

## 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:  
**November 5, 2001**  
10:00 am Eastern Time  
9:00 am Central Time

FEDERAL RESERVE BANK  
OF CHICAGO

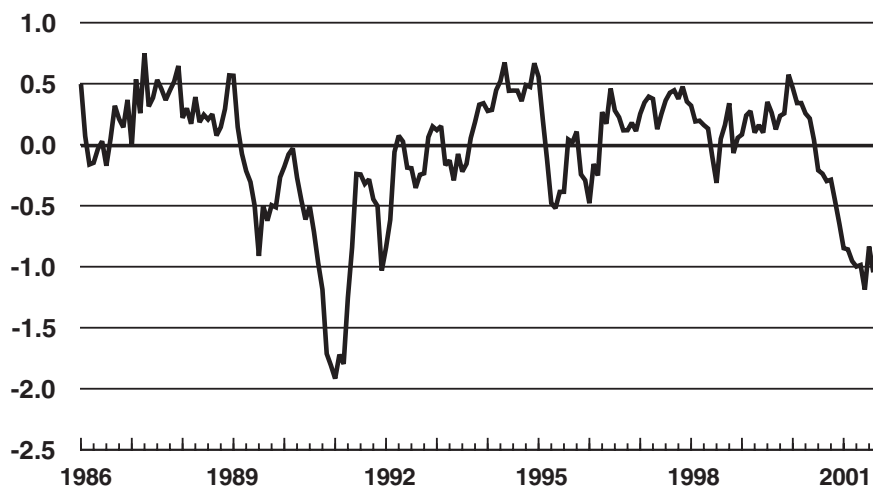
# Chicago Fed National Activity Index

## U.S. Economy Faltered in August

The Chicago Fed National Activity Index (CFNAI) decreased to  $-1.37$  in August from an upward revised value of  $-0.25$  in July. Contributing to the sharp decline in the August index were large drops in industrial production and employment. (The index released today is for the month of August and does not reflect economic disruptions that have occurred since September 11.) The three-month moving average index, CFNAI-MA3, was  $-1.05$  in August, down from  $-0.83$  in July. August marked the fourteenth consecutive month that the CFNAI-MA3 was below zero, an indication that the national economy has been growing below trend for over a year. Index values below zero also signal reduced inflationary pressures over the next year.

For the most part, the August data underlying the CFNAI reflect deterioration from the firmer tone evident in the July data. Industrial production fell more sharply in August, and capacity utilization fell to its lowest level since July 1983. After edging up in July, nonfarm payroll employment fell by 113,000 jobs, and the unemployment rate increased by 0.4 percentage point to 4.9 percent. Although the National Association of Purchasing Managers' indexes improved and both the production and the new orders components moved above 50, durable goods orders fell in August for a third straight month. On the consumer side, housing starts declined, while real retail sales increased at a slower-than-average rate.

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



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

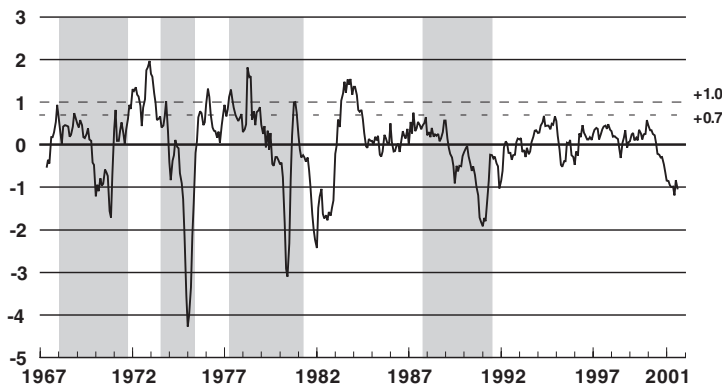
	Aug '01	Jul '01	Jun '01	May '01	Apr '01	Mar '01	Aug '00
<b>CFNAI</b>							
Current	-1.37	-0.25	-1.51	-0.74	-1.31	-0.91	-0.21
Previous	N/A	-0.50	-1.10	-0.85	-1.10	-0.86	-0.13
<b>CFNAI-MA3</b>							
Current	-1.05	-0.83	-1.19	-0.99	-1.00	-0.95	-0.24
Previous	N/A	-0.82	-1.02	-0.94	-0.93	-0.95	-0.20

Current and Previous values reflect index values as of the October 3, 2001, release and September 4, 2001, release, respectively. N/A indicates not applicable.

Overall, 68 of the 85 individual indicators displayed below-average growth in August; and while 27 series improved relative to July, 18 of these still indicated below-average growth. As of October 1, August data for 59 of 85 indicators had been published. For all missing data, estimates were used to construct the index. The Bureau of Economic Analysis recently released new data for real manufacturing and trade shipments/sales, orders, and inventories for April through July. Releases for the 17 series included in the CFNAI had been delayed because of the Census Bureau's conversion of key source data to the North American Industry Classification System (NAICS) basis. Generally these new data were weaker than had been projected and reduced the index for the April to July period.

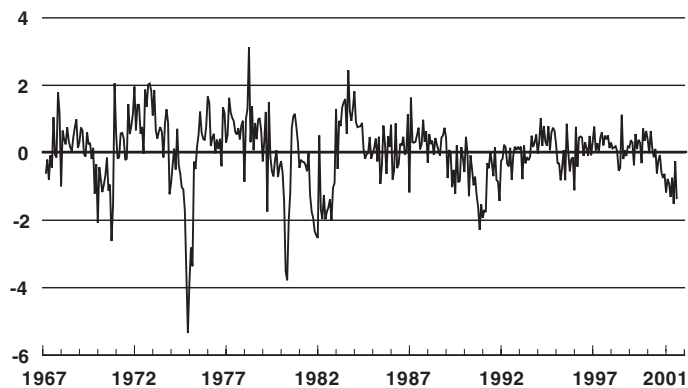
The negative August reading is continuing evidence that national economic growth was substantially below trend. The CFNAI-MA3 has been at or below  $-0.70$  since January 2001. The early warning signs of recession are when the CFNAI-MA3 enters the range from  $-0.7$  to  $-1.0$ . In each of the five recessions during the CFNAI-MA3 sample period (1967–2001), the reading fell below  $-1.50$ . The August CFNAI-MA3 reading of  $-1.05$  continues to be above those previous recessionary levels.

#### CFNAI-MA3 and Inflation Cycles



(Shading represents periods of substantial inflation increases)

#### CFNAI, Monthly Index



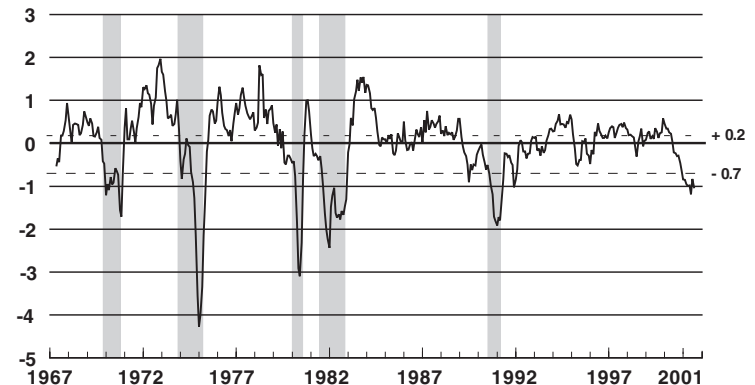
CFNAI historical data and background information are available on the Federal Reserve Bank of Chicago's website at <http://www.chicagofed.org>.

Revisions to the index 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 June and July CFNAI readings are  $-0.41$  lower and  $0.25$  higher, respectively, than previously reported. These revisions are mainly due to the recently released data based on the new NAICS source 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



(Shading indicates official NBER periods of recession)

#### 2001 CFNAI Release Dates

<b>Date of Release</b>	<b>Monthly Data for:</b>
<b>November 5, 2001</b>	<b>September 2001</b>
<b>December 5, 2001</b>	<b>October 2001</b>