

News Release

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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:
December 20, 2001
10:00 am Eastern Time
9:00 am Central Time

FEDERAL RESERVE BANK
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Chicago Fed National Activity Index

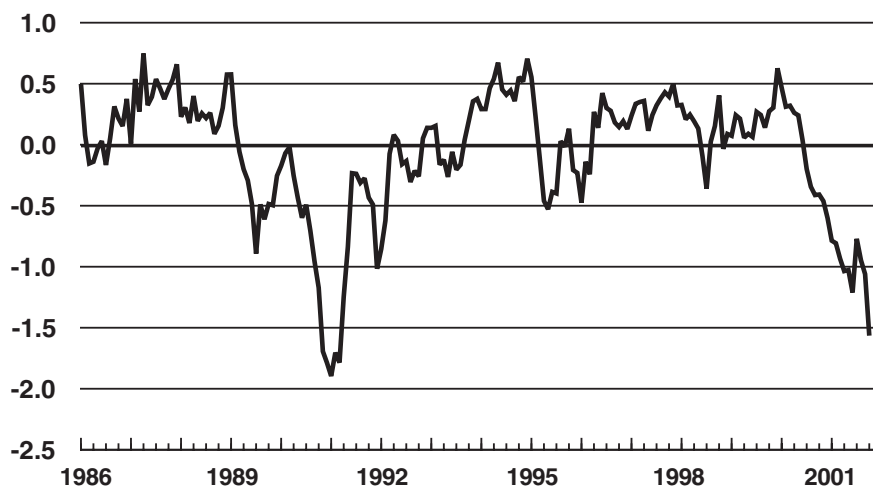
U.S. Recession Deepens in October

The October Chicago Fed National Activity Index (CFNAI) was -1.70 , up only slightly from a sharply downward revised value of -1.78 in September. The large negative readings in September and October pushed the three-month moving average index (CFNAI-MA3) down from September's -1.06 to -1.56 in October. By dropping below -1.50 , the CFNAI-MA3 fell into a negative range that historically has been observed only during economic recessions. October marked the sixteenth 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.

On November 26, the National Bureau of Economic Research (NBER) determined that the U.S. economy reached a business cycle peak in March 2001, when the unprecedented ten-year economic expansion ended and a recession began. In the months leading up to last March, the CFNAI-MA3 had turned negative in July 2000 and deteriorated steadily thereafter. In the inaugural CFNAI release, the January 2001 CFNAI-MA3 was initially reported to be -0.71 , a value that has often been associated with the onset of economic recessions previously identified by the NBER. Three months later, the initially reported April CFNAI-MA3 was at -0.96 , a level previously experienced only during economic recessions. Last week, the NBER confirmed that the current economic downturn is indeed a recession.

Economic weakness was widespread across the individual October data series. Payroll employment fell by 415,000 jobs, with signs of deterioration continuing to spread into

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



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

	Oct '01	Sep '01	Aug '01	Jul '01	Jun '01	May '01	Oct '00
CFNAI							
Current	-1.70	-1.78	-1.22	-0.18	-1.44	-0.69	-0.64
Previous	N/A	-1.28	-1.30	-0.26	-1.51	-0.70	-0.51
CFNAI-MA3							
Current	-1.56	-1.06	-0.95	-0.77	-1.21	-1.03	-0.41
Previous	N/A	-0.95	-1.02	-0.83	-1.18	-0.98	-0.27

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

service-producing sectors. The national unemployment rate increased sharply by 0.5 percentage point to 5.4 percent. Industrial production fell by 1.2 percent, and the Purchasing Managers' Index fell to 39.8 percent. The few positive contributors to the CFNAI tended to be associated with growth in consumer spending and relatively strong housing data.

Overall, 57 of the 85 individual indicators displayed below-average growth in October; and while 40 series improved relative to September, 17 of these still indicated below-average growth. The index is constructed using data available as of December 3. At that time, October data for 61 of 85 indicators had been published. For all missing data series, estimates were used in constructing the index.

The negative October reading is continuing evidence that national economic growth was substantially below trend and the U.S. economy is in recession. Near the end of each of the five 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

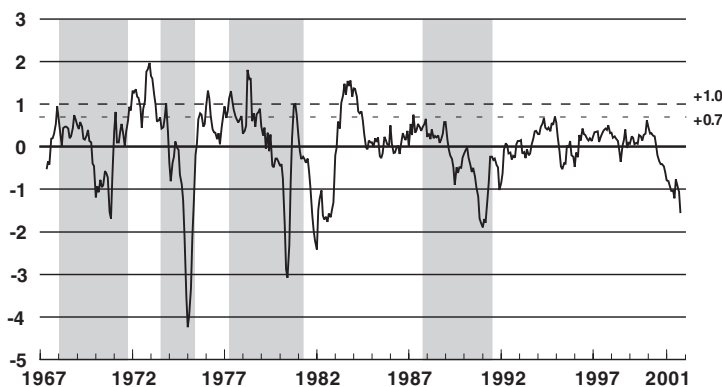
occurred within a few months of the officially determined NBER recession trough.

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 large downward revision to the September CFNAI (from -1.28 to -1.78) was largely due to forecast errors in estimating previously unavailable data for real manufacturing and trade sales for September; these data were affected by the events of September 11.

Interpreting the CFNAI-MA3

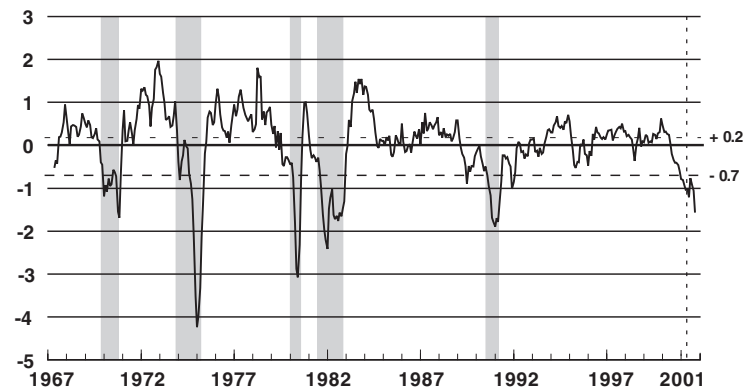
If CFNAI-MA3 < -0.70 following a period of economic expansion...	Increasing likelihood that a recession has begun.
If CFNAI-MA3 > $+0.20$ following a period of economic contraction...	Significant likelihood that a recession has ended.
If CFNAI-MA3 > $+0.70$ more than two years into an economic expansion...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



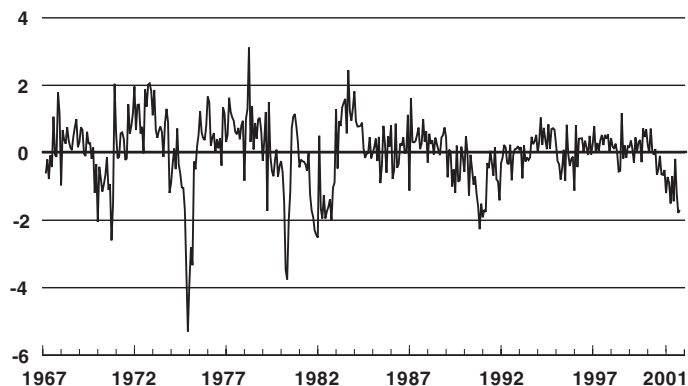
(Shading represents periods of substantial inflation increases.)

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



2001–2002 CFNAI Release Dates

Date of Release	Monthly Data for:
December 20, 2001	November 2001
February 4, 2002	December 2001
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>.