

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:
December 19, 2002
10:00 am Eastern Time
9:00 am Central Time

FEDERAL RESERVE BANK
OF CHICAGO

Chicago Fed National Activity Index

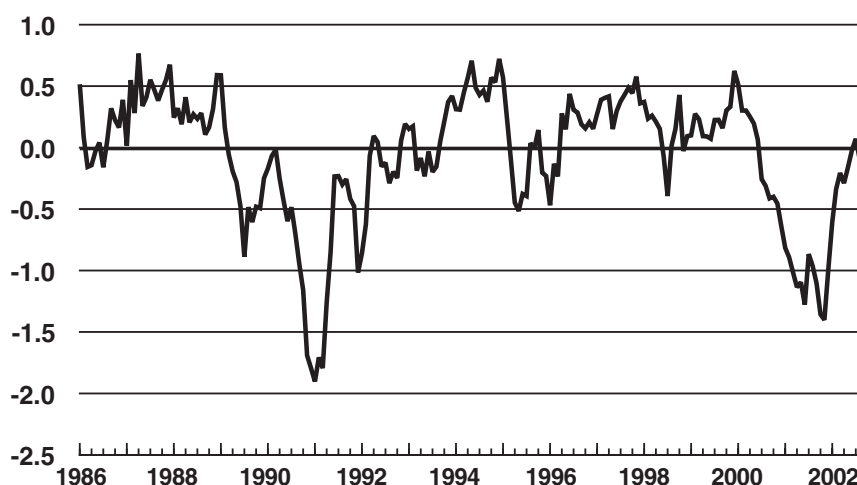
Economic growth slowed further in October

In October, the Chicago Fed National Activity Index (CFNAI) remained below zero for a third month. The monthly index came in at -0.81 in October, a steep decline from -0.39 in September. Weakness in the production- and employment-related data again accounted for the negative value of the monthly index. Persistent weakness moved the three-month moving average index, CFNAI-MA3, down to -0.55 in October from its value of -0.26 in September. Since the most recent business cycle peak in March 2001, the only positive value of the CFNAI-MA3 has been $+0.07$, which occurred in July 2002.

CFNAI-MA3 values below zero are associated with below-trend economic growth. Thus, the CFNAI-MA3 value of -0.55 suggests that the pace of growth in national economic activity early in the fourth quarter of 2002 was well below its historical trend. The moving-average index generally needs to fall below -0.70 , however, before the probability of negative economic growth exceeds 70 percent. In addition, CFNAI-MA3 values below zero signal reduced inflationary pressures over the coming year.

Of the five broad data categories underlying the CFNAI (see sidebar), virtually all of the negative influences came from the production- and employment-related categories. In the production category, industrial production fell 0.8 percent in October and capacity utilization in manufacturing dropped further below its historical average. The Institute for Supply Management's Purchasing Managers' Index fell to 48.5, indicating that the

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



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

	Oct '02	Sep '02	Aug '02	Jul '02	Jun '02	May '02	Oct '01
CFNAI							
Current	-0.81	-0.39	-0.46	+0.07	+0.12	+0.03	-1.12
Previous	N/A	-0.35	-0.45	+0.05	+0.11	+0.03	-1.10
CFNAI-MA3							
Current	-0.55	-0.26	-0.09	+0.07	-0.02	-0.16	-1.36
Previous	N/A	-0.25	-0.09	+0.07	-0.03	-0.16	-1.36

Current and Previous values reflect index values as of the November 20, 2002, release and October 30, 2002, release, respectively. N/A indicates not applicable.

manufacturing sector contracted slightly in October. Overall weakness in the production-related category contributed -0.51 to the total monthly index. Total nonfarm payroll employment fell in October by 5,000 jobs, with the manufacturing sector suffering a larger loss of 49,000 jobs. The unemployment rate rose to 5.7 percent. With broad weakness in labor market data relative to historical averages, the employment-related indicators contributed -0.35 to the total monthly index. The other three categories combined boosted the monthly index by only $+0.05$.

Overall, 61 of the 85 individual indicators displayed below-average growth in October. Only 37 of the 85 series improved relative to September, and 21 of these still indicated below-average growth. The CFNAI is constructed using data available as of November 19. At that time, October data for 43 of 85 indicators had been published. For all missing data series, estimates were used in constructing the index.

The revised estimate of the CFNAI for September at -0.39 is only slightly lower than its initial estimate of -0.35 . Revisions to the index can be attributed to two main factors: revisions in previously published data and differences between the estimates

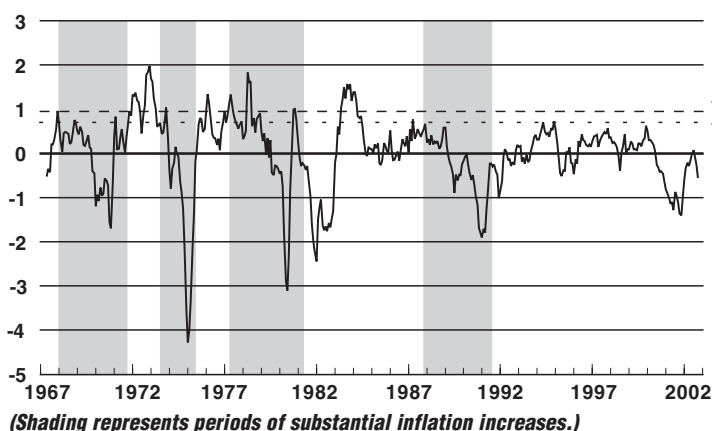
of previously unavailable data and subsequently published data. For September, these two factors were small and contributed equally to the negative revision.

For more information on the CFNAI as an indicator of economic conditions, see the article, "The 2001 recession and the Chicago Fed National Activity Index: Identifying business cycle turning points," in the Third Quarter 2002 issue of *Economic Perspectives*, at www.chicagofed.org/publications/economicperspectives/index.cfm.

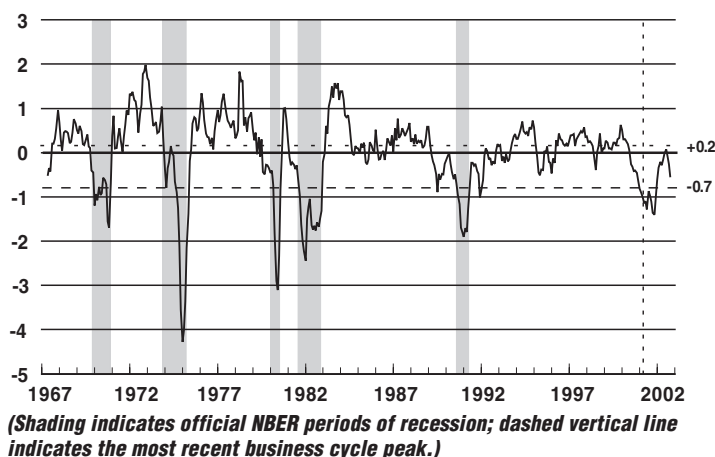
Interpreting the CFNAI-MA3

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.

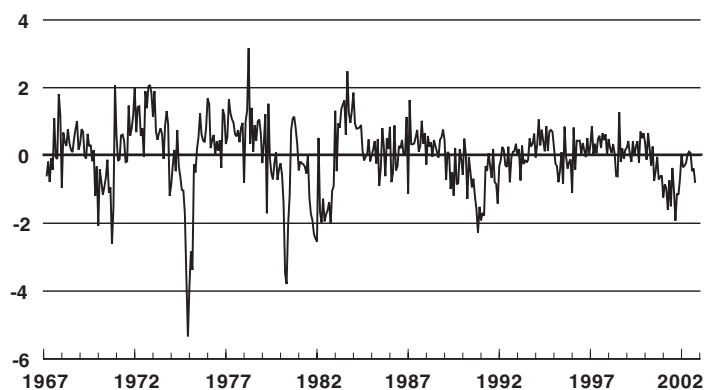
CFNAI-MA3 and Inflation Cycles



CFNAI-MA3 and Business Cycles



CFNAI, Monthly Index



2002–2003 CFNAI Release Dates

Date of Release	Monthly Data for:
December 19, 2002	November 2002
January 30, 2003	December 2002
February 27, 2003	January 2003
March 27, 2003	February 2003
April 30, 2003	March 2003
May 29, 2003	April 2003
June 26, 2003	May 2003
July 30, 2003	June 2003
August 28, 2003	July 2003
September 25, 2003	August 2003
October 30, 2003	September 2003
November 20, 2003	October 2003
December 18, 2003	November 2003

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