

## News Release

Embargoed for release:

8:30 am Eastern Time

7:30 am Central Time

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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:

October 21, 2008

8:30 am Eastern Time

7:30 am Central Time

FEDERAL RESERVE BANK  
OF CHICAGO

# Chicago Fed *National Activity Index*

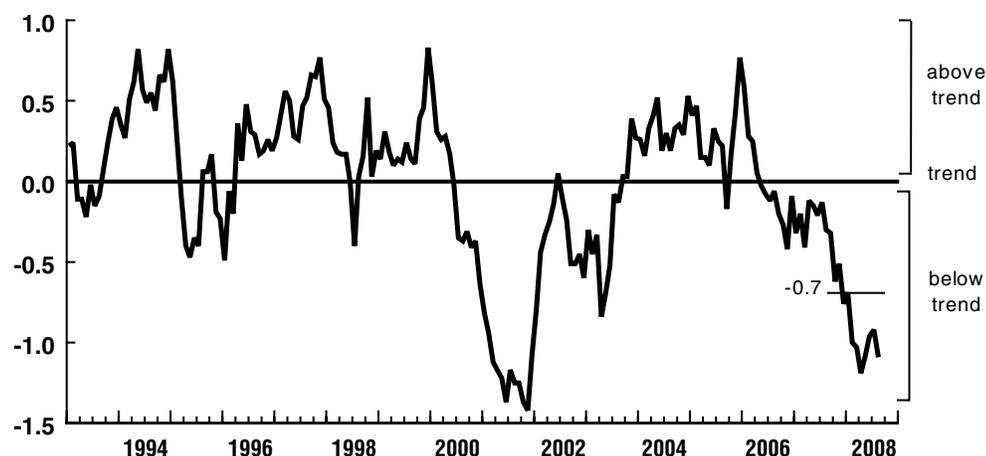
## Index shows economic activity weak in August

The Chicago Fed National Activity Index was  $-1.59$  in August, down from  $-0.93$  in July and reaching its lowest level since 2001. All four broad categories of indicators made negative contributions to the index in August.

The three-month moving average, CFNAI-MA3, decreased to  $-1.09$  in August from  $-0.92$  in the previous month. This negative value suggests that growth in national economic activity was below its historical trend. August marked the ninth consecutive month that the CFNAI-MA3 value indicated an increasing likelihood that a recession has begun. With regard to inflation, August's three-month moving average indicates low inflationary pressure from economic activity over the coming year.

The sharp decline in the monthly index was primarily driven by production-related indicators. These indicators made a contribution of  $-0.75$  to the index in August, following a contribution of  $-0.13$  in July. Total industrial production declined 1.1 percent and manufacturing production declined 1.0 percent in August after each had edged up 0.1 percent in July. In addition, manufacturing capacity utilization decreased to 76.6 percent in August from 77.5 percent in July.

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



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

	Aug '08	Jul '08	Jun '08	May '08	Apr '08	Mar '08	Aug '07
<b>CFNAI</b>							
Current	-1.59	-0.93	-0.76	-1.09	-1.04	-1.13	-0.76
Previous	N/A	-0.67	-0.59	-1.16	-1.09	-1.15	-0.76
<b>CFNAI-MA3</b>							
Current	-1.09	-0.92	-0.96	-1.08	-1.19	-1.03	-0.30
Previous	N/A	-0.80	-0.94	-1.13	-1.21	-1.04	-0.30

Current and Previous values reflect index values as of the September 22, 2008, release and August 25, 2008, release, respectively. N/A indicates not applicable.

Employment-related indicators contributed  $-0.49$  to the index in August, following a contribution of  $-0.44$  in July. Total nonfarm payroll employment declined by 84,000 in August after decreasing 60,000 in the previous month. Additionally, the unemployment rate jumped to 6.1 percent in August from 5.7 percent in July.

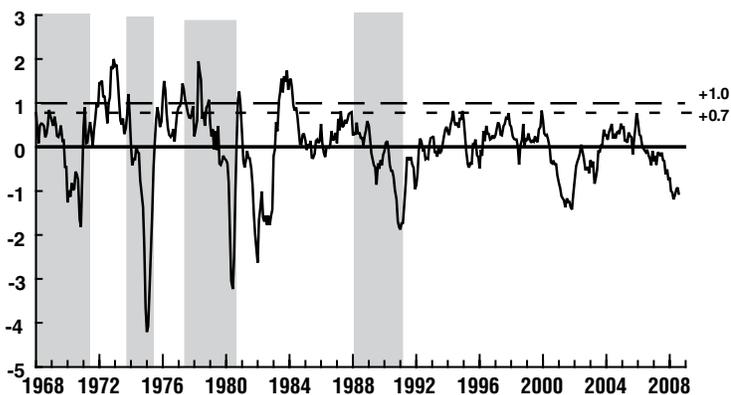
The consumption and housing category made a contribution of  $-0.27$  to the index in August, following a contribution of  $-0.33$  in July. Housing starts decreased 6.2 percent in August, following a 12.4 percent decrease in July; and building permits were 8.9 percent lower in August after declining 17.7 percent in the previous month. The sales, orders, and inventories category also made a negative contribution of  $-0.08$  in August.

Seventeen of the 85 individual indicators made positive contributions to the index in August, while 68 made negative contributions. Thirty-two indicators improved from July to August, while 53 indicators deteriorated. Of the improved indicators, 17 made negative

contributions. The index was constructed using data available as of September 18, 2008. At that time, August data for 52 of the 85 indicators had been published. For all missing data, estimates were used in constructing the index.

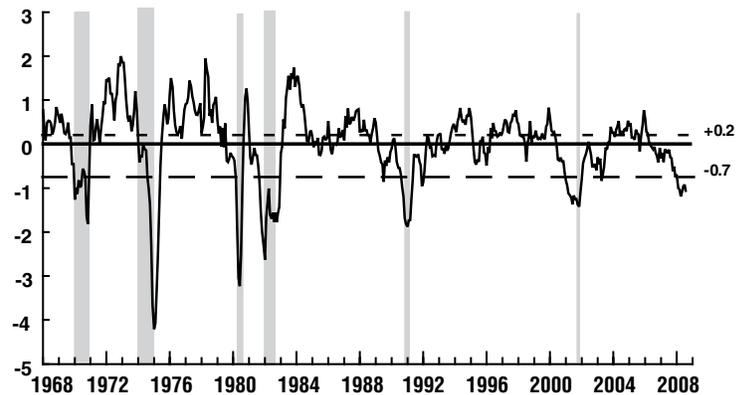
The July monthly index was revised down to  $-0.93$  from an initial estimate of  $-0.67$ . Revisions to the monthly index can be attributed to two main factors: revisions in previously published data and differences between the estimates of previously unavailable data and subsequently published data. The downward revision to the July monthly index was nearly equally due to each factor.

### CFNAI-MA3 and Inflation Cycles



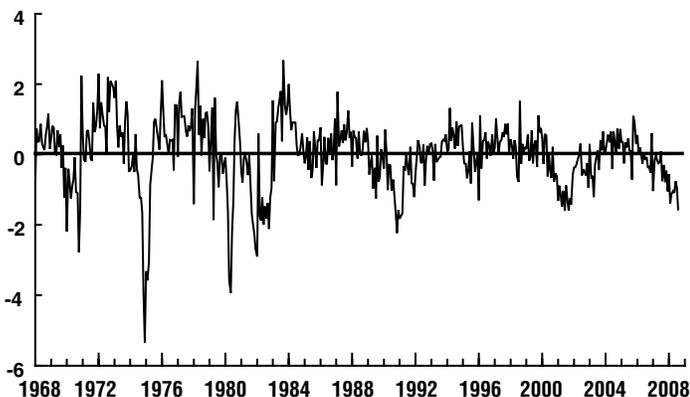
Notes: Shading represents periods of substantial inflation increases. A CFNAI-MA3 value above  $+0.70$  more than two years into an economic expansion indicates an increasing likelihood that a period of sustained increasing inflation has begun. A CFNAI-MA3 value above  $+1.00$  more than two years into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

### CFNAI-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.

### CFNAI, Monthly Index



### 2008 CFNAI Release Dates

<i>Date of Release</i>	<i>Monthly Data for</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>