

News Release

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

FEDERAL RESERVE BANK
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Chicago Fed National Activity Index

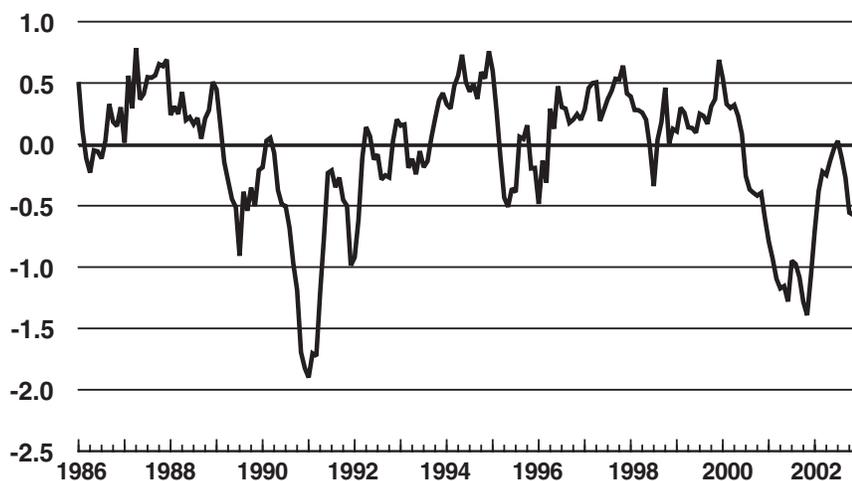
Economic growth remains soft in November

In November, the Chicago Fed National Activity Index (CFNAI) remained below zero for a fourth consecutive month. The monthly index came in at -0.51 in November, an improvement from -0.73 in October. Weak employment-related data made a substantial negative contribution to the November index. Persistent weakness in the monthly index left the November three-month moving average index, CFNAI-MA3, essentially unchanged at -0.57 . 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 -0.57 suggests that national economic activity continued to expand in November, but at a pace 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 influence in November came from the employment-related category. Total nonfarm payroll employment fell in November by 40,000, and the manufacturing sector lost 45,000 jobs. The unemployment rate rose to 6.0 percent. With broad weakness in labor market data relative to historical averages, the employment-related indicators contributed -0.43 to 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

	Nov '02	Oct '02	Sep '02	Aug '02	Jul '02	Jun '02	Nov '01
CFNAI							
Current	-0.51	-0.73	-0.48	-0.45	+0.12	0.00	-1.34
Previous	N/A	-0.81	-0.39	-0.46	+0.07	+0.12	-1.16
CFNAI-MA3							
Current	-0.57	-0.56	-0.27	-0.11	+0.03	-0.03	-1.39
Previous	N/A	-0.55	-0.26	-0.09	+0.07	-0.02	-1.40

Current and Previous values reflect index values as of the December 19, 2002, release and November 20, 2002, release, respectively.
N/A indicates not applicable.

total monthly index level of -0.51 . In the production category, industrial production rose 0.1 percent in November, while capacity utilization in manufacturing was unchanged at a level well below its historical average. The Institute for Supply Management's Purchasing Managers' Index rose to 49.2, but with the index below 50, the manufacturing sector contracted slightly in November by this measure. In total, the production-related category improved markedly: In October, it reduced the CFNAI by -0.45 ; in November, it made a small negative contribution of -0.05 . The other three categories combined accounted for -0.03 of the monthly index.

Overall, 61 of the 85 individual indicators displayed below-average growth in November. Only 42 of the 85 series improved relative to October, and 27 of these still indicated below-average growth. The CFNAI is constructed using data available as of December 17. At that time, November data for 47 of 85 indicators had been published. For all missing data series, estimates were used in constructing the index.

The estimate of the CFNAI for October, at -0.73 , was slightly higher than its initial estimate of -0.81 . Revisions to the index

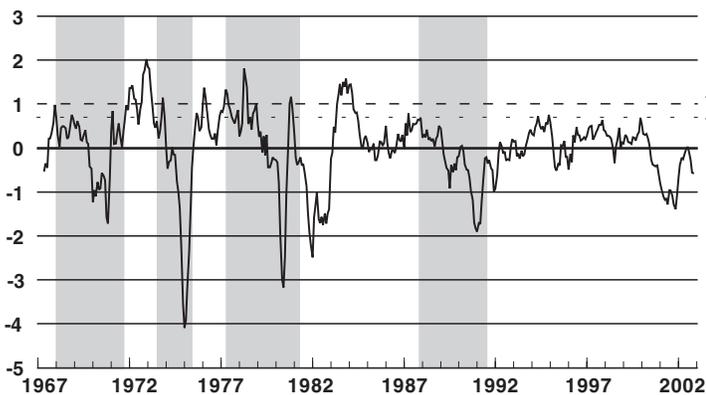
can be attributed to two main factors: revisions in previously published data and differences between the estimates of previously unavailable data and subsequently published data. For October, upward revisions to previously published data outweighed negative contributions from estimation errors in yet-to-be 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

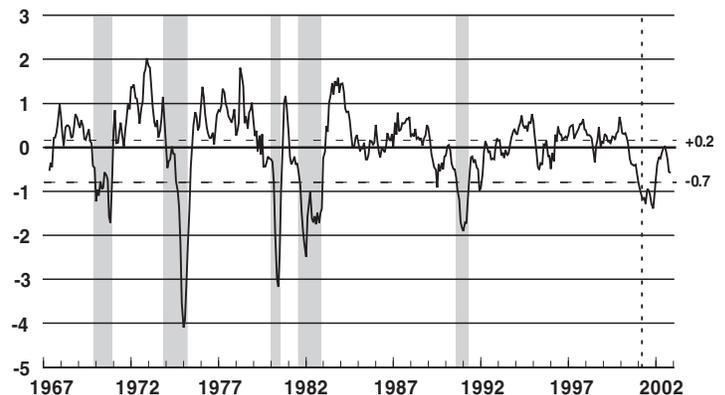
If CFNAI-MA3 < -0.70 following a period of economic expansion...	Increasing likelihood that a recession has begun.
If CFNAI-MA3 $> +0.20$ following a period of economic contraction...	Significant likelihood that a recession has ended.
If CFNAI-MA3 $> +0.70$ more than two years into an economic expansion...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



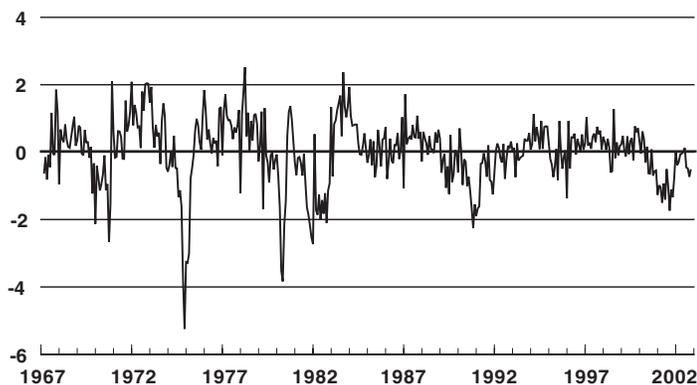
(Shading represents periods of substantial inflation increases.)

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



2002–2003 CFNAI Release Dates

Date of Release	Monthly Data for:
January 30, 2003	December 2002
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>.