

## News Release

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### What is the National Activity Index?

The index is a weighted average of 85 indicators of national economic activity drawn from four broad categories of data: 1) production and income; 2) employment, unemployment, and hours; 3) personal consumption and housing; and 4) sales, orders, and inventories.

A zero value for the index indicates that the national economy is expanding at its historical trend rate of growth; negative values indicate below-average growth; and positive values indicate above-average growth.

### Why are there three index values?

Each month, we provide a monthly index, its three-month moving average, and a diffusion index. Month-to-month movements can be volatile, so the monthly index's three-month moving average, the CFNAI-MA3, provides a more consistent picture of national economic growth. The CFNAI Diffusion Index captures the degree to which a change in the monthly index is spread out among its 85 indicators, averaged over a three-month period.

### What do the numbers mean?

When the CFNAI-MA3 value moves below  $-0.70$  following a period of economic expansion, there is an increasing likelihood that a recession has begun. Conversely, when the CFNAI-MA3 value moves above  $-0.70$  following a period of economic contraction, there is an increasing likelihood that a recession has ended.

When the CFNAI-MA3 value moves above  $+0.70$  more than two years into an economic expansion, there is an increasing likelihood that a period of sustained increasing inflation has begun.

The next CFNAI will be released:

July 23, 2012

8:30 am Eastern Time

7:30 am Central Time

FEDERAL RESERVE BANK  
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# Chicago Fed National Activity Index

## Index shows slower economic growth in May

Led by declines in production-related indicators, the Chicago Fed National Activity Index (CFNAI) decreased to  $-0.45$  in May from  $+0.08$  in April. Of the four broad categories of indicators that make up the index, three deteriorated from the previous month and two made negative contributions to the index in May.

The index's three-month moving average, CFNAI-MA3, decreased from  $-0.13$  in April to  $-0.34$  in May—its third consecutive reading below zero and its lowest value since June 2011. May's CFNAI-MA3 suggests that growth in national economic activity was below its historical trend. The economic growth reflected in this level of the CFNAI-MA3 suggests subdued inflationary pressure from economic activity over the coming year.

The CFNAI Diffusion Index also moved lower in May, declining to  $-0.20$  from  $+0.06$  in the previous month. This marks the first time the CFNAI Diffusion Index was negative since June 2011. Thirty-two of the 85 individual indicators made positive contributions to the CFNAI in May, while 53 made negative contributions. Forty-seven indicators improved from April to May, while 36 indicators deteriorated and two were unchanged. Of the indicators that improved, nine made negative contributions.

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



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

	May '12	Apr '12	Mar '12	Feb '12	Jan '12	Dec '11	May '11
<b>CFNAI</b>							
Current	-0.45	+0.08	-0.64	+0.19	+0.30	+0.68	-0.25
Previous	N/A	+0.11	-0.44	+0.13	+0.37	+0.64	-0.27
<b>CFNAI-MA3</b>							
Current	-0.34	-0.13	-0.05	+0.39	+0.24	+0.15	-0.19
Previous	N/A	-0.06	+0.02	+0.38	+0.25	+0.15	-0.20
<b>CFNAI Diffusion</b>							
Current	-0.20	+0.06	+0.12	+0.41	+0.21	+0.11	+0.09
Previous	N/A	+0.10	+0.19	+0.43	+0.26	+0.15	+0.09

Current and Previous values reflect index values as of the June 25, 2012, release and May 21, 2012, release, respectively. N/A indicates not applicable.

The contribution from production-related indicators to the CFNAI dropped to  $-0.20$  in May from  $+0.42$  in April. Total industrial production ticked down  $0.1$  percent in May after rising  $1.0$  percent in April, and manufacturing production decreased  $0.4$  percent in May after increasing  $0.7$  percent in the previous month. Likewise, manufacturing capacity utilization declined to  $77.6$  percent from  $78.0$  percent over the same period.

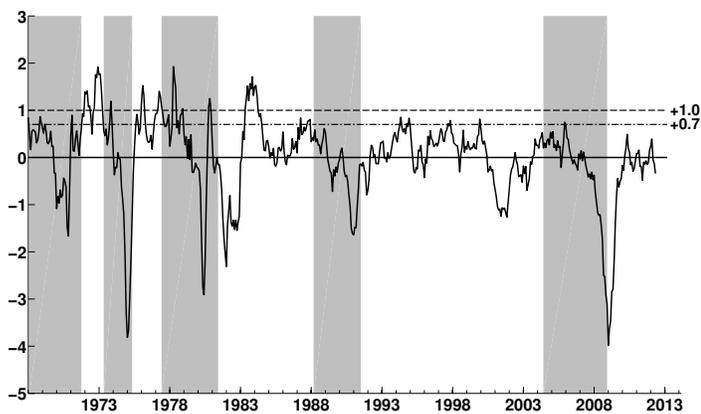
The consumption and housing category also made a negative contribution to the CFNAI in May, edging lower to  $-0.25$  from  $-0.24$  in April. Housing starts decreased to  $708,000$  annualized units in May from  $744,000$  in April, while housing permits rose to  $780,000$  annualized units from  $723,000$  over the same period.

Employment-related indicators made a neutral contribution to the CFNAI in May, up from  $-0.13$  in April. Total payroll employment

increased  $0.1$  percent in May after a similar gain in April. In contrast, civilian employment increased  $0.3$  percent in May after decreasing  $0.1$  percent in the previous month. The sales, orders, and inventories category also made a neutral contribution to the CFNAI in May, down slightly from  $+0.02$  in April.

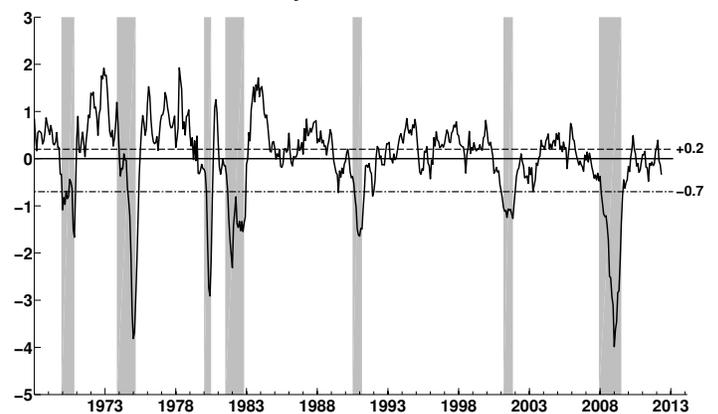
The CFNAI was constructed using data available as of June 21, 2012. At that time, May data for 51 of the 85 indicators had been published. For all missing data, estimates were used in constructing the index. The April monthly index was revised to  $+0.08$  from an initial estimate of  $+0.11$ . Revisions to the monthly 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 revision to the April monthly index was due primarily to the latter.

### CFNAI-MA3 and Inflation Cycles



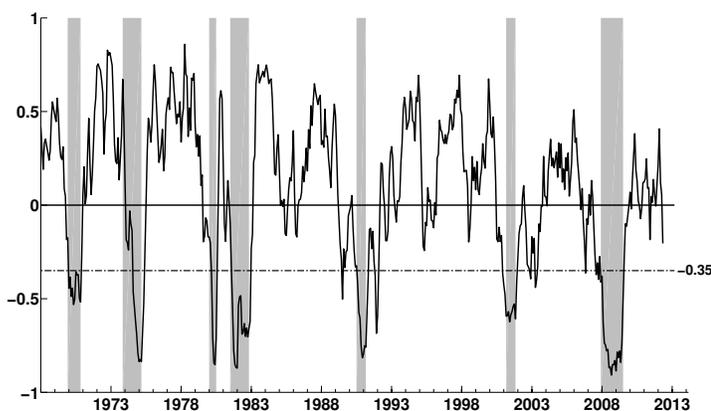
Notes: Shading represents periods of substantial inflation increases. A CFNAI-MA3 value above  $+0.70$  more than two years into an economic expansion indicates an increasing likelihood that a period of sustained increasing inflation has begun. A CFNAI-MA3 value above  $+1.00$  more than two years into an economic expansion indicates a substantial likelihood that a period of sustained increasing inflation has begun.

### CFNAI-MA3 and Business Cycles



Notes: Shading indicates official periods of recession as identified by the National Bureau of Economic Research. A CFNAI-MA3 value below  $-0.70$  following a period of economic expansion indicates an increasing likelihood that a recession has begun. A CFNAI-MA3 value above  $-0.70$  following a period of economic contraction indicates an increasing likelihood that a recession has ended. A CFNAI-MA3 value above  $+0.20$  following a period of economic contraction indicates a significant likelihood that a recession has ended.

### CFNAI Diffusion Index, Three-Month Moving Average



Notes: Shading indicates official periods of recession as identified by the National Bureau of Economic Research. The CFNAI Diffusion Index represents the sum of the absolute values of the weights for the underlying indicators whose contribution to the CFNAI is positive in a given month less the sum of the absolute values of the weights for those indicators whose contribution is negative or neutral in a given month. Periods of economic expansion have historically been associated with values of the three-month moving average of the CFNAI Diffusion Index above  $-0.35$ .

### CFNAI, Monthly Index

