

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:
November 21, 2002
10:00 am Eastern Time
9:00 am Central Time

FEDERAL RESERVE BANK
OF CHICAGO

Chicago Fed National Activity Index

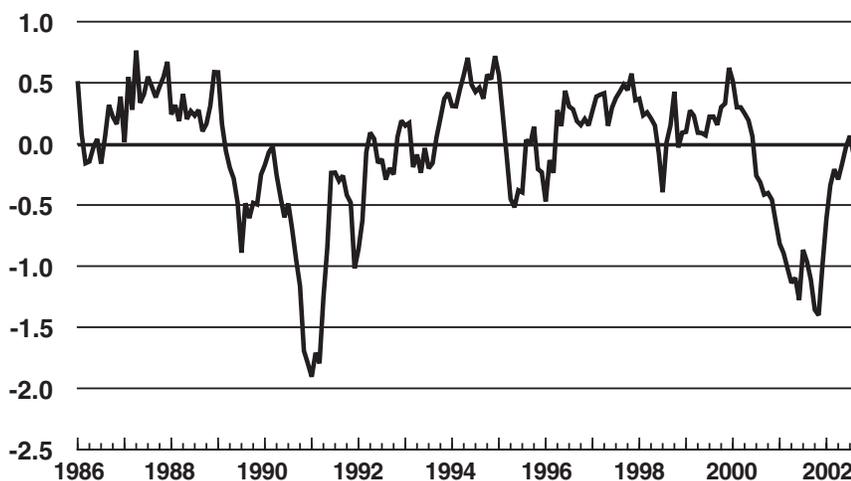
CFNAI indicates economic growth remained slow in September

In September, the Chicago Fed National Activity Index (CFNAI) remained below zero for a second month, largely as a result of weakness in the production- and employment-related data. The monthly index came in at -0.35 in September, up from -0.45 in August. This weakness in the monthly index caused the three-month moving average index, CFNAI-MA3, to fall to -0.25 in September from its upward revised value of -0.09 in August. 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.

While CFNAI-MA3 values below zero are associated with below-trend economic growth, the moving-average index generally needs to fall below -0.70 before it indicates negative economic growth. Thus, the CFNAI-MA3 value of -0.25 in September suggests that national economic activity continued to expand, but below its historical trend. 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), the principal negative influences came from the production- and employment-related categories. In the production category, industrial production fell 0.1 percent in September and capacity utilization in manufacturing continued to be below its historical average. The Institute for Supply Management's Purchasing Managers' Index fell to 49.5, indicating that the manufacturing sector contracted slightly in September. Overall weakness in the production-related category contributed -0.22 to the total monthly index. Total nonfarm payroll employment fell in September by 43,000

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



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

| | Sep '02 | Aug '02 | Jul '02 | Jun '02 | May '02 | Apr '02 | Sep '01 |
|------------------|---------|---------|---------|---------|---------|---------|---------|
| CFNAI | | | | | | | |
| Current | -0.35 | -0.45 | +0.05 | +0.11 | +0.03 | -0.22 | -1.95 |
| Previous | N/A | -0.44 | -0.04 | +0.10 | +0.04 | -0.22 | -1.94 |
| CFNAI-MA3 | | | | | | | |
| Current | -0.25 | -0.09 | +0.07 | -0.03 | -0.16 | -0.29 | -1.11 |
| Previous | N/A | -0.13 | +0.03 | -0.03 | -0.16 | -0.29 | -1.11 |

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

jobs, with the manufacturing sector accounting for 35,000 of the total decline. The unemployment rate did fall to 5.6 percent, but with broad weakness in labor market data relative to historical averages, the employment-related indicators contributed -0.17 to the total monthly index. In other notable data for September, housing starts rose sharply to a 16-year high. This increase helped the consumption/housing-related category to contribute $+0.08$ to the monthly index. The other two CFNAI categories made smaller, mixed contributions; on net, their collective contribution to the monthly CFNAI index was -0.04 .

Overall, 55 of the 85 individual indicators displayed below-average growth in September. While 50 of the 85 series improved relative to August, half of these still indicated below-average growth. The CFNAI is constructed using data available as of October 28. At that time, September data for 52 of 85 indicators had been published. For all missing data series, estimates were used in constructing the index.

The estimate of the CFNAI for August at -0.45 was virtually unchanged from its initial estimate of -0.44 . Revisions to the index can be attributed to two main factors: revisions in previously published

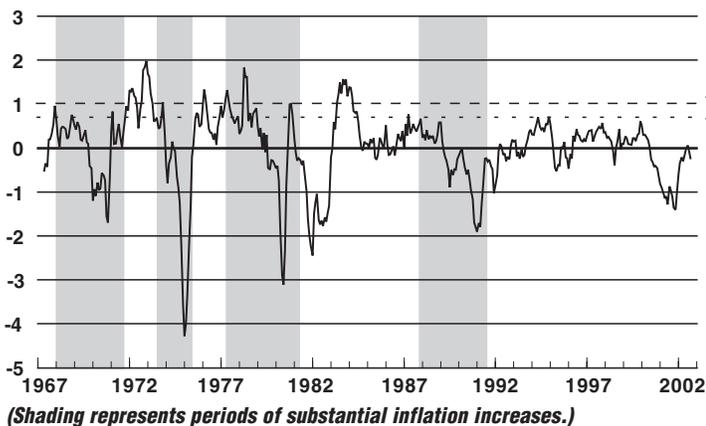
data and differences between the estimates of previously unavailable data and subsequently published data. For August, these two factors were small and essentially offset each other.

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.

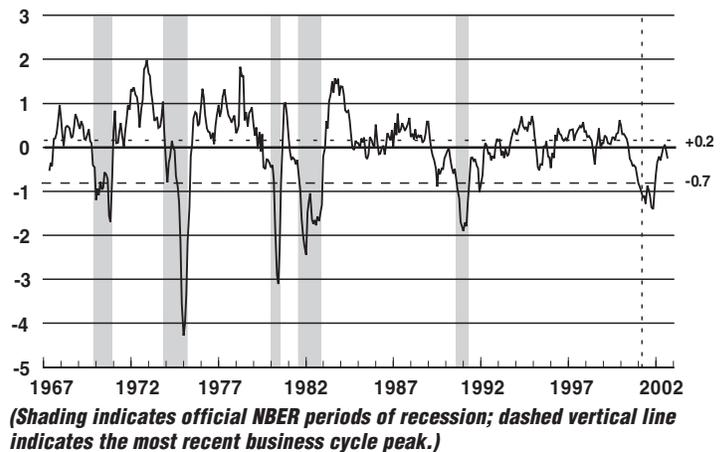
Interpreting the CFNAI-MA3

| | |
|--|---|
| 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. |

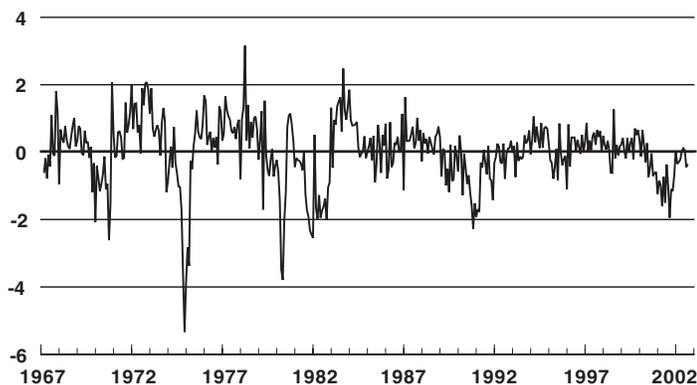
CFNAI-MA3 and Inflation Cycles



CFNAI-MA3 and Business Cycles



CFNAI, Monthly Index



2002 CFNAI Release Dates

| Date of Release | Monthly Data for: |
|-------------------|-------------------|
| November 21, 2002 | October 2002 |
| December 19, 2002 | November 2002 |

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