

News Release

Embargoed for release:
10:00 am Eastern Time
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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:
August 2, 2001
10:00 am Eastern Time
9:00 am Central Time

FEDERAL RESERVE BANK
OF CHICAGO

Chicago Fed National Activity Index

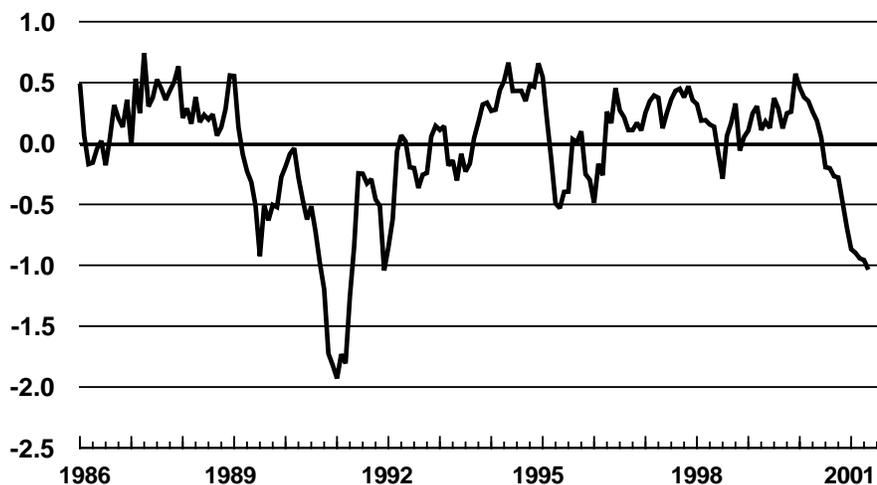
U.S. Economic Slowing Continued in May

The Chicago Fed National Activity Index (CFNAI) increased to -1.06 in May from a downward revised value of -1.23 in April. Continued contraction in industrial production and manufacturing employment combined to keep the CFNAI below -1.00 for the second consecutive month. The three-month moving average index, CFNAI-MA3, was -1.04 in May, a further deterioration from an unchanged -0.96 in April. May marked the eleventh consecutive month that the CFNAI-MA3 was below zero, an indication of below-trend growth in the national economy and a sign of easing pressures on future inflation.

Economic data released for May continued to indicate substantial weakness in the national economy. Industrial production fell in May for the eighth consecutive month, with the drop being the largest since January. Manufacturing employment fell by 124,000 jobs in May, and the National Association of Purchasing Managers' indexes fell across-the-board. On a somewhat less contractionary note, total nonfarm payroll employment fell by 19,000 jobs, a smaller drop than in April. In addition, the unemployment rate declined by 0.1 percentage point. Housing starts and permits remained at high levels, and consumption expenditures continued to rise in May. In spite of the index being below -1.00 , the recent period of substantial weakness appears to be different from the five economic recessions since 1967. In part, this reflects the relative strength of the consumer sector in the current period.

Of the five broad categories of data included in the CFNAI, only the "personal consumption and housing" category generally provided a positive contribution to the index in May. Overall,

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



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

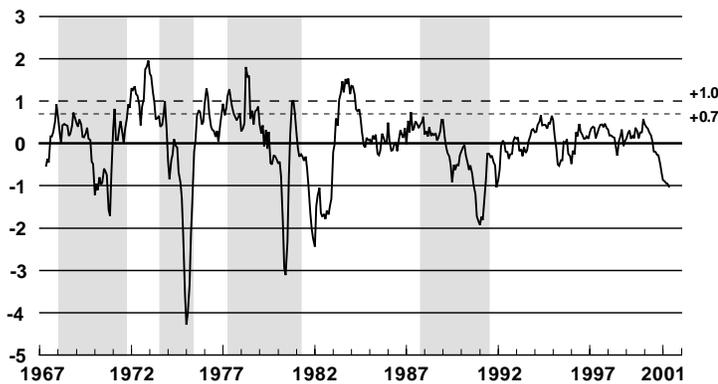
	May '01	Apr '01	Mar '01	Feb '01	Jan '01	Dec '00	May '00
CFNAI							
Current	-1.06	-1.23	-0.82	-0.82	-1.19	-0.68	-0.10
Previous	N/A	-1.09	-0.87	-0.93	-1.01	-0.77	-0.18
CFNAI-MA3							
Current	-1.04	-0.96	-0.94	-0.90	-0.87	-0.69	+0.19
Previous	N/A	-0.96	-0.94	-0.90	-0.85	-0.73	+0.20

Current and Previous values reflect index values as of the July 5, 2001, release and May 31, 2001, release, respectively. N/A indicates not applicable.

61 of the 85 individual indicators displayed below-average growth in May; while 42 series displayed improvement relative to April, 23 of these series were still indicating below-average growth. As of July 2, May data for 61 of 85 indicators had been published; estimates for the remaining 24 series were used in constructing the April and May indexes. The Census Bureau's conversion of key source data to the North American Industry Classification System basis has delayed the Bureau of Economic Analysis' release of April data for 20 series used in constructing the CFNAI. These data relate to manufacturing and trade shipments/sales, orders, and inventories.

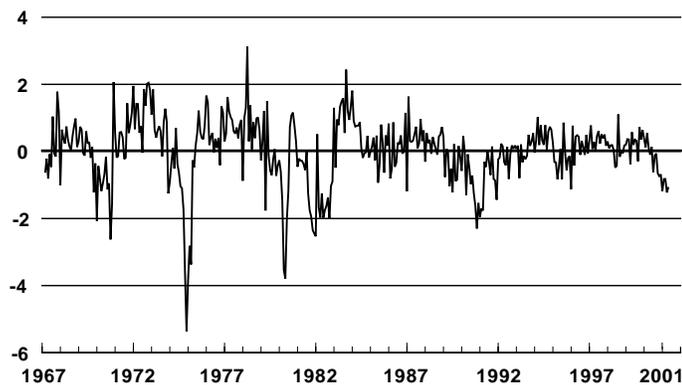
The negative May reading should be interpreted as continuing evidence that national economic growth is substantially below trend. In the sample period over which the CFNAI has been constructed (1967 to 2001), May was the first time the CFNAI-MA3 was below -1.00 without the economy being in recession. In each of the five recessions over this period, the CFNAI-MA3 fell below -1.50, so the May 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-MA3 and Inflation Cycles



(Shading represents periods of substantial inflation increases)

CFNAI, Monthly Index



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

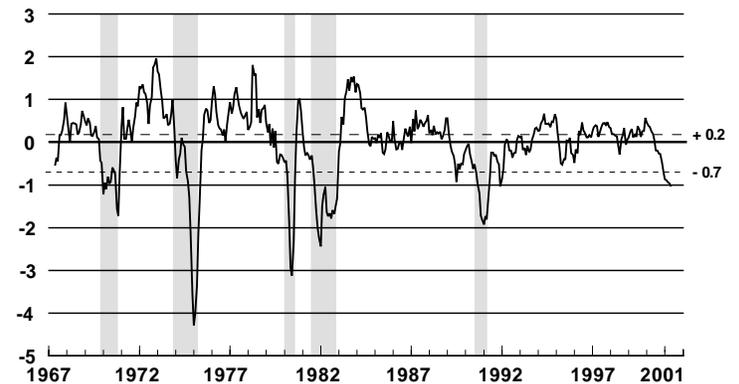
CFNAI. Nevertheless, the May CFNAI-MA3 index indicates a greater risk of recession than in any previous month this year.

Revisions to the April 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 revised April CFNAI is 0.14 lower than the initially reported -1.09, almost entirely due to revisions to previously published data. Much of the revision to the April CFNAI was due to downward revisions to industrial production data. Payroll employment data were revised upward modestly for March and April.

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 Business Cycles



(Shading indicates official NBER periods of recession)

2001 CFNAI Release Dates

Date of Release	Monthly Data for:
August 2, 2001	June 2001
September 4, 2001	July 2001
October 3, 2001	August 2001
November 5, 2001	September 2001
December 5, 2001	October 2001