

News Release

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9:00 am Central Time
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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:
July 25, 2002
10:00 am Eastern Time
9:00 am Central Time

FEDERAL RESERVE BANK
OF CHICAGO

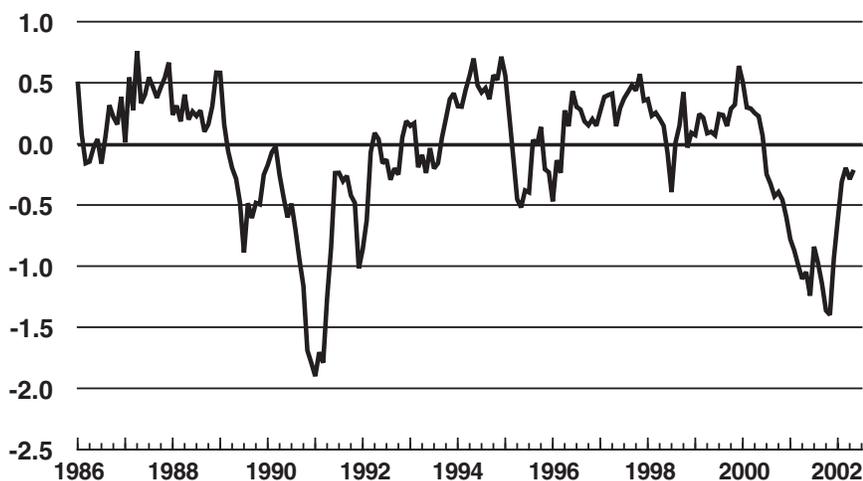
Chicago Fed National Activity Index

CFNAI increases in May, but still negative

In May, the Chicago Fed National Activity Index (CFNAI) increased to -0.07 from a downward revised value of -0.28 in April. The index has been negative in 22 of the 23 months since June 2000; the exception was a zero value in January 2002. The three-month moving average index, CFNAI-MA3, also improved in May, rising to -0.21 from April's downward revised value of -0.29 . These negative CFNAI-MA3 values indicate that the national economy is currently growing below trend, and that the economic expansion continues to be slower than has typically been the case following a recession. In addition, index values below zero signal reduced inflationary pressures over the coming year.

In addition to the May CFNAI rebounding toward zero, the amount of variation across the five broad categories of data (see sidebar) is relatively small. As was the case in April, the employment-related indicators made the largest negative contribution to the CFNAI in May. Each of the 14 payroll employment series in the CFNAI contributed negatively to the May index, either by falling or by rising less than its historical average. For example, total payroll employment rose in May by 41,000 jobs, a larger increase than in April but still smaller than the historical average. As a result, total payroll employment contributed negatively to the CFNAI in May, albeit less so than in April. Together, all employment-related data series accounted for -0.10 of the May CFNAI value of -0.07 . This represents an improvement over April's employment-related contribution of -0.28 . The other four categories made smaller contributions individually to the May monthly index than the employment-related indicators. Within the production

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



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

	May '02	Apr '02	Mar '02	Feb '02	Jan '02	Dec '01	May '01
CFNAI							
Current	-0.07	-0.28	-0.29	-0.30	0.00	-0.63	-0.70
Previous	N/A	-0.22	-0.31	-0.19	-0.06	-0.59	-0.68
CFNAI-MA3							
Current	-0.21	-0.29	-0.20	-0.31	-0.62	-0.94	-1.05
Previous	N/A	-0.24	-0.19	-0.28	-0.64	-0.95	-1.01

Current and Previous values reflect index values as of the July 1, 2002, release and May 30, 2002, release, respectively. N/A indicates not applicable.

and income category, manufacturing industrial production increased 0.2 percent in May after rising 0.2 percent in April and 0.5 percent in March. The Institute for Supply Management's Purchasing Managers' Index increased to 55.7 in May. The largest positive contributions in May continued to be from the personal consumption and housing category. Notably, housing starts rose 11.6 percent, and housing permits were up by 2.6 percent.

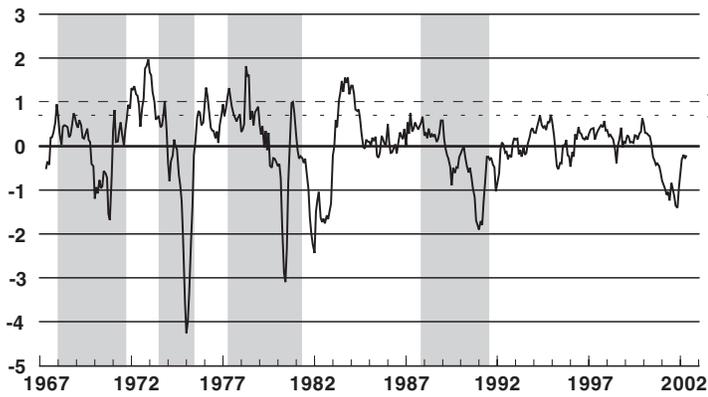
Taken as a whole, the moderately negative CFNAI-MA3 of -0.21 continues to reflect the current slow recovery from recession and the mixture of positive and negative news contained in recent monthly data. Overall, 52 of the 85 individual indicators displayed below-average growth in May; and while 49 series improved relative to April, 27 of these still indicated below-average growth. The CFNAI is constructed using data available as of June 27. At that time, May data for 53 of 85 indicators had been published. For all missing data series, estimates were used in constructing the index.

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. The April CFNAI was revised downward from -0.22 to -0.29. This downward revision was due principally to revisions in previously published data for April.

Interpreting the CFNAI-MA3

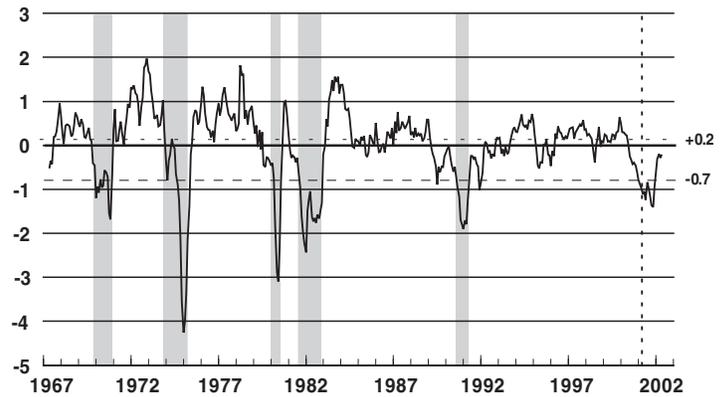
If CFNAI-MA3 < -0.70 following a period of economic expansion...	Increasing likelihood that a recession has begun.
If CFNAI-MA3 > +0.20 following a period of economic contraction...	Significant likelihood that a recession has ended.
If CFNAI-MA3 > +0.70 more than two years into an economic expansion...	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



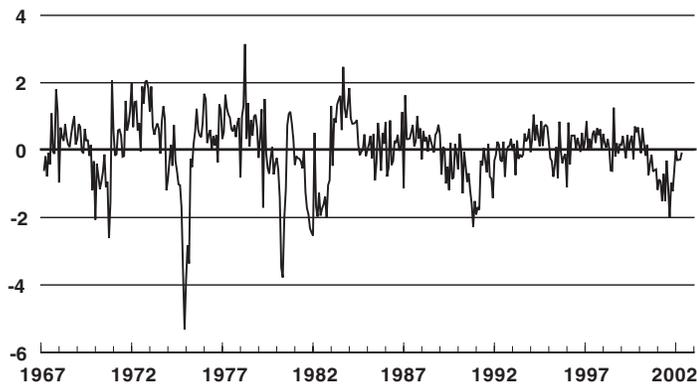
(Shading represents periods of substantial inflation increases.)

CFNAI-MA3 and Business Cycles



(Shading indicates official NBER periods of recession; dashed vertical line indicates the most recent business cycle peak.)

CFNAI, Monthly Index



2002 CFNAI Release Dates

Date of Release	Monthly Data for:
July 25, 2002	June 2002
August 29, 2002	July 2002
September 30, 2002	August 2002
October 30, 2002	September 2002
November 21, 2002	October 2002
December 19, 2002	November 2002