

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:
July 30, 2003
10:00 am Eastern Time
9:00 am Central Time

FEDERAL RESERVE BANK
OF CHICAGO

Chicago Fed National Activity Index

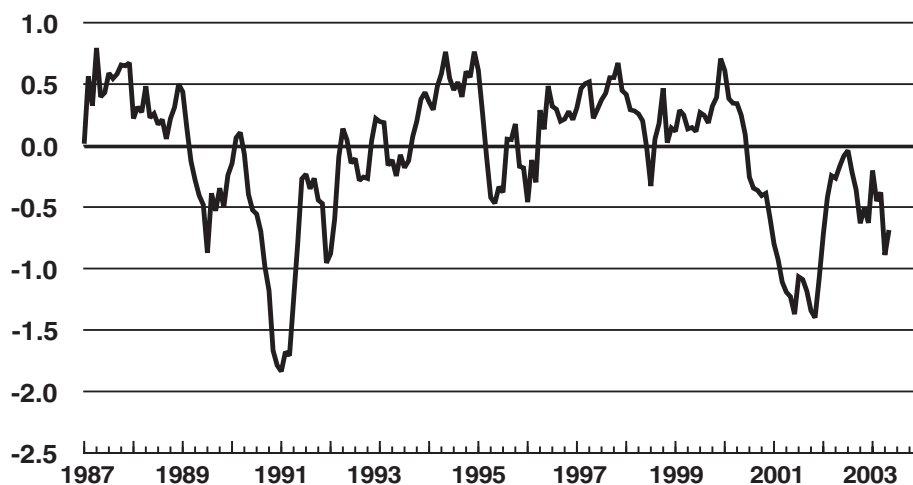
CFNAI indicates economic activity improved in May

The Chicago Fed National Activity Index (CFNAI) was -0.39 in May, a marked improvement from the downward-revised April level of -1.04 . Most of the increase reflected better readings on the output-related components of the index; less negative employment-related data were also a factor. The three-month moving average index, CFNAI-MA3, moved up from -0.89 in April to -0.69 in May. Because the three-month period covered by this latest CFNAI-MA3 includes March and April, the index is still heavily influenced by uncertainties associated with the Iraq conflict.

CFNAI-MA3 values below zero are associated with below-trend economic growth. Accordingly, the CFNAI-MA3 value of -0.69 suggests that growth in national economic activity was well below its historical trend in May. Generally, when the moving-average index falls below -0.70 , the probability of negative economic growth exceeds 70 percent. However, because the CFNAI-MA3 is still substantially influenced by an unusual event—the reaction of the economy to heightened geopolitical tensions—such historical benchmarks are less useful than usual. With regard to inflation, 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 employment-related data accounted for -0.29 of the -0.39 overall index value in May. Although private payrolls edged up 8,000 last month, the gain was well below the historical average. Furthermore, manufacturing employment fell another 53,000 and the unemployment rate ticked up

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



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

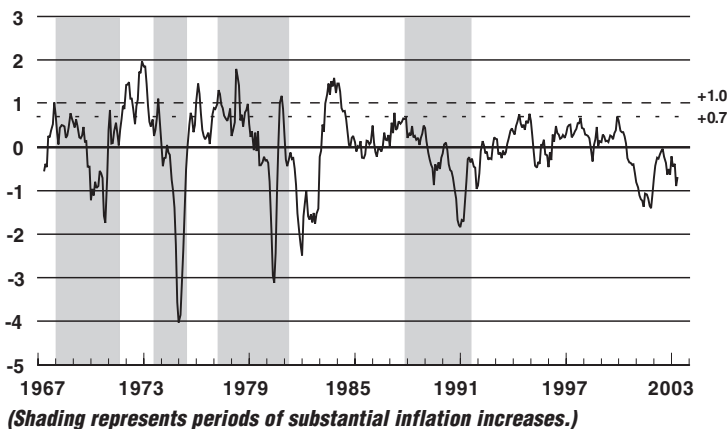
	May '03	Apr '03	Mar '03	Feb '03	Jan '03	Dec '02	May '02
CFNAI							
Current	-0.39	-1.04	-0.63	-1.00	+0.49	-0.84	-0.10
Previous	N/A	-0.85	-0.69	-1.17	+0.57	-0.81	-0.09
CFNAI-MA3							
Current	-0.69	-0.89	-0.38	-0.45	-0.20	-0.63	-0.17
Previous	N/A	-0.90	-0.43	-0.47	-0.19	-0.65	-0.12

Current and Previous values reflect index values as of the June 26, 2003, release and May 29, 2003, release, respectively. N/A indicates not applicable.

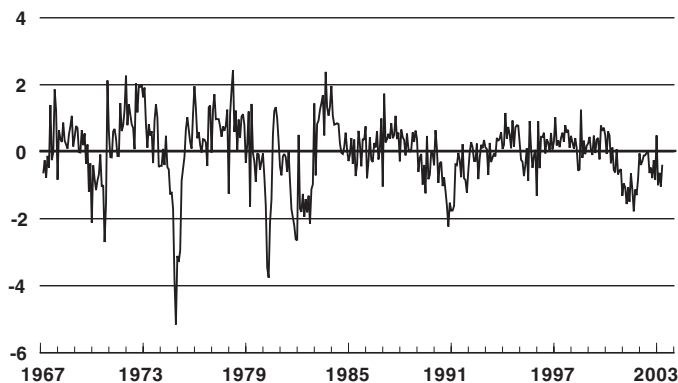
to 6.1 percent. At -0.07 , the contribution of the output-related components of the overall index was a substantial improvement from April, when it was -0.50 . Within this category, total industrial production (IP) edged up 0.1 percent after falling 0.6 percent in April; in manufacturing, IP rose 0.2 percent in May after a 0.7 percent decline. Similarly, at 49.4, the Institute for Supply Management's Purchasing Managers' Index indicated little change in overall manufacturing activity in May and was up from the April reading of 45.4. The contributions of each of the other three categories in the CFNAI—personal consumption and housing, manufacturing and trade sales, and inventories and orders—were all small and netted to -0.03 for the monthly index.

Overall, 65 of the 85 individual indicators displayed below-average growth in May. Relative to April, 55 series showed improvement, though 39 of the improved series still indicated below-average growth. The CFNAI is constructed using data available as of June 24. At that time, May data for 50 of 85 indicators had been published. For all missing data series, estimates were used in constructing the index.

CFNAI-MA3 and Inflation Cycles



CFNAI, Monthly Index

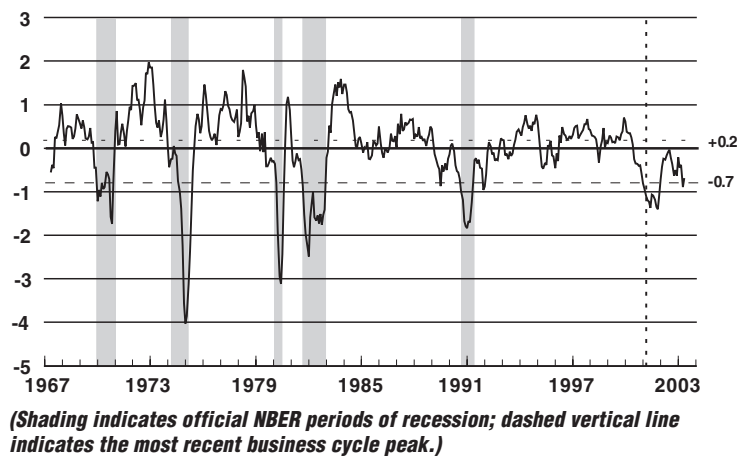


At -1.04 , the revised estimate of the CFNAI for April was weaker than its initial estimate of -0.85 . Revisions to the index can be attributed to two main factors: revisions in previously published data and differences between the estimates of previously unavailable data and subsequently published data. Most of the revision to April reflected errors in the forecasts of yet-to-be 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 Business Cycles



2003 CFNAI Release Dates

Date of Release	Monthly Data for:
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>.