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New Indexes of Coincident and Leading Economic Indicators

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Abstract

The system of Leading and Coincident Economic Indicators, currently maintained by the U.S. Department of Commerce (DOC), was developed as part of the NBER research program on business cycles over fifty years ago. This paper uses recent developments in econometric methodology and computing technology to take a fresh look at this system. The result is three experimental indexes. The first, constructed using a dynamic factor model, is numerically similar to the current index of coincident indicators maintained by the DOC. The second, an alternative index of leading indicators, is designed to forecast the growth in the DOC index over a six month horizon. The third-a "Recession Index"-estimates the probability that the economy will be in a recession six months hence. Only two of the seven series in the proposed leading index are used by the DOC to construct their index. Of these new series, interest rates (a public-private risk premium and the slope of the yield curve) are found to be particularly useful predictors of future economic activity.

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