

## News Release

Embargoed for release:

8:30 am Eastern Time

7:30 am Central Time

December 20, 2007

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### What is the National Activity Index?

The index is a weighted average of 85 indicators of national economic activity. The indicators are drawn from four broad categories of data: 1) production and income; 2) employment, unemployment, and hours; 3) personal consumption and housing; and 4) sales, orders, and inventories.

A zero value for the index indicates that the national economy is expanding at its historical trend rate of growth; negative values indicate below-average growth; and positive values indicate above-average growth.

### Why are there two index values?

Each month, we provide a monthly index number, which reflects economic activity in the latest month for which we have data, and a three-month moving average. Month-to-month movements can be volatile, so the index's three-month moving average, the CFNAI-MA3, provides a more consistent picture of national economic growth.

### What do the numbers mean?

When the CFNAI-MA3 value moves below  $-0.70$  following a period of economic expansion, there is an increasing likelihood that a recession has begun.

When the CFNAI-MA3 value moves above  $+0.70$  more than two years into an economic expansion, there is an increasing likelihood that a period of sustained increasing inflation has begun.

The next CFNAI will be released:

January 22, 2008

8:30 am Eastern Time

7:30 am Central Time

FEDERAL RESERVE BANK  
OF CHICAGO

# Chicago Fed *National Activity Index*

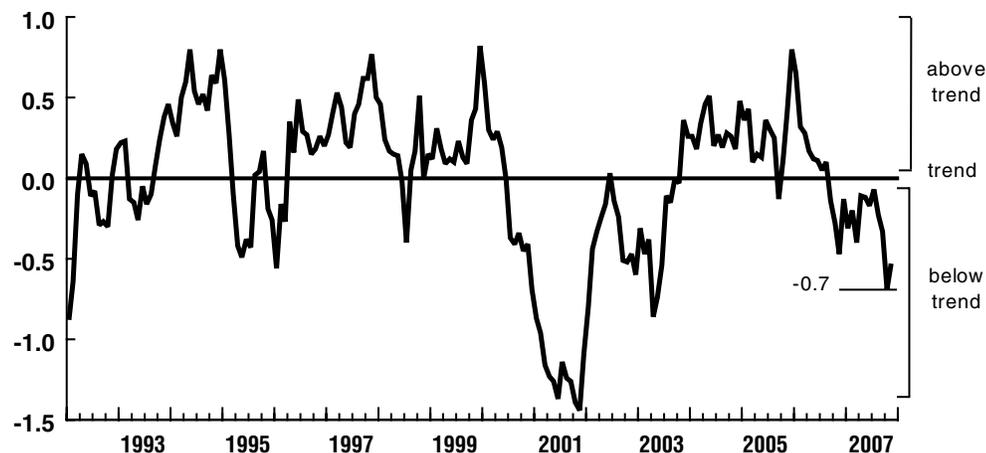
## Index shows economic growth below average in November

The Chicago Fed National Activity Index was  $-0.27$  in November, up from  $-0.89$  in October. Three of the four broad categories of indicators—employment, consumption and housing, and sales, orders, and inventories—made negative contributions to the index in November, while the production and income category made a slight positive contribution.

The three-month moving average, CFNAI-MA3, increased to  $-0.53$  in November from  $-0.69$  in October. This negative value suggests that growth in national economic activity was below its historical trend. With regard to inflation, November's three-month moving average indicates low inflationary pressure from economic activity over the coming year.

The rebound in the monthly index from October was primarily the result of improvements in the production and income category of indicators. Production-related indicators made a small positive contribution of  $+0.02$  to the index in November following a contribution of  $-0.54$  in October. Total industrial production increased 0.3 percent in November after falling 0.7 percent in the previous month. In addition, manufacturing production increased 0.4 percent in November

### 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 '07	Oct '07	Sep '07	Aug '07	Jul '07	Jun '07	Nov '06
<b>CFNAI</b>							
Current	-0.27	-0.89	-0.42	-0.77	+0.18	-0.11	-0.59
Previous	N/A	-0.73	-0.30	-0.65	+0.19	-0.11	-0.59
<b>CFNAI-MA3</b>							
Current	-0.53	-0.69	-0.33	-0.23	-0.07	-0.17	-0.47
Previous	N/A	-0.56	-0.25	-0.19	-0.06	-0.16	-0.47

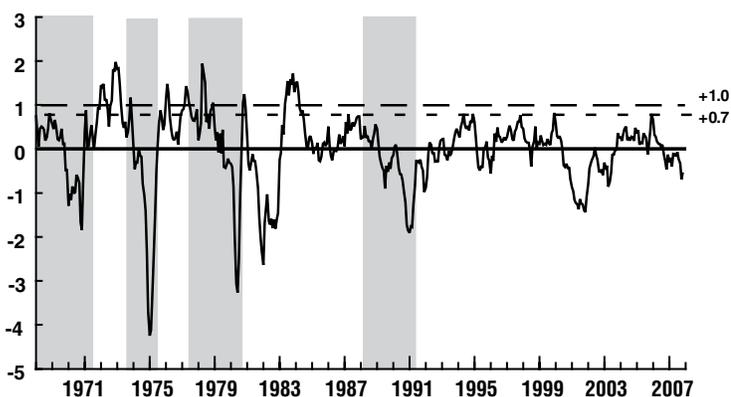
Current and Previous values reflect index values as of the December 20, 2007, release and November 26, 2007, release, respectively. N/A indicates not applicable.

after falling 0.6 percent in October, and manufacturing capacity utilization edged up to 79.9 percent in November.

Employment-related indicators made a contribution of  $-0.10$  to the index in November following a contribution of  $-0.20$  in October. Nonfarm payroll employment increased by 94,000 in November after a gain of 170,000 in October. However, the employment category made a smaller negative contribution to the index in November than in October because of improvements in the manufacturing and retail trade sectors, along with strong employment gains in the household survey.

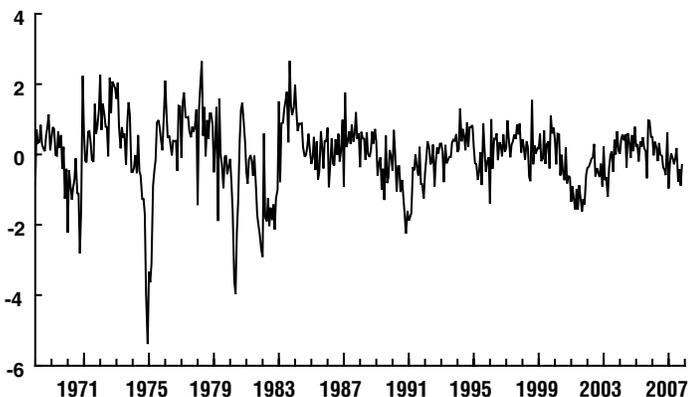
The consumption and housing indicators contributed  $-0.16$  to the index in November, following a contribution of  $-0.17$  in October. Housing permits decreased by 1.5 percent in November after falling 7.2 percent in October, and housing starts declined 3.7 percent in November following a 4.2 percent increase in the previous month. The sales, orders, and inventories category also made a negative contribution of  $-0.04$  in November after contributing  $+0.03$  in October.

### CFNAI-MA3 and Inflation Cycles



Notes: Shading represents periods of substantial inflation increases. A CFNAI-MA3 value above  $+0.70$  more than two years into an economic expansion indicates an increasing likelihood that a period of sustained increasing inflation has begun. A CFNAI-MA3 value above  $+1.00$  more than two years into an economic expansion indicates a substantial likelihood that a period of sustained increasing inflation has begun.

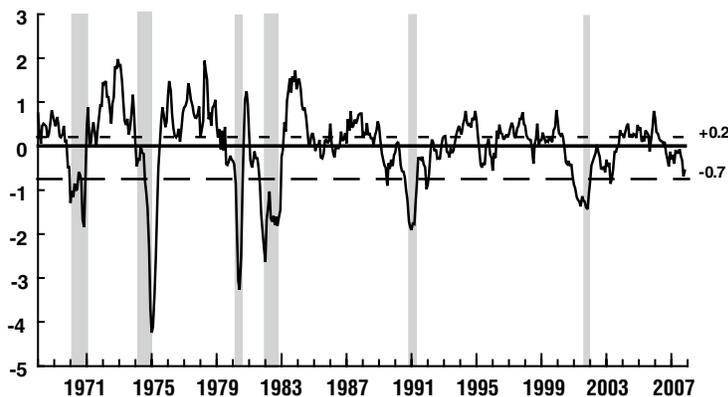
### CFNAI, Monthly Index



Thirty-five of the 85 individual indicators made positive contributions to the index in November, while 50 made negative contributions. Fifty-two indicators improved from October to November, while 31 indicators deteriorated. Of the improved indicators, 21 made negative contributions. The index was constructed using data available as of December 18, 2007. At that time, November data for 50 of the 85 indicators had been published. For all missing data, estimates were used in constructing the index.

The October monthly index was revised down to  $-0.89$  from the initial estimate of  $-0.73$ . Revisions to the monthly 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 downward revision to the October monthly index was primarily due to revisions in previously published data.

### CFNAI-MA3 and Business Cycles



Notes: Shading indicates official periods of recession as identified by the National Bureau of Economic Research. A CFNAI-MA3 value below  $-0.70$  following a period of economic expansion indicates an increasing likelihood that a recession has begun. A CFNAI-MA3 value above  $+0.20$  following a period of economic contraction indicates a significant likelihood that a recession has ended.

### 2008 CFNAI Release Dates

<i>Date of Release</i>	<i>Monthly Data for</i>
<i>January 22, 2008</i>	<i>December 2007</i>
<i>February 25, 2008</i>	<i>January 2008</i>
<i>March 24, 2008</i>	<i>February 2008</i>
<i>April 21, 2008</i>	<i>March 2008</i>
<i>May 20, 2008</i>	<i>April 2008</i>
<i>June 23, 2008</i>	<i>May 2008</i>
<i>July 21, 2008</i>	<i>June 2008</i>
<i>August 25, 2008</i>	<i>July 2008</i>
<i>September 22, 2008</i>	<i>August 2008</i>
<i>October 21, 2008</i>	<i>September 2008</i>
<i>November 24, 2008</i>	<i>October 2008</i>
<i>December 22, 2008</i>	<i>November 2008</i>