

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:
May 31, 2001
10:00 am Eastern Time
9:00 am Central Time

FEDERAL RESERVE BANK
OF CHICAGO

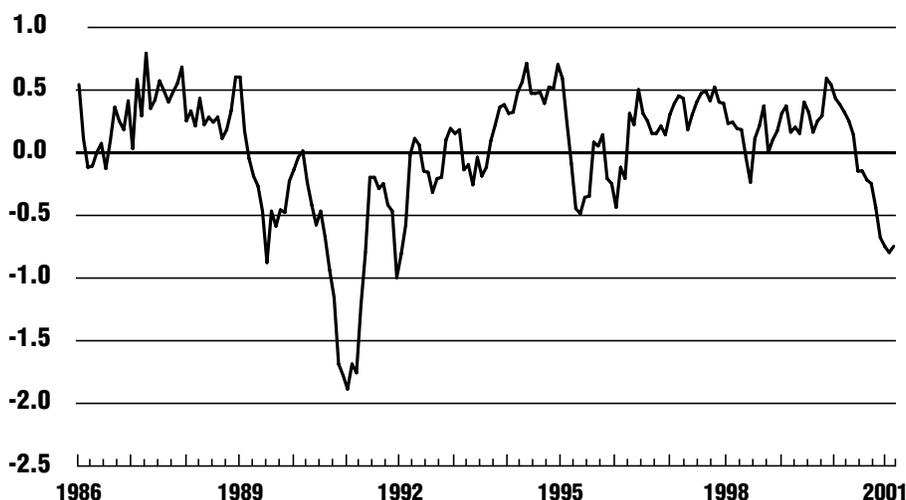
Chicago Fed National Activity Index

Economy Improved Slightly in March

The Chicago Fed National Activity Index (CFNAI) increased to -0.63 in March from a downward revised value of -0.91 in February. The revision to February's index was relatively small, from -0.89 as reported last month. The manufacturing sector continues to be a primary source of weakness in the CFNAI. In addition, negative employment growth outside of manufacturing adversely affected the March reading. The overall tenor of the March manufacturing data, however, was improved relative to February, raising the index somewhat. The three-month moving average index, CFNAI-MA3, was -0.80 in March, an improvement over the downward revised -0.85 value in February. March was the ninth 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 March suggest some improvement in the manufacturing sector. Industrial production growth was positive in March. In addition, the National Association of Purchasing Managers' Index for manufacturing improved, although the PMI continued to depict a contracting manufacturing sector. For the 20 individual indicators that receive the largest weights in the CFNAI, 14 are substantially related to the manufacturing sector; 13 of these 14 indicators showed improvement in March relative to February. Other data releases that contributed negatively to the March CFNAI include the payroll employment and unemployment reports, which also displayed weakness outside of the manufacturing sector. For example, employment growth was either negative or below average in the retail and wholesale trade sector, service-producing

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



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

	Mar '01	Feb '01	Jan '01	Dec '00	Nov '00	Oct '00	Mar '00
CFNAI							
Current	-0.63	-0.91	-0.86	-0.77	-0.77	-0.65	+0.49
Previous	N/A	-0.89	-0.87	-0.68	-0.78	-0.65	+0.49
CFNAI-MA3							
Current	-0.80	-0.85	-0.80	-0.73	-0.49	-0.30	+0.33
Previous	N/A	-0.81	-0.78	-0.70	-0.50	-0.30	+0.33

Current and Previous values reflect index values as of the May 2, 2001, release and April 3, 2001, release, respectively.

sector, and transportation and utilities sector. Overall, of the 85 individual indicators, 55 series showed improvement relative to February, while 51 series displayed below-average growth. As of April 30, March data for 64 of 85 indicators had been published; estimates for the remaining 21 series were used in constructing the March index.

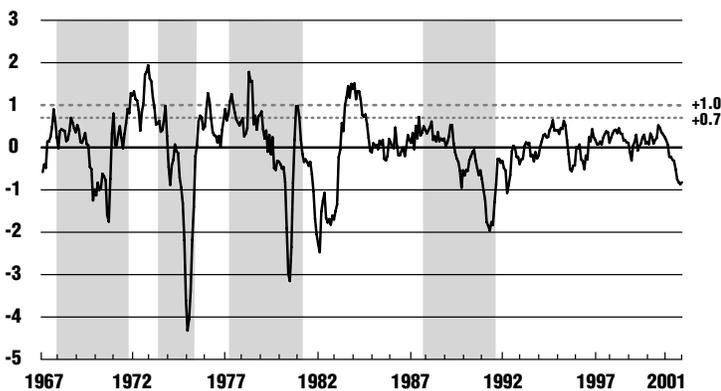
The negative March reading should be interpreted as continuing evidence of national economic growth below trend. The CFNAI-MA3 has been at or below -0.70 since December 2000. The likelihood that the U.S. economy is currently in a recession appears to have decreased slightly since February. In the sample 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 March CFNAI-MA3 reading of -0.80 continues to be above those previous recessionary levels. Historical experience indicates an increasing probability of a recession as the CFNAI-MA3 falls deeper into and below the range of -0.70 to -1.00 . The March index levels continue to indicate that the U.S. economy is most likely not in recession.

Revisions to the February CFNAI can be attributed to two main factors: revisions to previously published data and differences between estimates of previously unavailable data and subsequently published data. Today's revised February CFNAI is 0.02 lower than the number initially reported. Revisions to previously published data contributed $+0.08$ to February's value, while differences between forecasted and now published data contributed -0.10 to this figure. A larger revision for December 2000, from -0.68 to -0.77 , is almost completely due to revision in the December Industrial Production report. This had the effect of lowering the CFNAI-MA3 for December through February.

Interpreting the CFNAI-MA3

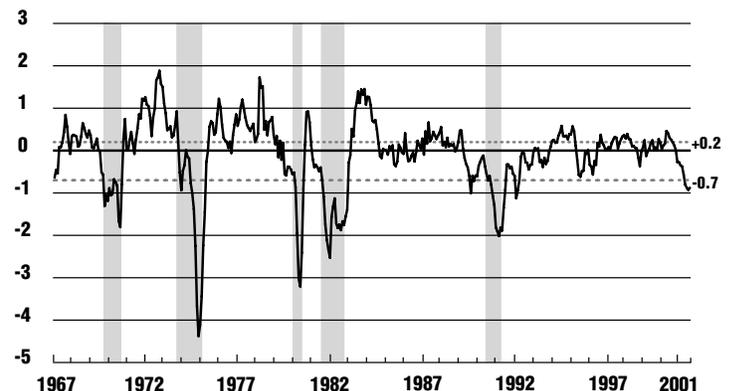
If CFNAI-MA3 < -0.70 following a period of economic expansion...	Increasing likelihood that a recession has begun.
If CFNAI-MA3 $> +0.20$ following a period of economic contraction...	Significant likelihood that a recession has ended.
If CFNAI-MA3 $> +0.70$ more than two years into an economic expansion...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



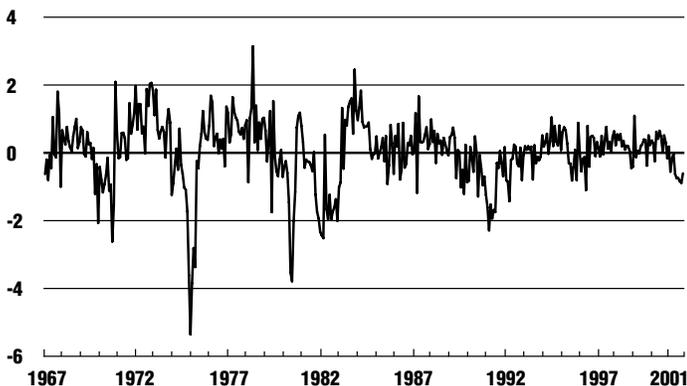
(Shading represents periods of substantial inflation increases)

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:
May 31, 2001	April 2001
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>.