

## News Release

Embargoed for release:  
10:00 am Eastern Time  
9:00 am Central Time  
February 4, 2002

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The monthly CFNAI index, a weighted average of 85 indicators of national economic activity, is constructed to have an average value of zero and a standard deviation of one. A zero value for the index indicates that the national economy is expanding at its historical trend rate of growth; negative values are associated with below-trend growth, while positive values indicate above-trend growth. Month-to-month movements in the CFNAI can be volatile, so a three-month moving average version, the CFNAI-MA3, provides a more consistent picture of national economic growth. The 85 economic indicators that comprise the CFNAI are drawn from five broad categories of data:

- 1) production and income;
- 2) employment, unemployment, and hours;
- 3) personal consumption and housing;
- 4) manufacturing and trade sales; and
- 5) inventories and orders.

The next CFNAI will be released:  
February 28, 2002  
10:00 am Eastern Time  
9:00 am Central Time

FEDERAL RESERVE BANK  
OF CHICAGO

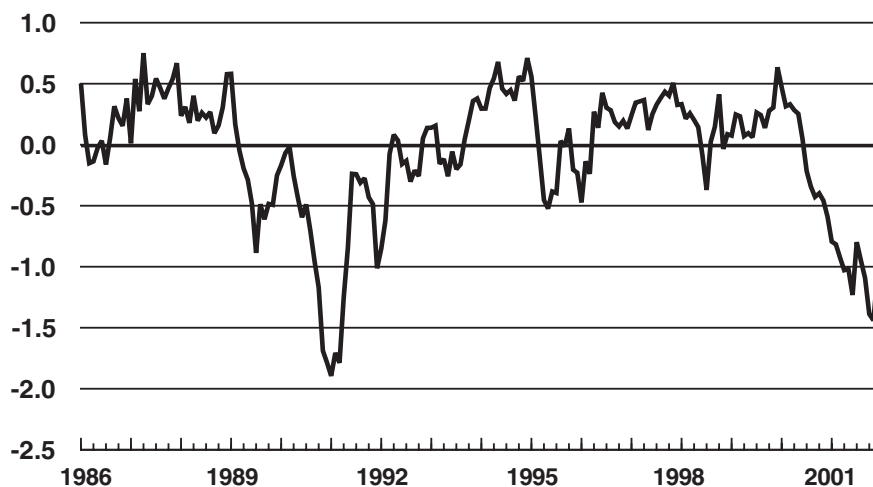
# Chicago Fed National Activity Index

## Economy improves at year's end

The Chicago Fed National Activity Index (CFNAI) improved in December, with the monthly index rising to  $-0.77$  from a downward revised value of  $-1.29$  in November. The December index represents the highest monthly reading since July 2001. The three-month moving average index, CFNAI-MA3, also improved in December, to  $-1.05$  from November's revised value of  $-1.44$ . Still, with the CFNAI-MA3 below  $-1.00$ , the index continues to be in a negative range that historically has been associated only with economic recessions. December marked the eighteenth consecutive month that the CFNAI-MA3 was below zero, an indication of how long the national economy has been growing below trend. Index values below zero signal reduced inflationary pressures over the coming year.

Economic weakness continued to be widespread in the individual December data series, although in many cases showing improvement relative to previous months. As in November, employment-related measures made the largest negative contributions to the CFNAI in December. The national unemployment rate increased 0.2 percentage point to 5.8 percent. As initially published, payroll employment fell by 124,000 jobs, with most of the losses concentrated in goods-producing industries. However, the December decline in jobs was the smallest monthly decline since August 2001. A number of other indicators that receive a large weight in the index also did not fall as much in December as in previous months. Notably, industrial production fell only 0.1 percent in December, after declining 0.4 percent in November and 0.7 percent in October. On the plus side, the new orders component of the Institute for Supply

Chicago Fed National Activity Index, Three-Month Moving Average (CFNAI-MA3)



CFNAI and CFNAI-MA3 for the latest six months and year-ago month

	Dec '01	Nov '01	Oct '01	Sep '01	Aug '01	Jul '01	Dec '00
<b>CFNAI</b>							
Current	-0.77	-1.29	-1.10	-1.93	-1.13	-0.22	-0.53
Previous	N/A	-1.21	-1.60	-1.67	-1.16	-0.18	-0.51
<b>CFNAI-MA3</b>							
Current	-1.05	-1.44	-1.39	-1.09	-0.95	-0.80	-0.59
Previous	N/A	-1.49	-1.48	-1.01	-0.93	-0.77	-0.60

Current and Previous values reflect index values as of the February 4, 2002, release and December 20, 2001, release, respectively. N/A indicates not applicable.

Management's manufacturing index moved into positive territory in December. And housing starts continued to be at relatively high levels, making a positive contribution to the monthly CFNAI.

Overall, 64 of the 85 individual indicators displayed below-average growth in December; and while 58 series improved relative to November, 43 of these still indicated below-average growth. The CFNAI is constructed using data available as of January 31. At that time, December data for 60 of 85 indicators had been published. For all missing data series, estimates were used in constructing the index.

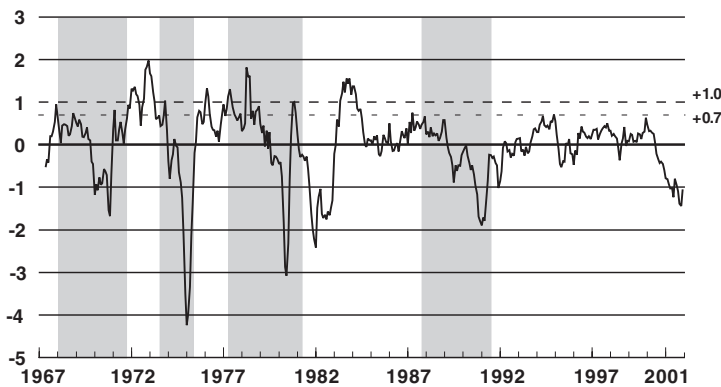
The negative December reading is continuing evidence that national economic growth was substantially below trend and the U.S. economy was in recession. Following each of the five previous recessions during the CFNAI-MA3 sample period (1967–2001), a reading above +0.20 indicated that the economic expansion had begun. With the exception of the 1990–91 recession, this early signal occurred within a few months of the officially determined National Bureau of Economic Research recession trough.

Revisions to the index can be attributed to two main factors: revisions in previously published data and differences between the estimates of previously unavailable data and subsequently published data. The downward revision to the November CFNAI was primarily due to differences between the estimates of unavailable data and subsequently published data for November.

**Interpreting the CFNAI-MA3**

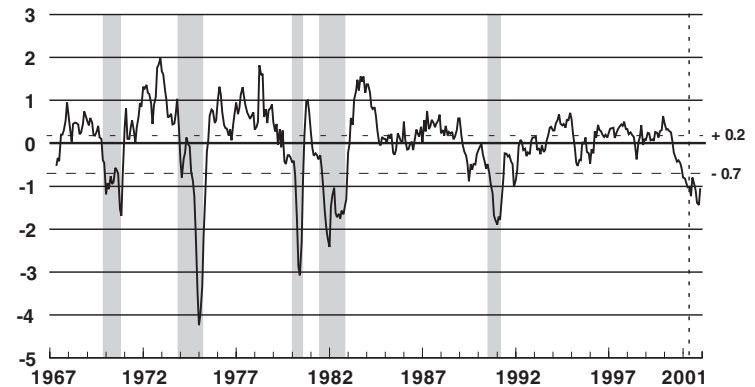
If CFNAI-MA3 < -0.70 following a period of economic expansion...	Increasing likelihood that a recession has begun.
If CFNAI-MA3 > +0.20 following a period of economic contraction...	Significant likelihood that a recession has ended.
If CFNAI-MA3 > +0.70 more than two years into an economic expansion...	Increasing likelihood that a period of sustained accelerating inflation has begun.
If CFNAI-MA3 > +1.00 more than two years into an economic expansion...	Substantial likelihood that a period of sustained accelerating inflation has begun.

**CFNAI-MA3 and Inflation Cycles**



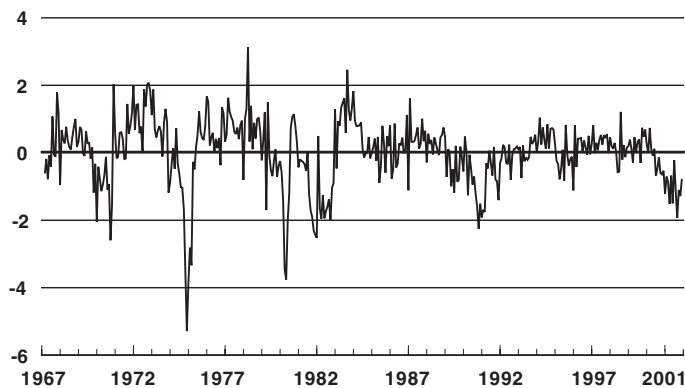
(Shading represents periods of substantial inflation increases.)

**CFNAI-MA3 and Business Cycles**



(Shading indicates official NBER periods of recession; dashed vertical line indicates the most recent business cycle peak.)

**CFNAI, Monthly Index**



**2002 CFNAI Release Dates**

Date of Release	Monthly Data for:
February 28, 2002	January 2002
March 27, 2002	February 2002
April 25, 2002	March 2002
May 30, 2002	April 2002
July 1, 2002	May 2002
July 25, 2002	June 2002
August 29, 2002	July 2002
September 30, 2002	August 2002
October 30, 2002	September 2002
November 21, 2002	October 2002
December 19, 2002	November 2002

CFNAI historical data and background information are available on the Federal Reserve Bank of Chicago's website at <http://www.chicagofed.org>.