

## News Release

Embargoed for release:  
10:00 am Eastern Time  
9:00 am Central Time  
July 25, 2002

Contact:  
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:  
August 29, 2002  
10:00 am Eastern Time  
9:00 am Central Time

FEDERAL RESERVE BANK  
OF CHICAGO

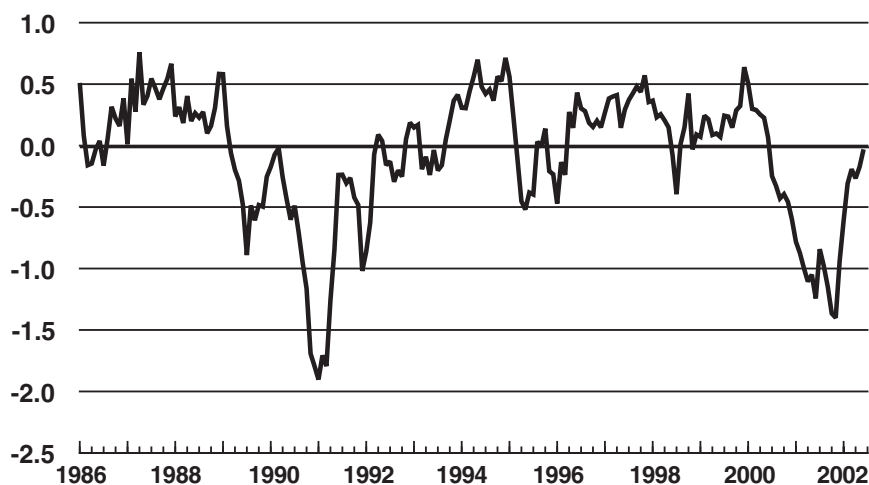
# Chicago Fed National Activity Index

## CFNAI returns to positive territory in June

In June, the Chicago Fed National Activity Index (CFNAI) was above zero for the second time this year. The monthly index came in at +0.14, an increase from its upward revised value of -0.04 in May. After falling to -0.32 in February, the index increased in each of the next four months, with June at its highest value in two years. The rising values of the monthly index mean that the three-month moving average index, CFNAI-MA3, has been increasing as well. In June, the CFNAI-MA3 came in at -0.03, increasing from May's upward revised value of -0.17. While this was the second consecutive improvement in the CFNAI-MA3, it extends the streak of negative values to 23 consecutive months. The recent increase in the CFNAI-MA3 indicates that the national economy is improving, and its value near zero suggests that the pace of growth is not far from the long-run historical average. Index values above zero, if sustained, signal increased inflationary pressures over the coming year.

Four of the five broad categories of series underlying the CFNAI (see sidebar) contributed positively to the index in June. Only the employment-related data category contributed negatively. The production and income category made the largest positive contribution to the overall index again in June. Indeed, its contribution of +0.29 was the largest since October 1999. The source of the recent strength is the manufacturing sector, which expanded again in June. Manufacturing capacity utilization rose to 74.5 percent, industrial production in manufacturing increased 0.7 percent, and the Institute for Supply Management's Purchasing Managers' Index rose again, to 56.2. The latter two data series were above their historical averages.

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



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

	Jun '02	May '02	Apr '02	Mar '02	Feb '02	Jan '02	Jun '01
<b>CFNAI</b>							
Current	+0.14	-0.04	-0.20	-0.28	-0.32	+0.02	-1.51
Previous	N/A	-0.07	-0.28	-0.29	-0.30	0.00	-1.51
<b>CFNAI-MA3</b>							
Current	-0.03	-0.17	-0.27	-0.19	-0.31	-0.61	-1.24
Previous	N/A	-0.21	-0.29	-0.20	-0.31	-0.62	-1.24

Current and Previous values reflect index values as of the July 25, 2002, release and July 1, 2002, release, respectively. N/A indicates not applicable.

Total nonfarm payroll employment also rose in June, but the modest gain of 36,000 was smaller than the historical average. In addition, the unemployment rate edged up to 5.9 percent in June. As a result, the employment-related indicators continued to contribute negatively to the index. The contribution of  $-0.22$  from these indicators offset a large part of the positive contribution of the production and income series. In other notable data for June, housing starts fell 3.6 percent while building permits rose 1.4 percent. On net, the consumption and housing category made a small positive ( $0.05$ ) contribution to the CFNAI. Contributions of the other two categories were positive but near zero.

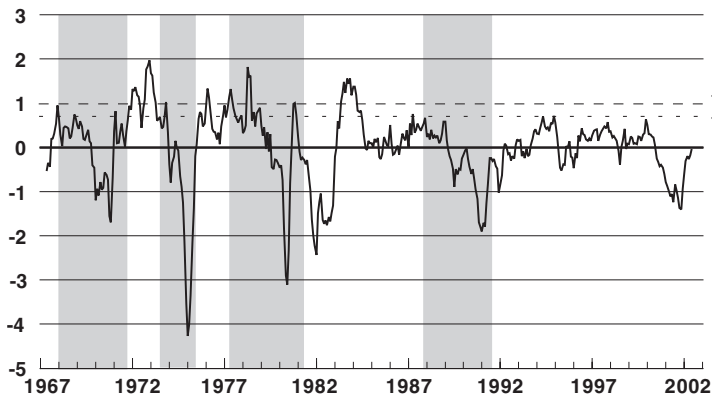
Overall, 49 of the 85 individual indicators displayed above-average growth in June; but while 57 series improved relative to May, 17 of these still indicated below-average growth. The CFNAI is constructed using data available as of July 23. At that time, June data for 49 of 85 indicators had been published. For all missing data series, estimates were used in constructing the index.

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 May CFNAI was mostly due to revisions in previously published data.

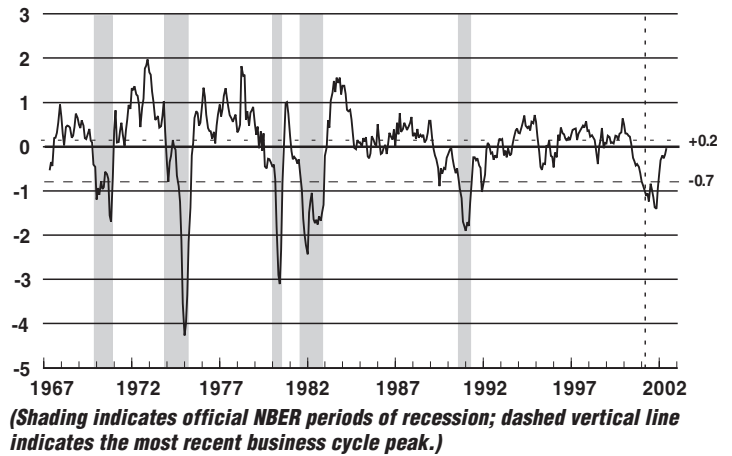
### Interpreting the CFNAI-MA3

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.

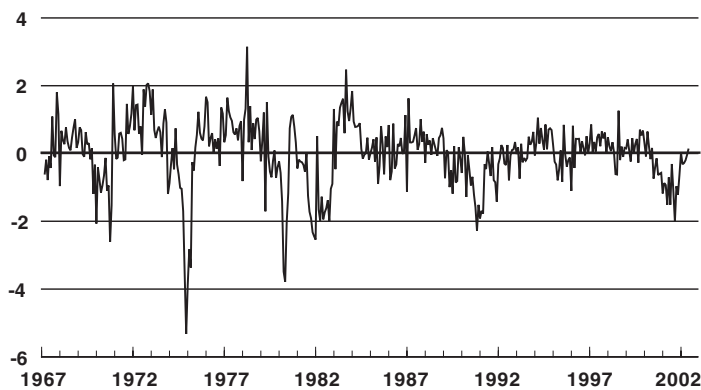
### CFNAI-MA3 and Inflation Cycles



### CFNAI-MA3 and Business Cycles



### CFNAI, Monthly Index



### 2002 CFNAI Release Dates

<b>Date of Release</b>	<b>Monthly Data for:</b>
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>.