

News Release

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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:
March 27, 2003
10:00 am Eastern Time
9:00 am Central Time

FEDERAL RESERVE BANK
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Chicago Fed National Activity Index

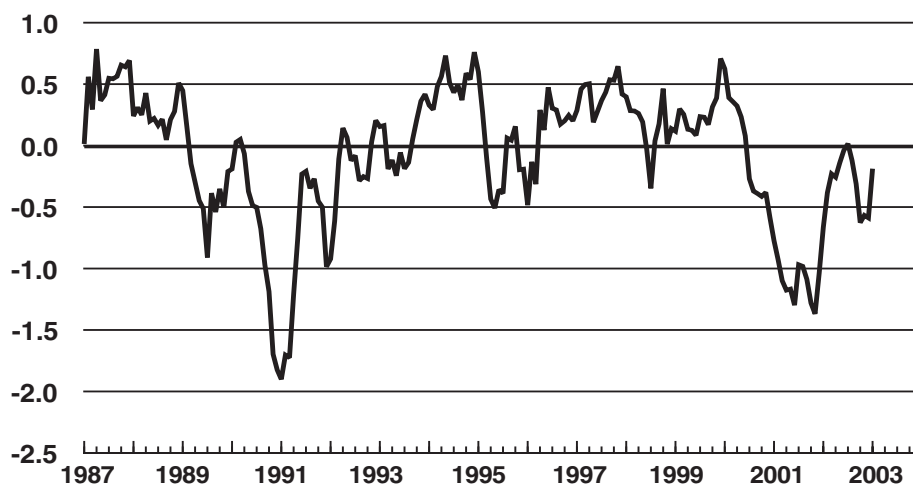
CFNAI shows U.S. economy improved in January

In January, the Chicago Fed National Activity Index (CFNAI) moved above zero for the first time since last July. The monthly index came in at +0.38, a substantial improvement from a revised -0.62 in December, and the highest monthly reading since April 2000. Relatively strong production-related data made the largest positive contribution to the January index; a turnaround in the employment-related data also contributed significantly to the improvement from December. Due to weakness in prior months, the three-month moving average index, CFNAI-MA3, remained negative in January. However, at -0.19 the CFNAI-MA3 was up substantially from the revised December reading of -0.59.

CFNAI-MA3 values below zero are associated with below-trend economic growth, but the moving-average index generally needs to fall below -0.70 before the probability of negative economic growth exceeds 70 percent. Accordingly, the CFNAI-MA3 value of -0.19 suggests that national economic activity continued to expand in January, but at a pace somewhat 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), most of the positive influences in January came from the production category, although the employment category was also notable with its first positive contribution in over two years. Industrial production increased 0.7 percent in January, while capacity utilization in manufacturing moved up to 73.7 percent. In contrast, the Institute for Supply Management's Purchasing

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



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

	Jan '03	Dec '02	Nov '02	Oct '02	Sep '02	Aug '02	Jan '02
CFNAI							
Current	+0.38	-0.62	-0.32	-0.82	-0.56	-0.50	+0.04
Previous	N/A	-0.49	-0.55	-0.78	-0.57	-0.45	+0.01
CFNAI-MA3							
Current	-0.19	-0.59	-0.57	-0.63	-0.31	-0.12	-0.67
Previous	N/A	-0.61	-0.63	-0.60	-0.30	-0.11	-0.70

Current and Previous values reflect index values as of the February 27, 2003, release and January 30, 2003, release, respectively. N/A indicates not applicable.

Managers' Index dipped to 53.9. In total, however, the production category accounted for +0.23 of the monthly CFNAI in January. In the employment category, total nonfarm payroll employment increased in January by 143,000 jobs, but the manufacturing sector still lost 16,000 jobs. The unemployment rate moved down to 5.7 percent. These mixed signals translated into an employment-related contribution of +0.08 to the monthly CFNAI. Although small, this represented a large improvement from December's contribution of -0.41, and was the first positive contribution since September 2000. The other three categories combined accounted for +0.07 of the monthly index.

Overall, 45 of the 85 individual indicators displayed below-average growth in January. Fifty of the 85 series improved relative to December, but 17 of these still indicated below-average growth. The CFNAI is constructed using data available as of February 25. At that time, January data for 52 of 85 indicators had been published. For all missing data series, estimates were used in constructing the index.

At -0.62, the revised estimate of the CFNAI for December was lower than its initial estimate of -0.49. Revisions to the index can be attributed to two main factors: revisions in previously published

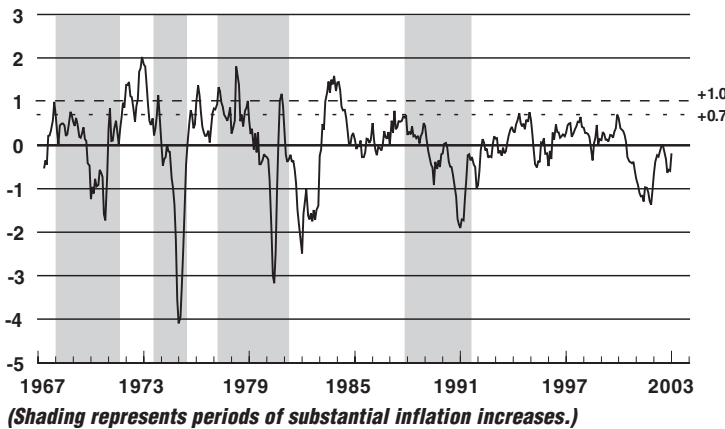
data and differences between the estimates of previously unavailable data and subsequently published data. For December, downward revisions to previously published data outweighed slight positive contributions from errors in the estimation of yet-to-be published data.

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.

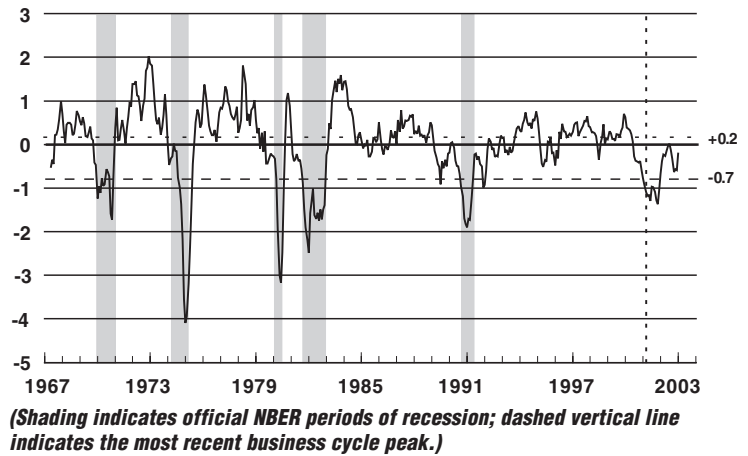
Interpreting the CFNAI-MA3

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.

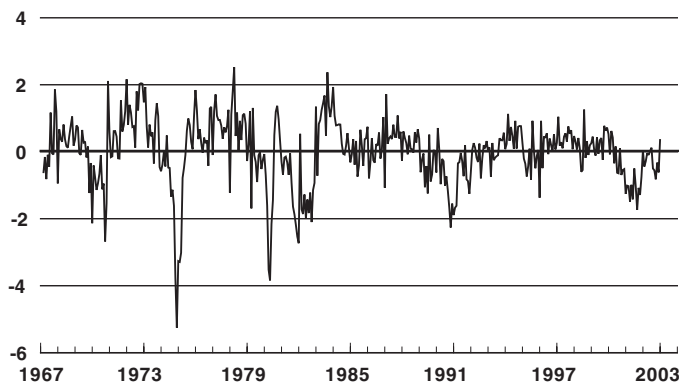
CFNAI-MA3 and Inflation Cycles



CFNAI-MA3 and Business Cycles



CFNAI, Monthly Index



2003 CFNAI Release Dates

Date of Release	Monthly Data for:
March 27, 2003	February 2003
April 30, 2003	March 2003
May 29, 2003	April 2003
June 26, 2003	May 2003
July 30, 2003	June 2003
August 28, 2003	July 2003
September 25, 2003	August 2003
October 30, 2003	September 2003
November 20, 2003	October 2003
December 18, 2003	November 2003

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