

## News Release

Embargoed for release:  
10:00 am Eastern Time  
9:00 am Central 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:  
**July 5, 2001**  
10:00 am Eastern Time  
9:00 am Central Time

FEDERAL RESERVE BANK  
OF CHICAGO

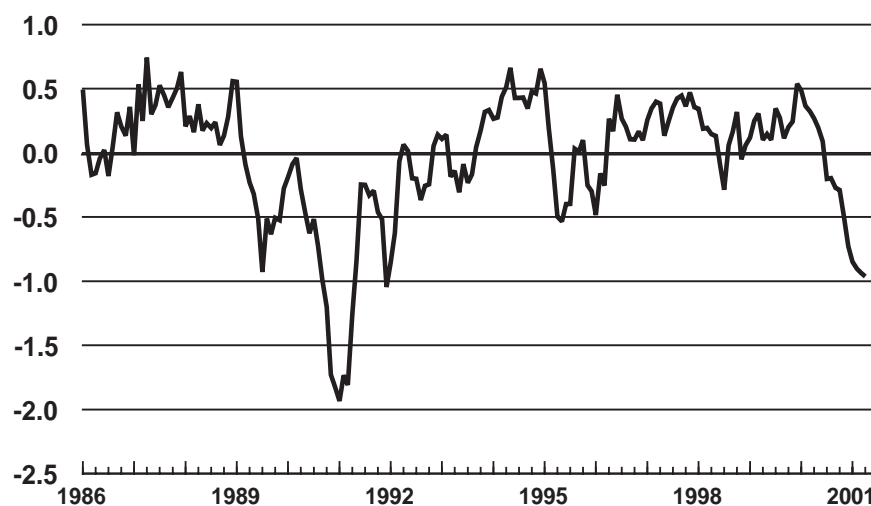
# Chicago Fed National Activity Index

## Economic Slowing Continued in April

The Chicago Fed National Activity Index (CFNAI) decreased to  $-1.09$  in April from a downward revised value of  $-0.87$  in March. The April index reached a new low for the current period of economic slowing that began last July. Large employment losses combined with further contractions in industrial production to lower the CFNAI in April. The improvements originally reported in the March CFNAI were reversed primarily due to subsequent revisions to industrial production data. The three-month moving average index, CFNAI-MA3, was  $-0.96$  in April, a slight deterioration from the downward revised  $-0.94$  value in March. April marked the tenth consecutive month that the CFNAI-MA3 was below zero, an indication of below-trend growth in the national economy and a sign of easing pressures on future inflation.

Economic data released for April indicated further weakness in the national economy, with few sources of positive growth being reported among the 85 series included in the CFNAI. Widespread employment losses were reported, and the unemployment rate increased to 4.5 percent. Industrial production fell in April, with the drop in first quarter output steeper than initially reported. The downward revisions to January and March industrial production data strongly contributed to the continuous pattern of decline in the CFNAI-MA3 through the first quarter. Overall, manufacturing continues to be the major source of weakness in the index. The National Association of Purchasing Managers indexes continued to depict a contracting manufacturing sector as did most industrial production and employment series related to manufacturing.

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



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

	Apr '01	Mar '01	Feb '01	Jan '01	Dec '00	Nov '00	Apr '00
<b>CFNAI</b>							
Current	-1.09	-0.87	-0.93	-1.01	-0.77	-0.77	+0.28
Previous	N/A	-0.63	-0.91	-0.86	-0.77	-0.77	+0.28
<b>CFNAI-MA3</b>							
Current	-0.96	-0.94	-0.90	-0.85	-0.73	-0.49	+0.27
Previous	N/A	-0.80	-0.85	-0.80	-0.73	-0.49	+0.27

Current and Previous values reflect index values as of the May 31, 2001, release and May 2, 2001, release, respectively. N/A indicates not applicable.

With the CFNAI at  $-1.09$ , however, there were very few sources of positive growth among the 85 indicators of national economic activity. Of the five broad categories of data included in the CFNAI, only the personal consumption and housing category provided generally positive contributions to the index. For example, housing starts and permits continued to be at high levels, which are not typically associated with an economy growing below trend. Overall, 64 of the 85 individual indicators displayed below-average growth in April; while 37 series showed improvement relative to March, 22 of these series were still showing below-average growth. As of May 29, April data for 62 of 85 indicators had been published; estimates for the remaining 23 series were used in constructing the April index.

The negative April reading should be interpreted as continuing evidence that national economic growth is below trend. The CFNAI-MA3 has been below  $-0.70$  since December 2000. Historical experience indicates an increasing probability of a recession as the CFNAI-MA3 falls deeper into and below the range of  $-0.70$  and  $-1.00$ . In the sample period over which the CFNAI is constructed (1967–2001), there have been five economic recessions. In each of these recessions, the CFNAI-MA3 fell below  $-1.50$ . The April CFNAI-MA3 reading of  $-0.96$  continues to

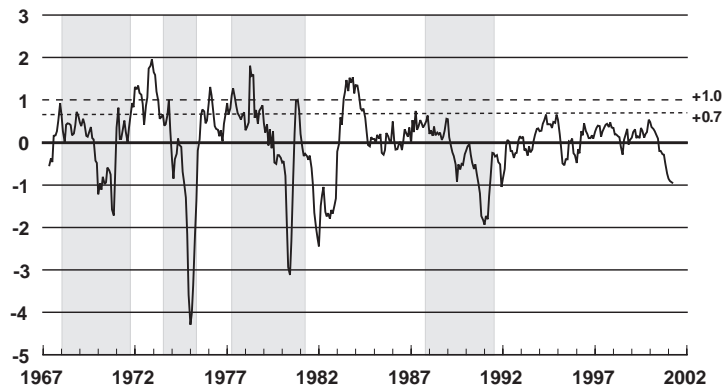
be above those previous recessionary levels. It remains likely that the U.S. economy is not currently in a recession. Nevertheless, the April index indicates a greater risk that the U.S. economy is in a recession than in the first three months of this year.

Revisions to the March CFNAI can be attributed to two main factors: revisions in previously published data and differences between estimates of previously unavailable data and subsequently published data. The revised March CFNAI is 0.24 lower than the initially reported  $-0.63$ , almost entirely due to revisions to previously published data.

### Interpreting the CFNAI-MA3

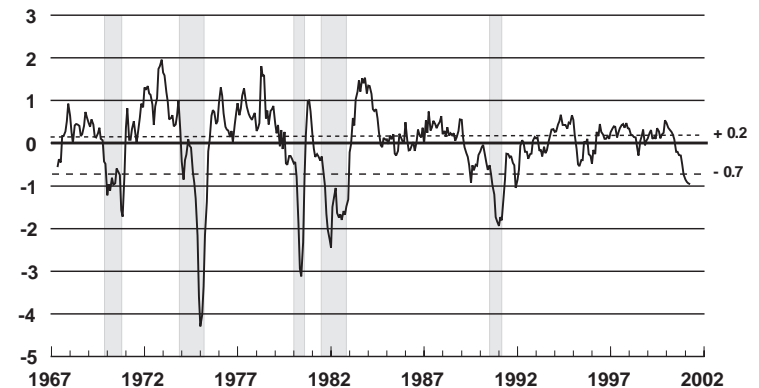
If CFNAI-MA3 $< -0.70$ following a period of economic expansion...	Increasing likelihood that a recession has begun.
If CFNAI-MA3 $> +0.20$ following a period of economic contraction...	Significant likelihood that a recession has ended.
If CFNAI-MA3 $> +0.70$ more than two years into an economic expansion...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



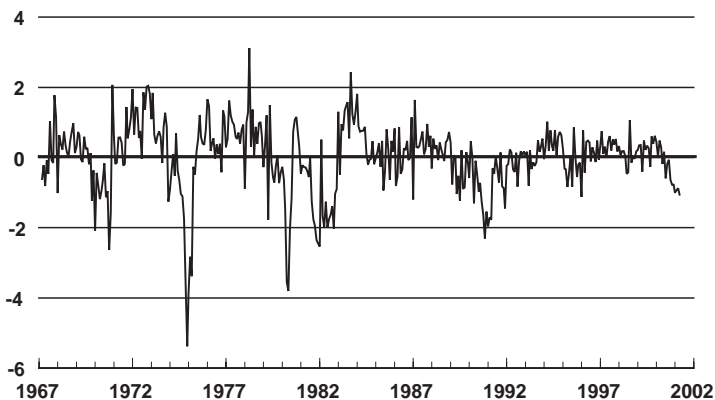
(Shading represents periods of substantial inflation increases)

### CFNAI-MA3 and Business Cycles



(Shading indicates official NBER periods of recession)

### CFNAI, Monthly Index



### 2001 CFNAI Release Dates

Date of Release	Monthly Data for:
July 5, 2001	May 2001
August 2, 2001	June 2001
September 4, 2001	July 2001
October 3, 2001	August 2001
November 5, 2001	September 2001
December 5, 2001	October 2001

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