

News Release

Embargoed for release:
10:00 am Eastern Time
9:00 am Central Time
January 30, 2003

Contact:
James Pieper
Coordinator, Media Relations
312-322-2387

Federal Reserve Bank of Chicago
230 South LaSalle Street
Chicago, IL 60604

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:
February 27, 2003
10:00 am Eastern Time
9:00 am Central Time

FEDERAL RESERVE BANK
OF CHICAGO

Chicago Fed National Activity Index

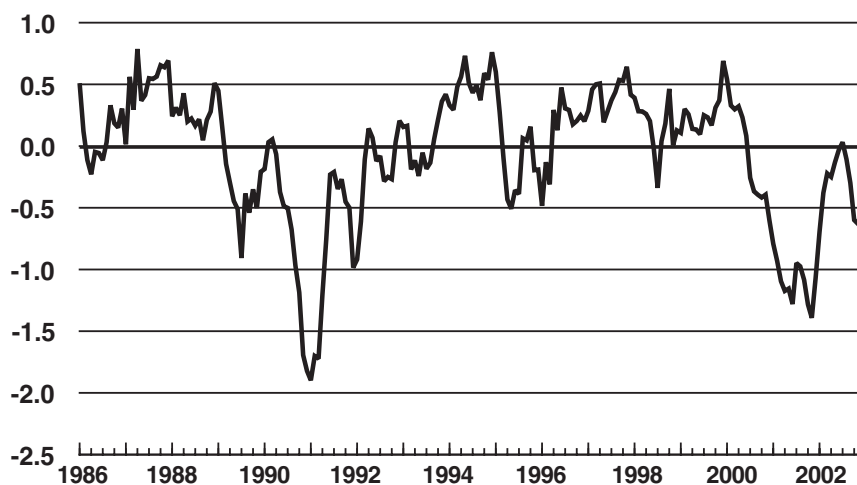
Economic growth continued to be soft in December

In December, the Chicago Fed National Activity Index (CFNAI) remained below zero for a fifth consecutive month. The monthly index came in at -0.49 in December, a small improvement from -0.55 in November. Weak employment- and production-related data made substantial negative contributions to the December index. Persistent weakness in the monthly index left the December three-month moving average index, CFNAI-MA3, essentially unchanged at -0.61 . Since the most recent business cycle peak in March 2001, the only positive value of the CFNAI-MA3 has been $+0.03$, which occurred in July 2002.

CFNAI-MA3 values below zero are associated with below-trend economic growth. The CFNAI-MA3 value of -0.61 suggests that national economic activity continued to expand in December, but the pace was well below its historical trend. The moving-average index generally needs to fall below -0.70 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), most of the negative influences in December came from the employment- and production-related categories. Total nonfarm payroll employment fell in December by 101,000 jobs, and the manufacturing sector lost 65,000 jobs. The unemployment rate was unchanged at 6.0 percent. With broad weakness in labor market data relative to historical averages, the employment-related indicators contributed -0.35 to the total monthly index level of -0.49 . Although large, it represented an

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



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

	Dec '02	Nov '02	Oct '02	Sep '02	Aug '02	Jul '02	Dec '01
CFNAI							
Current	-0.49	-0.55	-0.78	-0.57	-0.45	+0.12	-0.76
Previous	N/A	-0.51	-0.73	-0.48	-0.45	+0.12	-0.76
CFNAI-MA3							
Current	-0.61	-0.63	-0.60	-0.30	-0.11	+0.03	-1.07
Previous	N/A	-0.57	-0.56	-0.27	-0.11	+0.03	-1.07

Current and Previous values reflect index values as of the January 30, 2003, release and December 19, 2002, release, respectively. N/A indicates not applicable.

improvement from November's contribution of -0.48 . In the production category, industrial production fell 0.2 percent in December, while capacity utilization in manufacturing edged down to 73.6 percent, well below its historical average. In contrast, the Institute for Supply Management's Purchasing Managers' Index rose to 54.7, consistent with the manufacturing sector expanding in December by this measure. In total, however, the production-related category reduced the monthly CFNAI by -0.22 in December. The other three categories combined accounted for an increase of $+0.08$ in monthly index.

Overall, 63 of the 85 individual indicators displayed below-average growth in December. Only 42 of the 85 series improved relative to November, and 24 of these still indicated below-average growth. The CFNAI is constructed using data available as of January 28. At that time, December data for 52 of 85 indicators had been published. For all missing data series, estimates were used in constructing the index.

At -0.55 , the revised estimate of the CFNAI for November was slightly lower than its initial estimate of -0.51 . Revisions to the index can be attributed to two main factors: revisions in previously

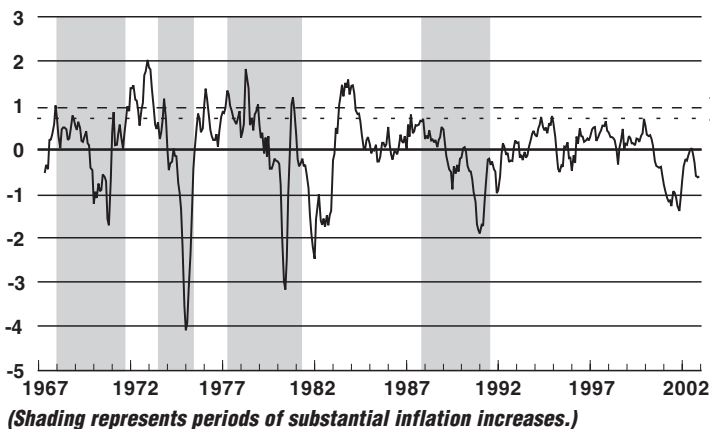
published data and differences between the estimates of previously unavailable data and subsequently published data. For November, downward revisions to previously published data outweighed positive contributions from errors in the estimation of yet-to-be published data.

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.

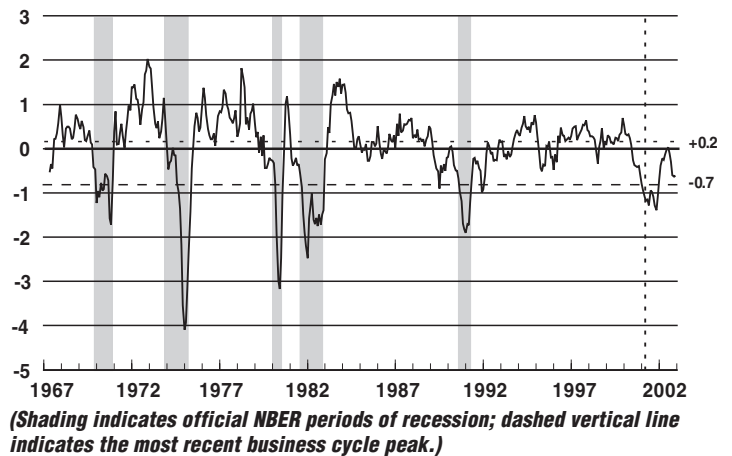
Interpreting the CFNAI-MA3

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.

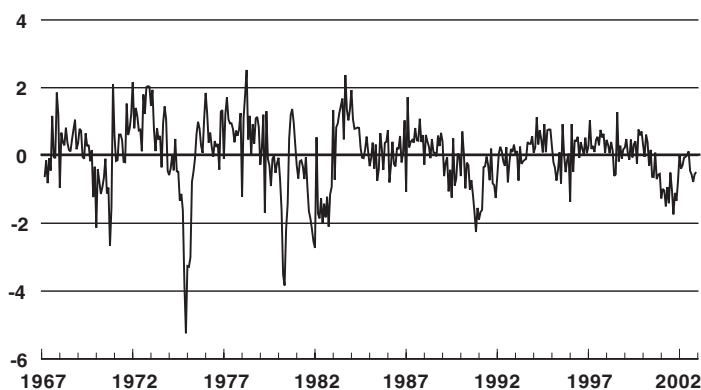
CFNAI-MA3 and Inflation Cycles



CFNAI-MA3 and Business Cycles



CFNAI, Monthly Index



2003 CFNAI Release Dates

Date of Release	Monthly Data for:
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>.