

## News Release

Embargoed for release:  
10:00 am Eastern Time  
9:00 am Central Time  
March 27, 2003

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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:  
April 30, 2003  
10:00 am Eastern Time  
9:00 am Central Time

FEDERAL RESERVE BANK  
OF CHICAGO

# Chicago Fed National Activity Index

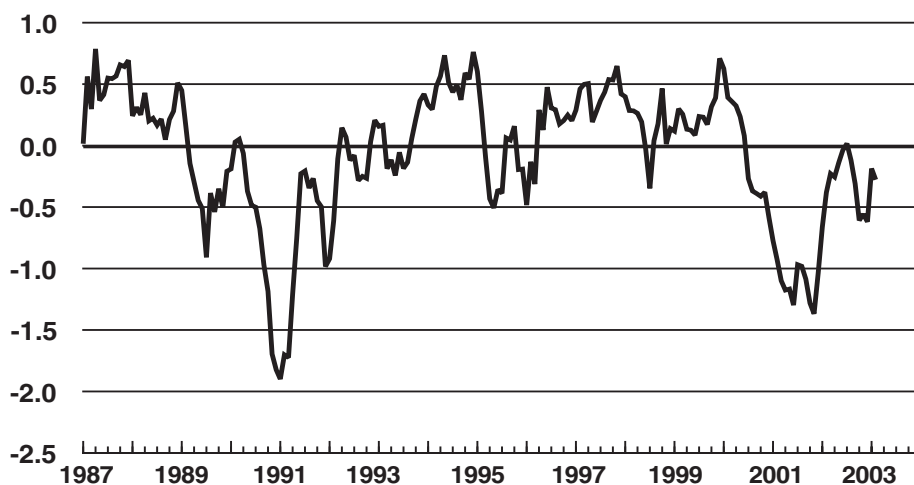
## Economic growth slows in February

In February, the Chicago Fed National Activity Index (CFNAI) fell below zero again after briefly turning positive in January. The monthly index came in at  $-0.62$  in February, following January's upward revised reading of  $+0.53$ . The February index marked the sixth below-zero reading in seven months. The main factor driving the decline was weakness in the employment-related data category, which made its largest negative contribution to the index since the fall of 2001. The three-month moving average index, CFNAI-MA3, fell to  $-0.28$  from  $-0.19$  in January, with the positive monthly reading for January tempering February's negative one. Since the most recent business cycle peak in March 2001, the only positive value of the CFNAI-MA3 has been  $+0.02$ , which occurred in July 2002.

CFNAI-MA3 values below zero are associated with below-trend economic growth. The CFNAI-MA3 value of  $-0.28$  suggests that national economic activity continued to expand in February, but the pace was 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), the largest negative influence in February came from the employment-related category. Total nonfarm payroll employment fell in February by 308,000 jobs, and the manufacturing sector lost 53,000 jobs. The unemployment rate rose to 5.8 percent. With broad weakness in labor market data

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



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

	Feb '03	Jan '03	Dec '02	Nov '02	Oct '02	Sep '02	Feb '02
<b>CFNAI</b>							
Current	-0.62	+0.53	-0.74	-0.35	-0.77	-0.55	-0.44
Previous	N/A	+0.38	-0.62	-0.32	-0.82	-0.56	-0.44
<b>CFNAI-MA3</b>							
Current	-0.28	-0.19	-0.62	-0.56	-0.61	-0.31	-0.38
Previous	N/A	-0.19	-0.59	-0.57	-0.63	-0.31	-0.38

Current and Previous values reflect index values as of the March 27, 2003, release and February 27, 2003, release, respectively. N/A indicates not applicable.

relative to historical averages, the employment-related indicators contributed  $-0.49$  to the total monthly index level of  $-0.62$ . In the production category, total industrial production rose 0.1 percent in February. However, further weakness in manufacturing was evident from the 0.1 percent fall in manufacturing industrial production and a decline in manufacturing capacity utilization to 73.4 percent, well below its historical average. The Institute for Supply Management's Purchasing Managers' Index fell to 50.5, depicting only a slight expansion in the manufacturing sector in February. In total, the production-related category reduced the monthly CFNAI by  $-0.11$  in February. The other three categories combined accounted for a decrease of 0.02 in the monthly index.

Overall, 58 of the 85 individual indicators displayed below-average growth in February. Relative to January, 57 of the 85 series showed deterioration, with 46 indicating below-average growth. The CFNAI is constructed using data available as of March 25. At that time, February data for 52 of 85 indicators had been published. For all missing data series, estimates were used in constructing the index.

At  $+0.53$ , the revised estimate of the CFNAI for January was higher than its initial estimate of  $+0.38$ . Revisions to the index can be

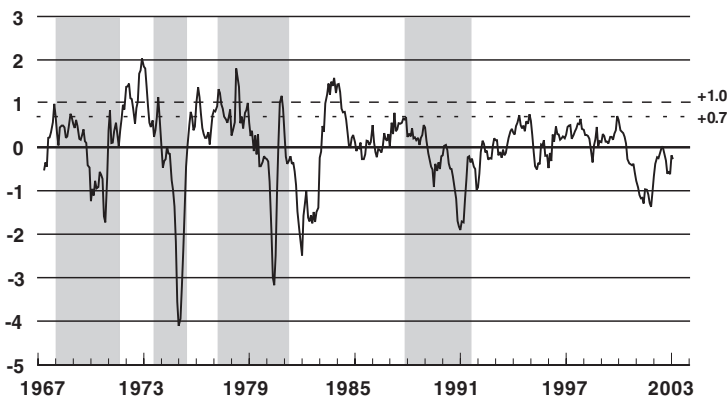
attributed to two main factors: revisions in previously published data and differences between the estimates of previously unavailable data and subsequently published data. For January, both factors contributed about equally to the upward revision.

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](http://www.chicagofed.org/publications/economicperspectives/index.cfm).

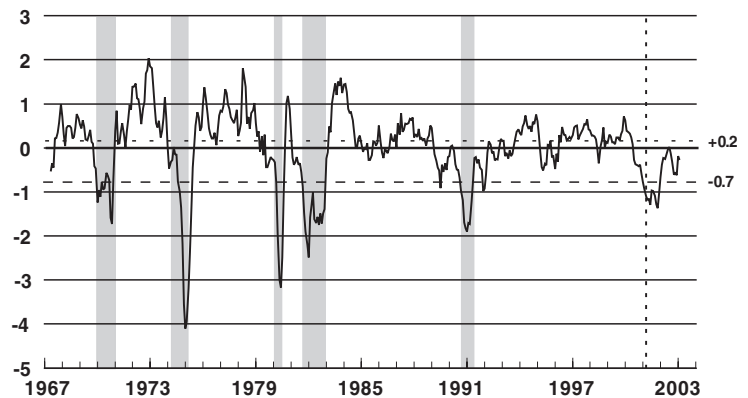
### Interpreting the CFNAI-MA3

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.

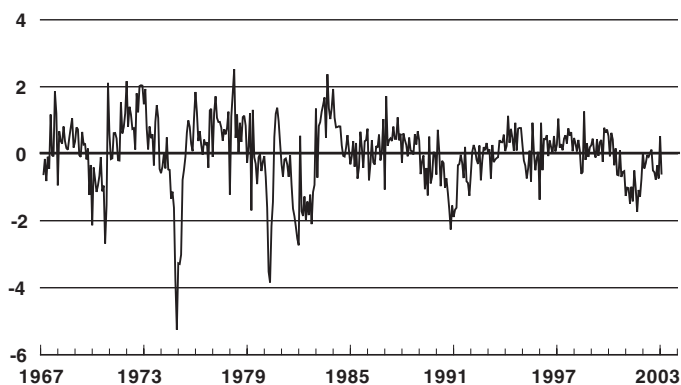
### CFNAI-MA3 and Inflation Cycles



### CFNAI-MA3 and Business Cycles



### CFNAI, Monthly Index



### 2003 CFNAI Release Dates

Date of Release	Monthly Data for:
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>.