

News You Can Use

An Introduction to Chicago Fed Activity Indexes



The National Financial Conditions Index (NFCI)

Weekly update on U.S. financial conditions at chicagofed.org/nfci

- Weighted average of 105 indicators of financial activity
- Weights capture relative importance to historical fluctuations
- Estimated by mixed frequency dynamic factor analysis
- Broad coverage of the financial system
 - 1 Money markets
 - 2 Debt and Equity markets
 - 3 Traditional and “Shadow” banking systems

Useful in monitoring financial stability and forecasting

- Brave and Butters (2012)
- Brave and Butters (2011)



Interpreting the NFCI and ANFCI

Risk measures get positive weights, *Credit* and *Leverage* negative weights

Leads to the following **NFCI** interpretation:

- Scale is in standard deviations from *average* conditions
- Positive values denote *tighter-than-average* conditions
- Negative values denote *looser-than-average* conditions

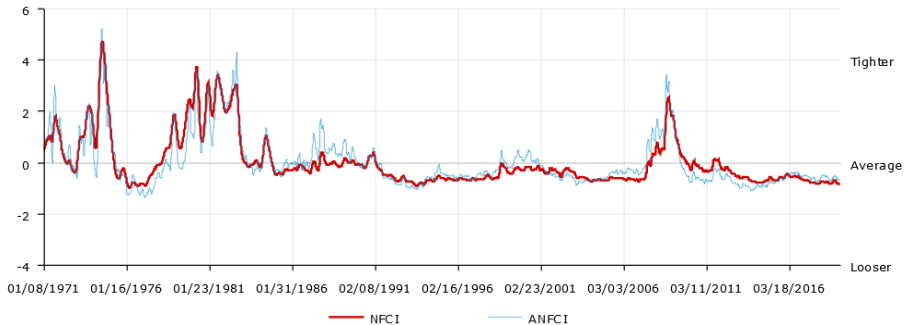
Adjusted for economic conditions (**ANFCI**)

- Conditional on growth in economic activity and inflation
- Zero means financial conditions typical for given growth and inflation
- Positive values denote tighter conditions; negative values, looser

The Chicago Fed's New Adjusted National Financial Conditions Index



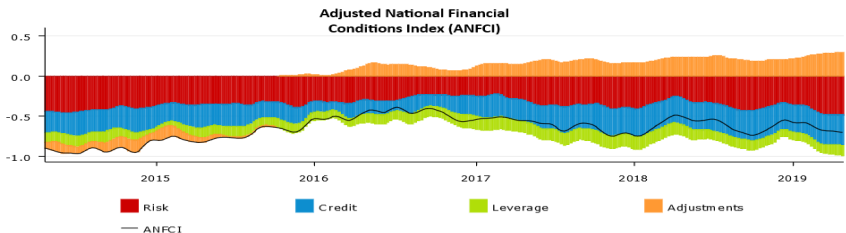
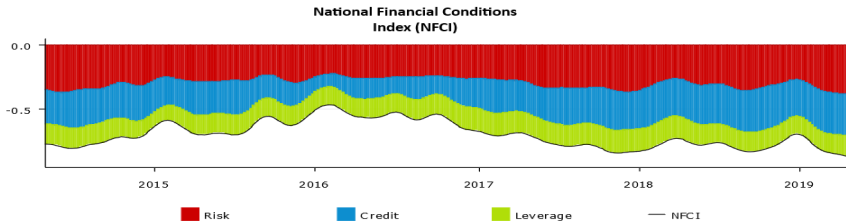
The NFCI and ANFCI



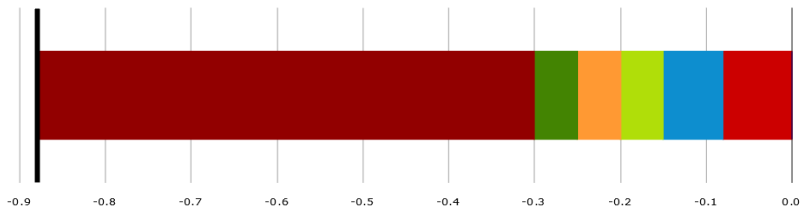
FAQs



Contributions to the NFCI and ANFCI by Category

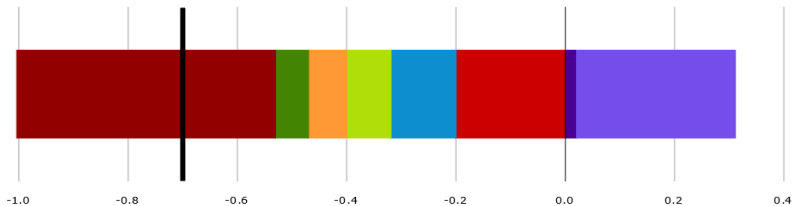


Contributions to the NFCI by Indicator



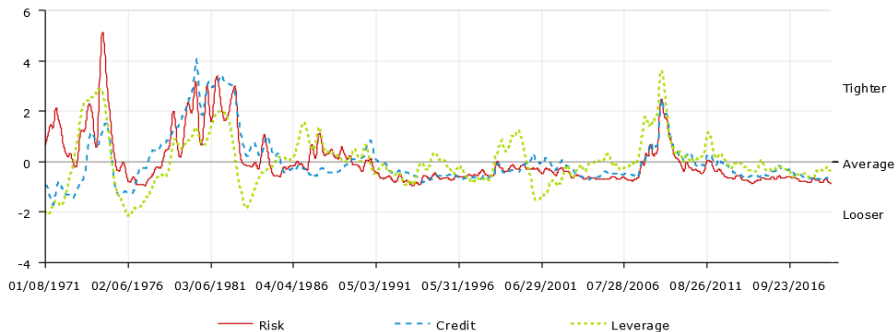
■ Market Investment Grade (IG) 5-yr Senior CDS Index	-0.08	■ BofAML 3-5 yr AAA CMBS OAS spread	-0.07
■ Market High Yield (HY) 5-yr Senior CDS Index	-0.05	■ 30-yr Jumbo/Conforming fixed rate mortgage spread	-0.05
■ COMEX Gold/NYMEX WTI Futures Market Depth	-0.05	■ Other Negative	-0.58
■ All Positive	0.00	■ NFCI	-0.88

Contributions to the ANFCI by Indicator



■ Markit Investment Grade (IG) 5-yr Senior CDS Index	-0.20	■ 3-mo. TED spread (LIBOR-Treasury)	-0.12
■ COMEX Gold/NYMEX WTI Futures Market Depth	-0.08	■ Markit High Yield (HY) 5-yr Senior CDS Index	-0.07
■ 2-yr Interest Rate Swap/Treasury yield spread	-0.06	■ Other Negative	-0.49
■ All Positive	0.02	■ Macroeconomic Adjustments	0.29
■ ANFCI	-0.70		

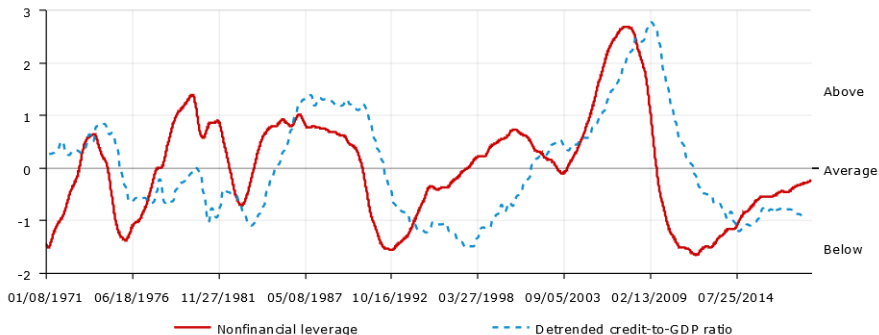
Risk, Credit, and Leverage Subindexes



Risk is a coincident, *Credit* a lagging, and *Leverage* a leading indicator of financial stress

Diagnosing the Financial System

Nonfinancial Leverage Subindex



Nonfinancial leverage is a leading indicator of financial stress and recessions

Detecting Early Signs of Financial Instability

Additional information available at chicagofed.org/research/data/index

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