

## News Release

Embargoed for release:  
10:00 am Eastern Time  
9:00 am Central Time  
May 29, 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:  
June 26, 2003  
10:00 am Eastern Time  
9:00 am Central Time

FEDERAL RESERVE BANK  
OF CHICAGO

# Chicago Fed National Activity Index

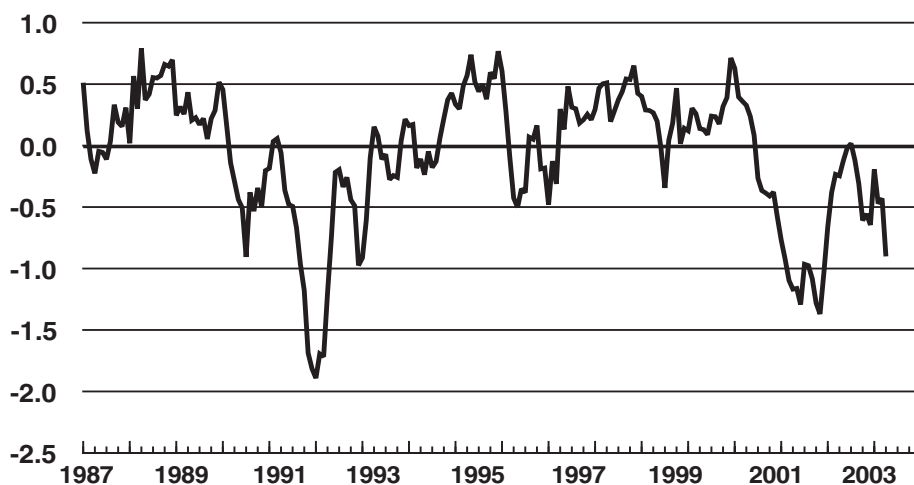
## CFNAI indicates economic activity still weak in April

The Chicago Fed National Activity Index (CFNAI) declined in April, with the monthly index coming in at  $-0.85$ . Weak employment- and output-related data were the main factors behind April's negative reading. Although the index again depicted a weak national economy, the underlying April data were influenced by geopolitical uncertainties that have now subsided. The three-month moving average index, CFNAI-MA3, declined sharply from  $-0.43$  in March to  $-0.90$  in April as the February–April period spans the height of the uncertainties associated with the Iraq conflict. 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  $-0.90$  suggests that growth in national economic activity was well below its historical trend. Generally, when the moving-average index falls below  $-0.70$ , the probability of negative economic growth exceeds 70 percent. The recent period of heightened geopolitical tensions, however, makes such probabilistic statements even more uncertain than usual. As the influence of these events wanes in future months, the usefulness of the probabilistic benchmarks should improve. With regard to inflation, 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 production- and employment-related categories again made the largest negative contributions to the index in April. Within the production-related category, total industrial production fell 0.5 percent in

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



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

	Apr '03	Mar '03	Feb '03	Jan '03	Dec '02	Nov '02	Apr '02
<b>CFNAI</b>							
Current	-0.85	-0.69	-1.17	+0.57	-0.81	-0.34	0.00
Previous	N/A	-0.67	-1.24	+0.62	-0.81	-0.34	-0.01
<b>CFNAI-MA3</b>							
Current	-0.90	-0.43	-0.47	-0.19	-0.65	-0.56	-0.25
Previous	N/A	-0.43	-0.48	-0.18	-0.65	-0.56	-0.25

Current and Previous values reflect index values as of the May 29, 2003, release and April 30, 2003, release, respectively. N/A indicates not applicable.

both April and March. In manufacturing, the April decline was a larger 0.6 percent, with manufacturing capacity utilization falling further to 72.5 percent, well below its historical average. The Institute for Supply Management's Purchasing Managers' Index fell to 45.4 in April, indicating a second month of contraction in the manufacturing sector. In total, the production-related category contributed -0.43 to the monthly CFNAI level of -0.85 in April. In the employment-related category, total nonfarm payroll employment fell in April by 48,000 jobs, with the manufacturing sector losing 95,000 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 -0.37 to the total monthly index. The other three categories combined accounted for -0.05 of the monthly index.

Overall, 57 of the 85 individual indicators displayed below-average growth in April. Relative to March, 31 of the 85 series showed improvement, but 15 of the improved series still indicated below-average growth. The CFNAI is constructed using data available as of May 27. At that time, April data for 52 of 85 indicators had

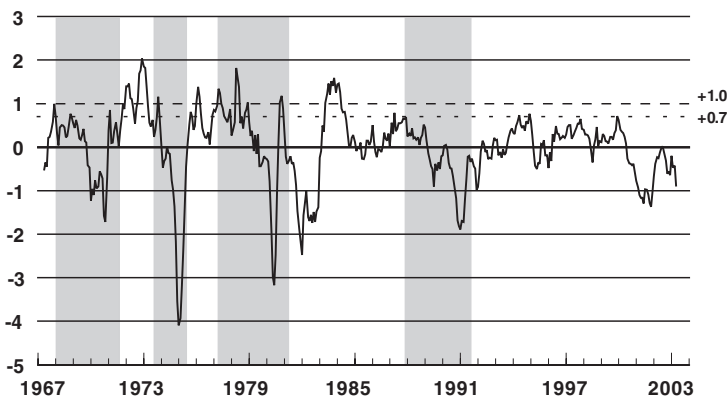
been published. For all missing data series, estimates were used in constructing the index.

At -0.69, the revised estimate of the CFNAI for March was little changed from its initial estimate of -0.67. 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 March, both types of revisions were small.

### Interpreting the CFNAI-MA3

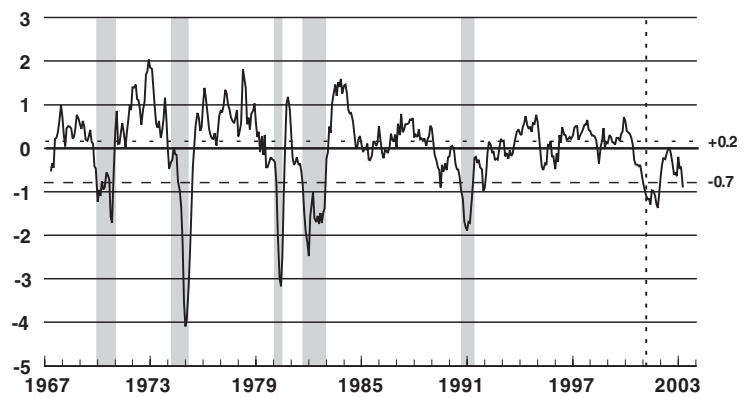
If CFNAI-MA3 < -0.70 following a period of economic expansion...	Increasing likelihood that a recession has begun.
If CFNAI-MA3 > +0.20 following a period of economic contraction...	Significant likelihood that a recession has ended.
If CFNAI-MA3 > +0.70 more than two years into an economic expansion...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



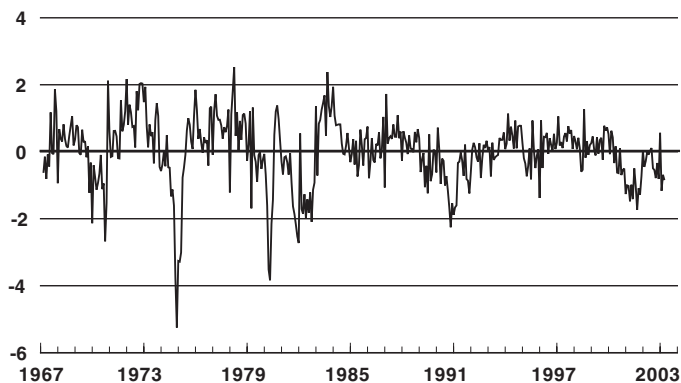
(Shading represents periods of substantial inflation increases.)

### 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



### 2003 CFNAI Release Dates

Date of Release	Monthly Data for:
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>.