the same as November's reading of 1 percent.

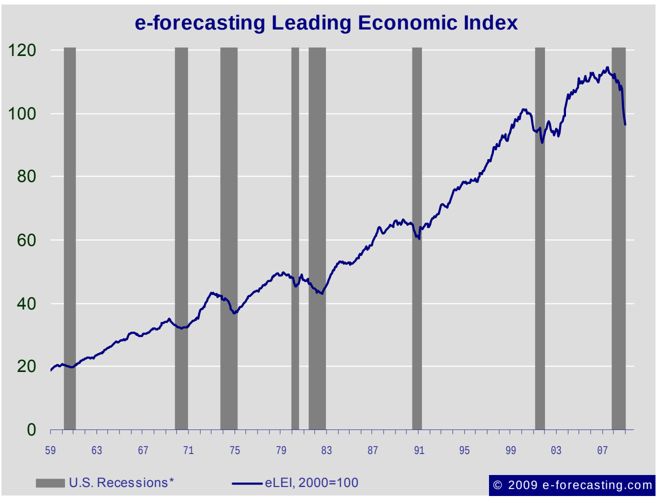
Only one of the seven components that make up the Real Time U.S. Leading Economic Indicator improved in December: Consumer expectations;

The six components that had a negative or zero contribution to the composite leading indicator were: Manufacturers' new orders; Stock prices; Housing activity; Interest rate spread; Manufacturers' productivity; Foreign demand;

Six-Month Growth Rate Smoothed, Annualized, in eLEI

Year	Month	percent	
2007	December	-3.6	▼
2008	January	-1.2	▼
2008	February	-3.5	▼
2008	March	-5.1	▼
2008	April	-4.5	▼
2008	May	-3.2	▼
2008	June	-3.6	▼
2008	July	-6.6	▼
2008	August	-3.6	▼
2008	September	-5.0	▼
2008	October	-13.9	▼
2008	November	-17.0	▼
2008	December	-18.9	▼

It signals turning points in the future direction in the business cycle. Consecutive negative values predict an end to an upward trend and the beginning of an upcoming recession.



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