

## News Release

Embargoed for release:  
10:00 am Eastern Time  
9:00 am Central Time  
February 28, 2002

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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:  
March 27, 2002  
10:00 am Eastern Time  
9:00 am Central Time

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OF CHICAGO

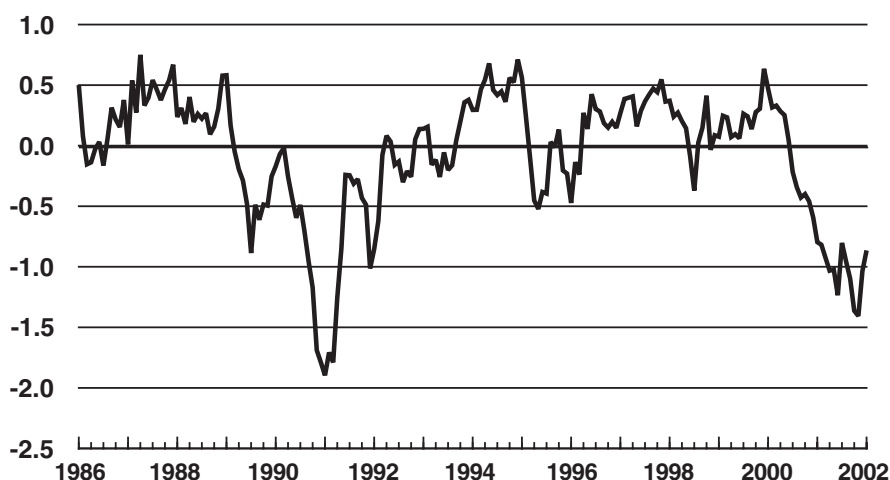
# Chicago Fed National Activity Index

## Economic improvement continues in January

The Chicago Fed National Activity Index (CFNAI) increased again in January, with the monthly index rising to  $-0.51$  from a downward revised value of  $-0.82$  in December. The index has improved substantially since November, and the January index represents the highest monthly reading since July 2001. The three-month moving average index, CFNAI-MA3, also continued to improve in January, rising to  $-0.86$  from December's revised value of  $-1.03$ . The January CFNAI-MA3 was also at its highest level since July 2001. January, however, still marked the nineteenth consecutive month that the CFNAI-MA3 was below zero, an indication of how long the national economy has been growing below trend. Index values below zero signal reduced inflationary pressures over the coming year.

Employment and production fell again in January, but the pace of decline was smaller than in December. In addition, housing, sales, and orders data suggested signs of economic strength. Employment-related indicators made the largest negative contributions to the January CFNAI, repeating the pattern of previous months. Payroll employment fell by 89,000 jobs, representing a deceleration in job loss from December's decline of 130,000. Similarly, January industrial production contracted by 0.1 percent, smaller than December's 0.3 percent decline. The Institute for Supply Management's (ISM) Purchasing Managers' Index improved to 49.9, indicating that the manufacturing sector's pace of contraction was minimal in January. On the positive side in January, the unemployment rate fell to 5.6 percent, the ISM new orders index signaled expansion for the second consecutive month, and housing starts rose

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



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

	Jan '02	Dec '01	Nov '01	Oct '01	Sep '01	Aug '01	Jan '01
<b>CFNAI</b>							
Current	-0.51	-0.82	-1.26	-1.02	-1.94	-1.13	-1.20
Previous	N/A	-0.77	-1.29	-1.10	-1.93	-1.13	-1.21
<b>CFNAI-MA3</b>							
Current	-0.86	-1.03	-1.41	-1.36	-1.10	-0.95	-0.80
Previous	N/A	-1.05	-1.44	-1.39	-1.09	-0.95	-0.79

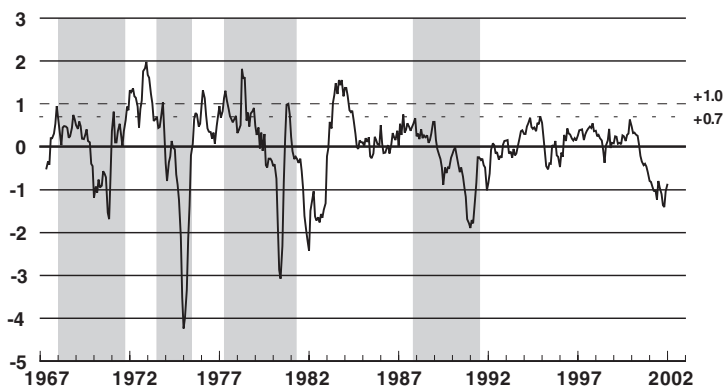
Current and Previous values reflect index values as of the February 28, 2002, release and February 4, 2002, release, respectively. N/A indicates not applicable.

by 6.3 percent. On balance, the two categories of indicators covering personal consumption and housing, and manufacturing and trade sales contributed positively to the CFNAI monthly index.

Overall, 57 of the 85 individual indicators displayed below-average growth in January; and while 56 series improved relative to December, 33 of these still indicated below-average growth. The CFNAI is constructed using data available as of February 26. At that time, January data for 52 of 85 indicators had been published. For all missing data series, estimates were used in constructing the index.

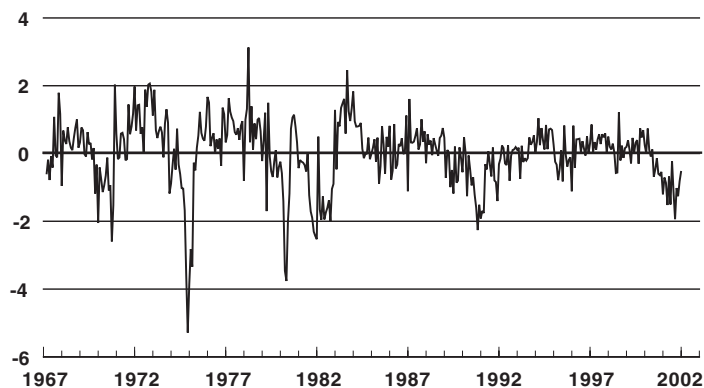
The negative January reading is continuing evidence that national economic growth was substantially below trend and the U.S. economy most likely was still in recession. Following each of the five previous recessions during the CFNAI-MA3 sample period (1967–2002), a reading above +0.20 indicated that the economic expansion had begun. With the exception of the 1990–91 recession, this early signal occurred within a few months of the officially determined National Bureau of Economic Research recession trough.

### CFNAI-MA3 and Inflation Cycles



(Shading represents periods of substantial inflation increases.)

### CFNAI, Monthly Index

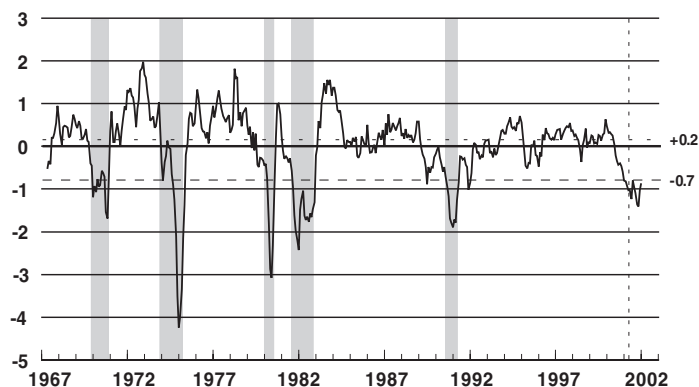


Revisions to the index can be attributed to two main factors: revisions in previously published data and differences between the estimates of previously unavailable data and subsequently published data. The downward revision to the December CFNAI was primarily due to revisions in previously published data for December.

### 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; dashed vertical line indicates the most recent business cycle peak.)

### 2002 CFNAI Release Dates

Date of Release	Monthly Data for:
March 27, 2002	February 2002
April 25, 2002	March 2002
May 30, 2002	April 2002
July 1, 2002	May 2002
July 25, 2002	June 2002
August 29, 2002	July 2002
September 30, 2002	August 2002
October 30, 2002	September 2002
November 21, 2002	October 2002
December 19, 2002	November 2002