

News Release

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10:00 am Eastern Time
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Contact:
Suzanne Heffner
Senior Manager, Media Relations
312-322-5108

James Pieper
Coordinator, Media Relations
312-322-2387

Federal Reserve Bank of Chicago
230 South LaSalle Street
Chicago, IL 60604

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:
September 4, 2001
10:00 am Eastern Time
9:00 am Central Time

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OF CHICAGO

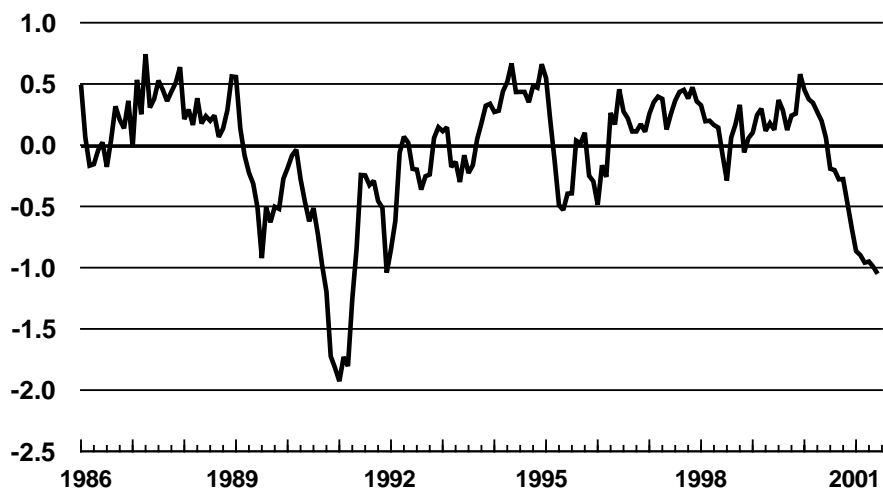
Chicago Fed National Activity Index

No Improvement in U.S. Economy in June

The Chicago Fed National Activity Index (CFNAI) decreased to -1.02 in June from an upward revised value of -0.95 in May. Sharp reductions in industrial production and manufacturing employment continued to keep the index at a low level in June. The three-month moving average index, CFNAI-MA3, was -1.05 in June, a further deterioration from an upward revised -0.99 in May. The March and June CFNAI-MA3 indexes are consistent with the July 27 report that first- and second-quarter real gross domestic product (GDP) rose at annual rates of only 1.3 percent and 0.7 percent, respectively. June marked the twelfth consecutive month that the CFNAI-MA3 was below zero, an indication that the national economy has been growing below trend for a full year. Index values below zero also signal reduced inflationary pressures over the next year.

The June data underlying the CFNAI show that the second quarter ended on a weak note. During the current economic slowing, only January and April experienced weaker growth according to the monthly CFNAI. Although real GDP growth was below trend in the first half of 2001, it was positive. However, the manufacturing sector, which has borne the brunt of the current slowdown, contracted further in June. Industrial production fell in June for the ninth consecutive month, with the drop being the largest since January. Nonfarm payroll employment fell by 114,000 jobs in June, with manufacturing jobs accounting for virtually all of this decline. Although most of the National Association of Purchasing Managers' indexes improved slightly in June, they continued to portray a contracting manufacturing sector. Housing starts and permits remained at high levels, and consumption expenditures rose again in June. As reported last month, although the

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



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

	June '01	May '01	Apr '01	Mar '01	Feb '01	Jan '01	June '00
CFNAI							
Current	-1.02	-0.95	-1.18	-0.85	-0.82	-1.20	+0.16
Previous	N/A	-1.06	-1.23	-0.82	-0.82	-1.19	+0.14
CFNAI-MA3							
Current	-1.05	-0.99	-0.95	-0.96	-0.90	-0.87	+0.06
Previous	N/A	-1.04	-0.96	-0.94	-0.90	-0.87	+0.05

Current and Previous values reflect index values as of the August 2, 2001, release and July 5, 2001, release, respectively. N/A indicates not applicable.

CFNAI-MA3 index is below -1.00 , the recent period of substantial weakness appears to be different from economic recessions due to the relative strength of the consumer.

Overall, 61 of the 85 individual indicators displayed below-average growth in June. As of July 31, June data for 60 of 85 indicators had been published; estimates for the remaining 25 series were used in constructing the April, May, and June indexes. The Census Bureau's conversion of key source data to the North American Industry Classification System basis has delayed the release of 20 data series used in constructing the CFNAI. These data relate to manufacturing and trade shipments/sales, orders, and inventories.

The negative June reading should be interpreted as continuing evidence that national economic growth is substantially below trend. In the sample period over which the CFNAI has been constructed (1967 to 2001), the current CFNAI release indicates that June is the first time the CFNAI-MA3 was below -1.00 without the economy being in recession. In each of the five recessions over this period, the CFNAI-MA3 fell below -1.50 , so the June reading continues to be above those recessionary levels. In those periods, housing activity and consumer spending on durable goods tended to fall sharply. During the current slowdown, the

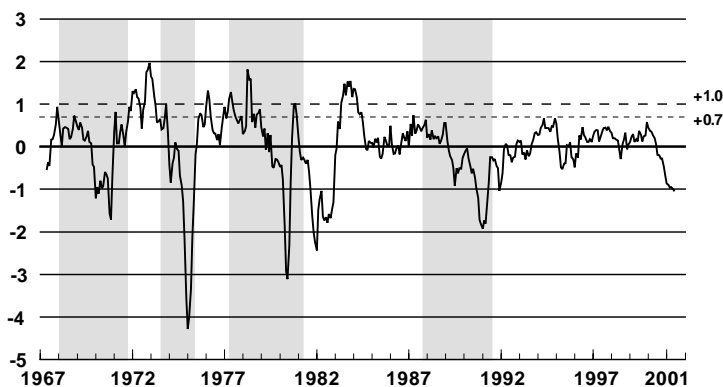
personal consumption and housing component of the index has remained slightly positive, and this has minimized the decline in the CFNAI. Nevertheless, national economic growth has moved steadily further below the trend in each of the first six months of 2001. The June CFNAI-MA3 index indicates a greater risk that the U.S. economy is in a recession than in any previous month this year.

The revised May CFNAI is 0.11 higher than the initially reported -1.06 , almost entirely due to revisions to previously published data, primarily upward revisions to industrial production data.

Interpreting the CFNAI-MA3

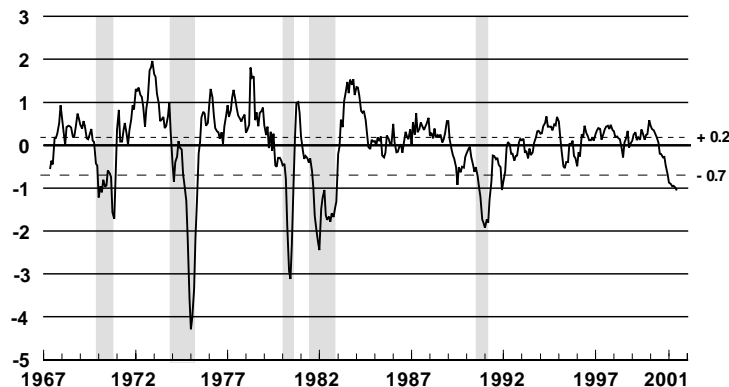
If CFNAI-MA3 < -0.70 following a period of economic expansion...	Increasing likelihood that a recession has begun.
If CFNAI-MA3 $> +0.20$ following a period of economic contraction...	Significant likelihood that a recession has ended.
If CFNAI-MA3 $> +0.70$ more than two years into an economic expansion...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



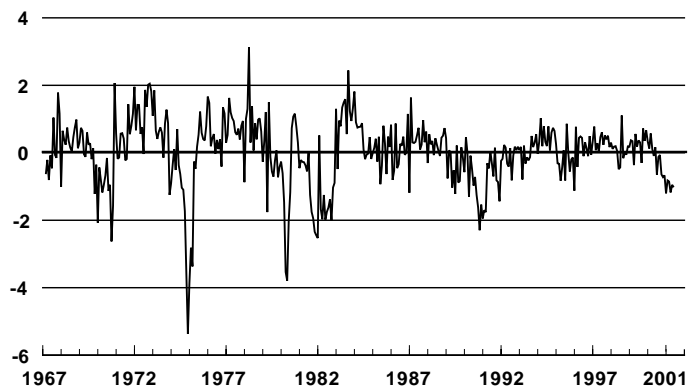
(Shading represents periods of substantial inflation increases)

CFNAI-MA3 and Business Cycles



(Shading indicates official NBER periods of recession)

CFNAI, Monthly Index



2001 CFNAI Release Dates

Date of Release	Monthly Data for:
September 4, 2001	July 2001
October 3, 2001	August 2001
November 5, 2001	September 2001
December 5, 2001	October 2001

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