

News Release

Embargoed for release:
10:00 am Eastern Time
9:00 am Central Time
September 25, 2003

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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 30, 2003
10:00 am Eastern Time
9:00 am Central Time

FEDERAL RESERVE BANK
OF CHICAGO

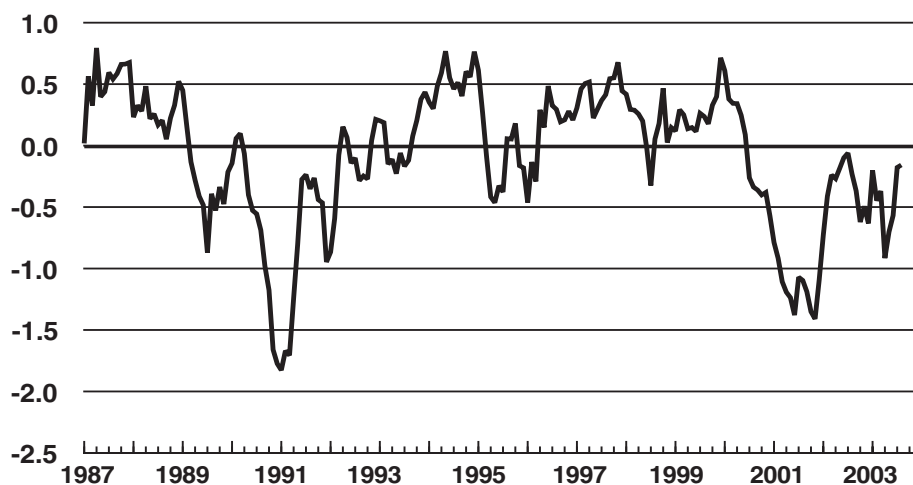
Chicago Fed National Activity Index

CFNAI indicates economic activity slowed in August

The Chicago Fed National Activity Index (CFNAI) was -0.28 in August, a deterioration from the upward revised July reading of $+0.05$. The negative value for the index in August reflected continued weakness in employment-related data and a worsening of the output-related data compared to July; the contributions of other components of the CFNAI netted to a small positive value. The three-month moving average index, CFNAI-MA3, improved slightly, from a revised -0.18 in July to -0.16 in August. CFNAI-MA3 values below zero are associated with below-trend economic growth; accordingly, the CFNAI-MA3 value of -0.16 suggests that growth in national economic activity continued to be below its historical trend in August. With regard to inflation, CFNAI-MA3 values below zero signal reduced inflationary pressures over the coming year.

Among the five broad subcategories comprising the index (see sidebar), the employment-related data accounted for -0.28 , or all, of the -0.28 value of the overall index in August. Nonfarm payroll employment fell 93,000 in August, nearly double the loss in the prior month. Job losses were broad based; of the payroll categories included in the index only the construction sector showed employment gains. The contribution of the output-related components was the main reason for the decline in the monthly index in August compared to July. In July, the output-related components recorded their first positive contribution since January (a revised $+0.18$), but at -0.07 in August this category returned to negative territory. This negative contribution reflected the combination of mixed signals from 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

	Aug '03	Jul '03	Jun '03	May '03	Apr '03	Mar '03	Aug '02
CFNAI							
Current	-0.28	+0.05	-0.24	-0.34	-1.12	-0.64	-0.62
Previous	N/A	-0.20	-0.32	-0.34	-1.10	-0.66	-0.64
CFNAI-MA3							
Current	-0.16	-0.18	-0.57	-0.70	-0.92	-0.37	-0.23
Previous	N/A	-0.29	-0.59	-0.70	-0.91	-0.37	-0.26

Current and Previous values reflect index values as of the September 25, 2003, release and August 28, 2003, release, respectively. N/A indicates not applicable.

output-related series. By moving up from 51.8 in July to 54.7 in August, the Institute for Supply Management's Purchasing Managers' Index indicated faster expansion in manufacturing activity. However, total industrial production (IP) edged up 0.1 percent after a strong 0.7 percent increase in July, while manufacturing IP fell 0.1 percent in August after a 0.4 percent rise in July. Much of the IP slowing in August reflected a drop in motor vehicles and parts production, which in turn was affected by the mid-August power outage. The contributions of each of the other three categories in the CFNAI—personal consumption and housing, manufacturing and trade sales, and inventories and orders—netted to +0.07 for the monthly index.

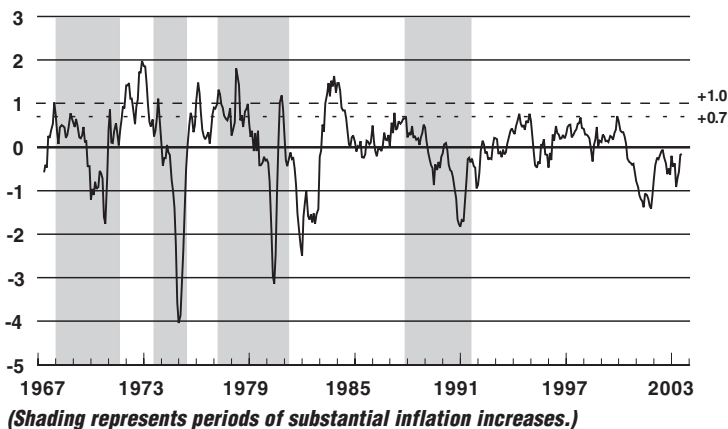
Overall, 53 of the 85 individual indicators displayed below-average growth in August. Forty-nine individual series deteriorated between July and August. Of the 36 series that improved, 14 still indicated below-average growth. The August CFNAI is constructed using data available as of September 23. At that time, August 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 July was revised upward to +0.05 from its initial estimate of -0.20. 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. About two-thirds of the revision to the July number was due to revisions to previously published data. The largest revisions were to the output-related series, in particular the IP data.

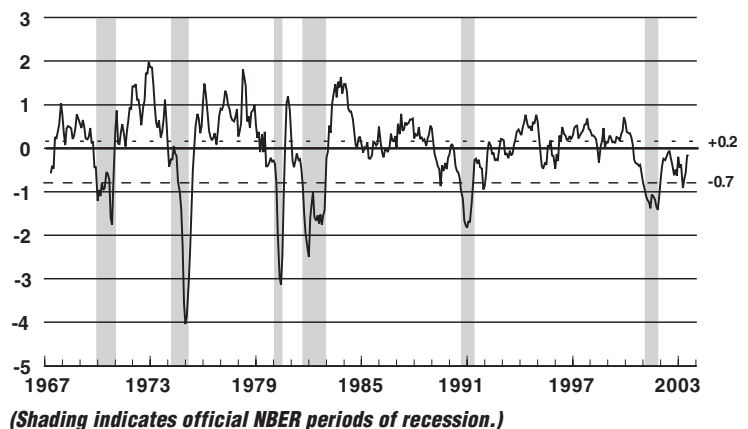
Interpreting the CFNAI-MA3

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.

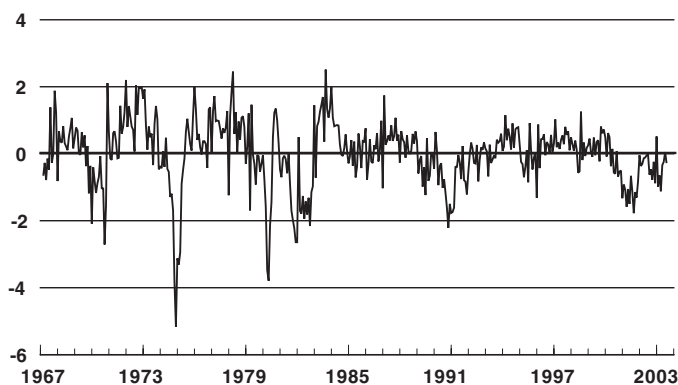
CFNAI-MA3 and Inflation Cycles



CFNAI-MA3 and Business Cycles



CFNAI, Monthly Index



2003 CFNAI Release Dates

Date of Release	Monthly Data for:
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>.