

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:
October 3, 2001
10:00 am Eastern Time
9:00 am Central Time

FEDERAL RESERVE BANK
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Chicago Fed National Activity Index

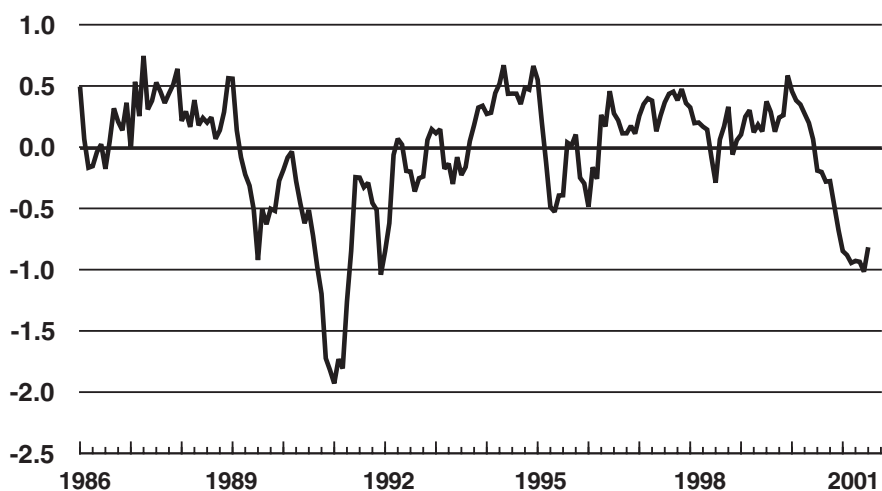
U.S. Economy Better in July, Though Still Weak

The Chicago Fed National Activity Index (CFNAI) increased to -0.50 in July from a downward revised value of -1.10 in June. Smaller reductions in industrial production and manufacturing employment led the way in improving the monthly index from its recent low in June. The three-month moving average index, CFNAI-MA3, was -0.82 in July, showing a slight improvement from the upward revised -1.02 in June. July marked the thirteenth 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 signal reduced inflationary pressures over the next year.

The July data underlying the CFNAI were generally better than the second-quarter data, although they show that the U.S. economy began the third quarter slowly. In the manufacturing sector, the July data were more mixed than the previous months' almost uniformly negative reports. Notably, although the National Association of Purchasing Managers' indexes continued to portray a contracting manufacturing sector, manufacturing industrial production was unchanged in July after falling in June, and manufacturing employment posted a smaller decline. Overall nonfarm payroll employment fell by 42,000 jobs in July, a smaller decline than in June, and the unemployment rate was unchanged. Housing starts and permits remained at high levels, and consumption expenditures rose slightly in July.

Of the five broad categories of data included in the CFNAI, the "personal consumption and housing" category continued to provide the largest positive contribution to the index in July.

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



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

	Jul '01	June '01	May '01	Apr '01	Mar '01	Feb '01	Jul '00
CFNAI							
Current	-0.50	-1.10	-0.85	-1.10	-0.86	-0.82	-0.65
Previous	N/A	-1.02	-0.95	-1.18	-0.85	-0.82	-0.65
CFNAI-MA3							
Current	-0.82	-1.02	-0.94	-0.93	-0.95	-0.88	-0.19
Previous	N/A	-1.05	-0.99	-0.95	-0.96	-0.90	-0.19

Current and Previous values reflect index values as of the September 4, 2001, release and August 2, 2001, release, respectively. N/A indicates not applicable.

Overall, 60 of the 85 individual indicators displayed below-average growth in July; and while 56 series improved relative to June, 38 of these still indicated below-average growth. As of August 30, July data for 58 of 85 indicators had been published. For all missing data series, estimates were used in constructing the index. Furthermore, because the Census Bureau's conversion of key source data to the North American Industry Classification System basis has been delayed, 17 data series used in constructing the index over the April–July period are still being estimated. These data relate to manufacturing and trade shipments/sales, orders, and inventories.

The negative July reading is continuing evidence that national economic growth is substantially below trend. The CFNAI-MA3 has been at or below -0.70 since January 2001. Still, the likelihood that the U.S. economy was in a recession appears to have decreased noticeably from June to July. In the sample period over which the CFNAI is constructed (1967–2001), there were five economic recessions. In each of these recessions, the CFNAI-MA3 fell below -1.50 . The July CFNAI-MA3 reading of -0.82 continues to be above those previous recessionary levels. Relative to these earlier periods of economic weakness, the personal consumption and

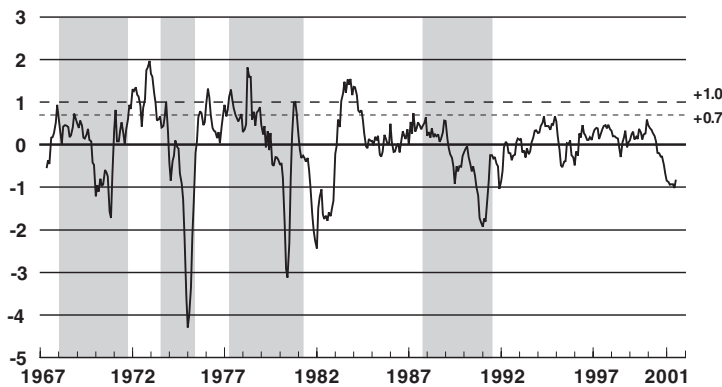
housing component of the index has been stronger during the current slowing.

Revisions to the June 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 revised June CFNAI is 0.08 lower than the initially reported -1.02 , almost entirely due to revisions to previously published data.

Interpreting the CFNAI-MA3

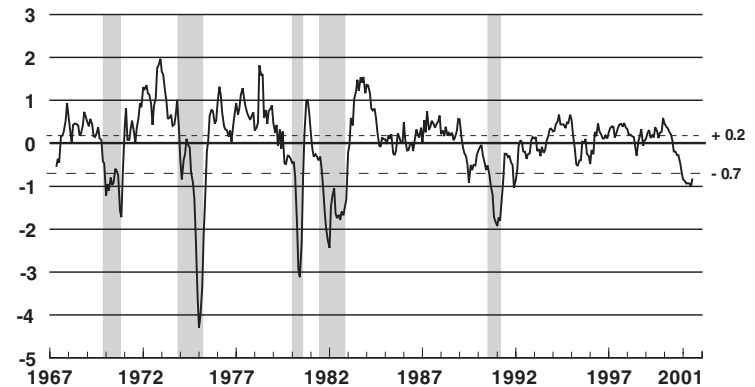
If CFNAI-MA3 < -0.70 following a period of economic expansion...	Increasing likelihood that a recession has begun.
If CFNAI-MA3 $> +0.20$ following a period of economic contraction...	Significant likelihood that a recession has ended.
If CFNAI-MA3 $> +0.70$ more than two years into an economic expansion...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



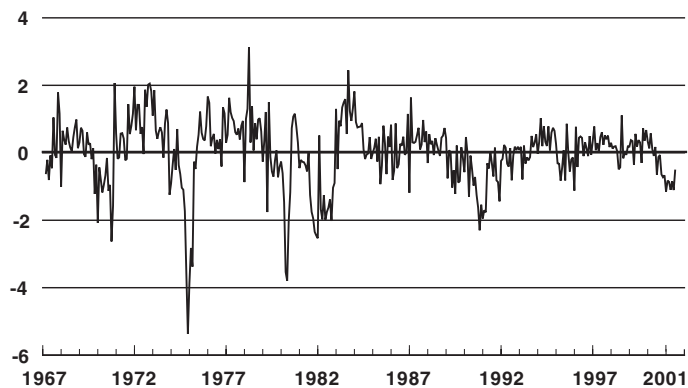
(Shading represents periods of substantial inflation increases)

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:
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>.