

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:
October 30, 2002
10:00 am Eastern Time
9:00 am Central Time

FEDERAL RESERVE BANK
OF CHICAGO

Chicago Fed National Activity Index

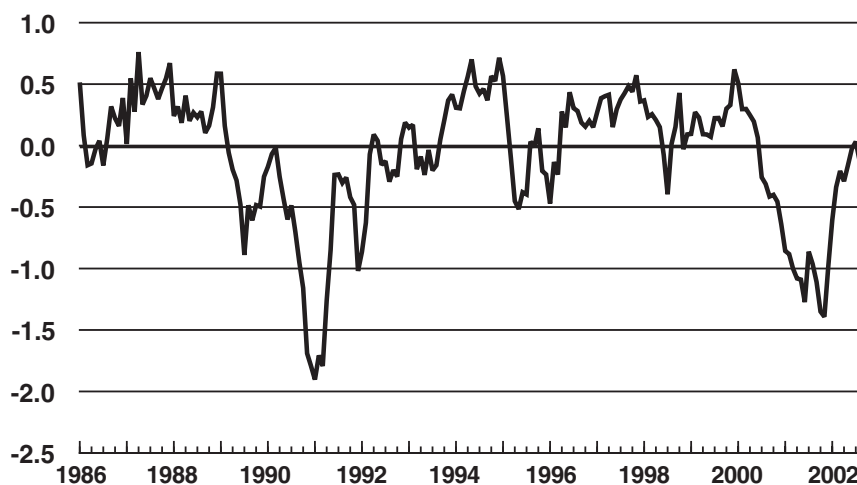
CFNAI indicates economy slowed in August

In August, the Chicago Fed National Activity Index (CFNAI) fell to its lowest level since December 2001, largely as a result of weakness in the production- and employment-related data. The monthly index came in at -0.44 in August, down from its upward revised value of -0.04 in July. The three-month moving average index, CFNAI-MA3, fell to -0.13 in August from its upward revised value of $+0.03$ in July.

While CFNAI-MA3 values below zero are associated with below-trend economic growth, values generally need to fall below -0.70 before they indicate negative economic growth. Thus, the CFNAI-MA3 at -0.13 in August suggests that national economic activity continued to expand, but below its historical trend. In addition, CFNAI-MA3 values below zero signal reduced inflationary pressures over the coming year.

Of the five broad data categories underlying the CFNAI (see sidebar), the principal negative influences came from the production- and employment-related categories. In the production category, industrial production fell 0.3 percent in August, and capacity utilization in manufacturing continued to be below its historical average. Although the Institute for Supply Management's Purchasing Managers' Index value of 50.5 indicated an expanding manufacturing sector, this level is below its historical average and many of the PMI's components indicated slowing activity. Overall, weakness in the production-related category contributed -0.20 to the total monthly index. In the employment category, total nonfarm payroll employment increased in August by 39,000 jobs, while manufacturing employment fell by 68,000.

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



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

	Aug '02	Jul '02	Jun '02	May '02	Apr '02	Mar '02	Aug '01
CFNAI							
Current	-0.44	-0.04	+0.10	+0.04	-0.22	-0.30	-1.03
Previous	N/A	-0.25	+0.20	+0.02	-0.22	-0.30	-1.06
CFNAI-MA3							
Current	-0.13	+0.03	-0.03	-0.16	-0.29	-0.21	-0.96
Previous	N/A	-0.01	0.00	-0.17	-0.29	-0.21	-0.97

Current and Previous values reflect index values as of the September 30, 2002, release and August 29, 2002, release, respectively. N/A indicates not applicable.

The unemployment rate did fall to 5.7 percent, but with broad weakness in labor market data relative to historical averages, the employment-related indicators contributed -0.17 to the total monthly index. The other three CFNAI categories made smaller, mixed contributions; on net, their collective contribution to the monthly CFNAI was -0.07 . In terms of other notable data for August, housing starts and building permits fell, but remained at high levels relative to historical averages.

Overall, 62 of the 85 individual indicators displayed below-average growth in August. While 26 of the 85 series improved relative to July, half of these still indicated below-average growth. The CFNAI is constructed using data available as of September 26. At that time, August data for 53 of the 85 indicators had been published. For all missing data series, estimates were used in constructing the index.

The estimate of the CFNAI for July was revised up from -0.25 to -0.04 . 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

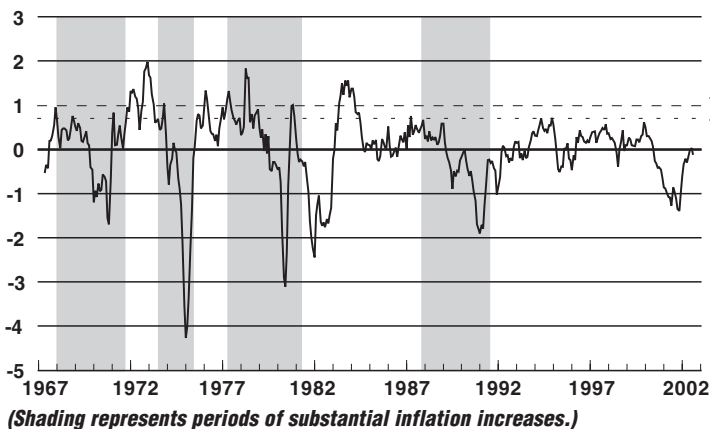
published data. The upward revision to the July CFNAI was mostly due to revisions in previously published data.

For more information on the CFNAI as an indicator of economic conditions, see the article, "The 2001 recession and the Chicago Fed National Activity Index: Identifying business cycle turning points," in the Third Quarter 2002 issue of *Economic Perspectives*, at www.chicagofed.org/publications/economicperspectives/index.cfm.

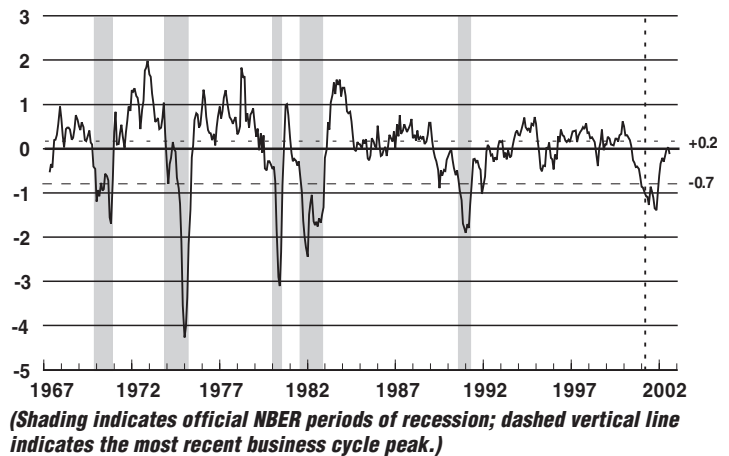
Interpreting the CFNAI-MA3

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.

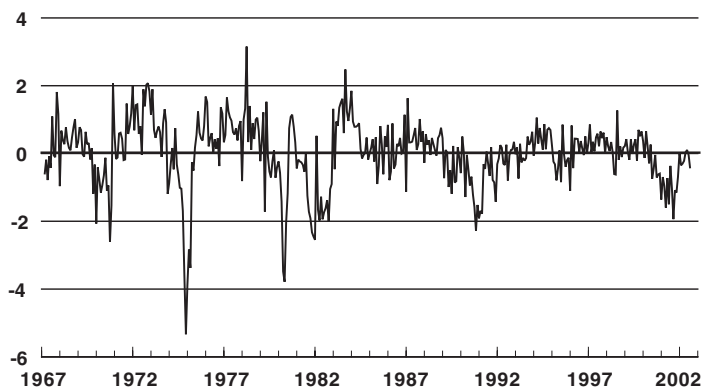
CFNAI-MA3 and Inflation Cycles



CFNAI-MA3 and Business Cycles



CFNAI, Monthly Index



2002 CFNAI Release Dates

Date of Release	Monthly Data for:
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>.